

WTNS Radio OSU Extension Update for September 3, 2023
Healthy People. Healthy Finances. Healthy Relationships.

On today's OSU Extension update for Healthy People, Healthy Finances, & Healthy Relationships we'll talk about debt-to-income ratio, and as always look at some upcoming programs from OSU Extension.

When I changed my focus in Extension teaching from agriculture to family and consumer sciences, one part of the job I did not anticipate was the amount of homebuyer education I would be able to provide. OSU Extension has an agreement through the Ohio Housing Finance Agency to offer new homebuyers with consultation before closing on their home. Our one-hour conversation is not long, but in some cases, I have had incredibly rich discussions with the counselees.

One of the many topics we cover in that short amount of time is debt to income (DTI) ratio. This is a way of quantifying how much of the money a person earns is tied up in paying down debt. This number is important to lenders because it is an indicator of how likely a person will be able to make the loan payments on the home they desire to purchase.

There are two ways to calculate DTI. One is called the front-end ratio. This calculation is the future monthly mortgage payment (including the loan payment and property taxes and insurance) divided by the borrower's monthly gross income.

The other DTI calculation is called the back-end ratio. This calculation includes all monthly debt payments divided by gross monthly income. This means not only future monthly mortgage payment, but also automobile loan monthly payment and student loan monthly payment. And it also includes monthly minimum payment on any credit cards that carry a balance.

Lenders do have certain parameters they follow when it comes to DTI. For conventional loans the limit is typically 28% for the front-end ratio and 36% for the back-end ratio. Essentially this is saying that for every dollar a person earns (remember this is before any taxes come out) roughly only one-third of it can go towards debt and the person will still qualify for the loan.

FHA (Federal Housing Administration) loan limits are typically 31% for front-end and 43% for back-end ratios. However, there are exceptions to this. The size of the downpayment and credit score play a role in the consideration of a person's loan amount.

An important consideration is that just because a lender approves a person for a loan amount at the upper end of the limit for DTI, does not mean that potential borrower should spend that much for housing. An important first step is to assess how a potential mortgage payment fits into their household budget. Everyday and monthly living expenses should be considered. It also means thinking about savings goals for desired future purchases and emergency savings for the unknown.

When I ask new homebuyers if they recall talking to their lender about their DTI, some vaguely remember this. Less than 5% can tell me their actual number. I always walk through this calculation with them. I can tell right away how tight things will likely be for them just by calculating their back-end ratio for DTI.

I see numbers across the board. DTI is an important number, but it is not the only consideration when planning for how much of a mortgage you can afford. Total income certainly makes a difference. A person earning \$35,000 a year with a DTI of 40% is different from a person earning \$135,000 with the same DTI. Having \$21,000 to spend on taxes, living expenses and to save is much different than having \$81,000 to spend and save. If you would like to learn more visit the Consumer Financial Protection Bureau at consumerfinance.gov/owning-a-home.

And now let's look at what's new from OSU Extension.

Can you believe the Coshocton County Fair is less than a month away? Make plans to attend September 29 – October 5, especially to support the many youth who have been working hard to prepare their projects for show and display. If you come to the fair on Tuesday, check out the Tasting Smorgasbord, at noon in the Youth Building, which allows you to taste samples of recipes from over 30 junior fair participants.

In closing, at OSU Extension, we are proud to work for Coshocton County to help educate and improve our families, farms, and businesses. Please feel free to contact OSU Extension for more information at 740-622-2265 or visit our website at coshocton.osu.edu. Make it a healthy day!