Homebuyer University
Loan Qualifying Ratios

Use this worksheet to calculate your approximate qualifying ratios as a lender might evaluate you.
To complete this worksheet, you need easy access to:

- My Starting Numbers Worksheet
- My Homeownership Costs Worksheet: For the purpose of the exercise, select one column (one loan type) to use below.

As you get further along in your homebuying journey, we encourage you to repeat these calculations using housing numbers from home sale price ranges you are seriously considering.

1. My Housing Ratio

Complete the calculations to determine your approx. housing ratio.

Calculations

To find out if you meet the lender housing ratio requirement:

Estimated Monthly Housing Payment (Use Homeownership Costs Worksheet)	÷	Gross Monthly Income ([A] from My Starting Numbers Worksheet)	x 100 =	Housing Ratio
$	÷	[A] $	x 100 =	%

To find out what the lender thinks you can afford (based only on the housing ratio):*

Gross Monthly Income ([A] from My Starting Numbers Worksheet)	X	Max Housing Ratio	=	Maximum Housing Payment (PITI) Allowed by Lender (based only on housing ratio)
[A] $	X	.30	=	$

Reflection

1. In the first table, is your Housing Ratio below 30%?

2. In the second table, does the max housing payment (PITI) align with the results of either of your loan calculations from the Homeownership Costs Worksheet?

3. If you answered “no” to #1 or #2, what does that tell you about the home and loan variables you are considering? (i.e. In what ways could you reduce your ongoing costs?)

4. In the second table, does the max housing payment (PITI) feel affordable to you? If not, what does this tell you about staying in control of your loan process?

2. My Debt-to-Income Ratio

Complete the calculations to determine your approx. debt-to-income ratio.

Calculations

To find out if you meet the lender debt-to-income ratio requirement:

Estimated Monthly Housing Payment (PITI from Homeownership Costs Worksheet)	+	Monthly Debt ([K] from My Starting Numbers Worksheet)	=	$	÷	Gross Monthly Income ([A] from My Starting Numbers Worksheet)	x 100 =	DTI Ratio
$	+	[K] $	=	$	÷	$	x 100 =	%

To find out what the lender thinks you can afford (based only on your existing debt): *

Gross Monthly Income ([A] from My Starting Numbers Worksheet)	X	Max DTI	=	$	-	Monthly Debt ([K] from My Starting Numbers Worksheet)	=	Max Housing Payment (PITI) Allowed (based on DTI)
[A] $	X	.43	=	$	-	[K] $	=	$

*Use the lesser of the amounts for your Max Housing Payment between section 1 (housing ratio) and section 2 (debt to income) as your actual maximum housing payment (PITI) that a lender thinks you can afford.

Reflection

1. In the first table, is your Debt-to-Income Ratio below 43%?

2. In the second table, does the max housing payment (PITI) align with the results of either of your loan calculations from the Homeownership Costs Worksheet?

3. Which Max Housing Payment (PITI) is lower: the one from step 1 (your housing ratio) or step 2 (your debt to income ratio)? This would be the one that counts as your max housing payment in the eyes of a lender.

4. There are two approaches to increasing your max housing payment if it seems unrealistically low to you: through your loan variables (see reflection question #3 in the My Housing Ratio section above); and through your debt. If your debt is causing an unrealistically low max housing payment, let's calculate how much you need to reduce your monthly debt by to be able to afford your desired home price:

   First calculate your maximum allowable debt payments using a common max DTI:

Max DTI	-	Housing Ratio (from section1)*	=	Max Debt	X	Gross Monthly Income ([A] from My Starting Numbers Worksheet)	=	Max Debt in $
.43	-	.	=	.	x	[A] $	=	$

   **if your housing ratio is greater than 30%, use 30% instead.*

   Next, calculate by how much to reduce your monthly debt to qualify for the home loan:

Monthly Debt ([K] from My Starting Numbers Worksheet)	-	Max Debt in $ (result from above)	=	Monthly Debt Reduction Need
[K] $	-	$	=	$

5. Remember, the monthly debt is how much debt shows up in minimum payments on your credit report, not necessarily exactly how much you pay each month. To reduce by the above amount, you need to pay off or reduce the levels of your bills that show up on your credit report. Based on this perspective, does your result seem doable?

6. If not, let's calculate how much you can afford without changing anything about your debt.

Max DTI	-	Debt % ([L] from My Starting Numbers Worksheet)	=	Max % for housing*	X	Gross Monthly Income ([A] from My Starting Numbers Worksheet)	=	Max Housing Payment (PITI)
.43	-	[L] .	=	%	x	[A] $	=	$

   **if Max % for Housing is greater than 30%, use 30% instead.*

7. What does this exercise tell you about your current debt levels and about your home variable choices?

3. My Loan-to-Value Ratio

Complete the calculations to determine your approx. loan-to-value ratio. For the purpose of this exercise, you can assume your purchase price and appraised value are the same - your actual home purchase may be different. Also, please note, we are using a common maximum loan-to-value here, which may vary widely in reality from lender to lender.

Calculations

To find out if you meet the lender loan-to-value ratio requirement:

Purchase Price (from Homeownership Costs Worksheet)	-	Down Payment (from Homeownership Costs Worksheet)	=	$	÷	Appraised Value (for now assume the same as sales price)	x 100 =	LTV Ratio
$	-		=	$	÷	$	x 100 =	%

To find out what the lender will require your down payment to be if the lender has a 95% LTV requirement (substitute for actual value when known):

Purchase Price (from Homeownership Costs Worksheet)	-	Appraised Value (for now assume the same as purchase price)	=	Result
$	-		=	[a]$

+

Appraised Value (assume the same as purchase price)	X	1- Max LTV (1-.95)	=	Result
$	X	(1-.95) =. 05	=	[c]$

=

Minimum Down Payment if max LTV is 95% *(sum boxes [a] and [c])*	$

Reflection

1. In the first table, is the LTV ratio less than 97%?

2. In the final results of the second set of tables, does result for minimum down payment align with your choices from the Homeownership Costs Worksheet?

3. If you answered “no” to #1 or #2, what does that tell you about the home and loan variables you are considering? (i.e. do you need a bigger down payment or down payment assistance to meet lender requirements?)

4. What would happen to your down payment requirements if the appraised value of the home is actually higher than purchase price?