What Is a Good Debt-to-Income Ratio for a Mortgage?

A good DTI ratio is 43% or lower

Your **debt-to-income ratio** (DTI) is one of the most important factors in qualifying for a home loan. DTI determines what type of mortgage you're eligible for. It also determines how much house you can afford. So naturally, you want your DTI to look good to a lender.

The good news is that today's mortgage programs are flexible. While a 36% debt-to-income ratio is "ideal," anything under 43% is considered "good." And it's often possible to qualify with an even higher DTI.

In other words, you absolutely don't need a perfect debt-to-income ratio to buy a house.

What is a good debt-to-income ratio?

There's actually a wide range of "good" **debt-to-income ratios**. Different mortgage programs have different DTI requirements. And lenders get to set their own maximums, too.

As a rule of thumb, you want to aim for a debt-to-income ratio of around 36% or less, but no higher than 43%. Here's how lenders typically view DTI:

- 36% DTI or lower: Excellent
- 43% DTI: Good
- 45% DTI: Acceptable (depending on mortgage type and lender)
- 50% DTI: Absolute maximum*

Some programs, like the **FHA loan and **Fannie Mae HomeReady** loan, allow a DTI of* up to 50%. However, you'll likely need "compensating factors" like a higher credit score or a *bigger down payment to qualify*

A good ratio of 36% is often cited as the cutoff below which your DTI is good. However, you don't need a DTI below 36% to qualify. In fact, it's more common for lenders to allow a DTI of up to 43%.

Having a good DTI matters less than having a DTI that works with your personal finances and home-buying goals.

Debt-to-income ratio requirements by loan program

The most common type of loan for home buyers is a **conforming mortgage** backed by Fannie Mae or Freddie Mac, also known as a conventional loan. To qualify for a conforming loan, most lenders require a DTI of 43% or lower. So ideally you want to keep yours below that mark. (This is sometimes known as the "43% rule.")

DTI rules are generally more flexible with an FHA loan than with a conforming loan. But they tend to be stricter when using a VA loan, USDA mortgage, or jumbo loan.

	Good DTI	**Max DTI**
Conventional loan	36-43%	45-50%
FHA loans	43%	50%
VA loans	41%	None*
USDA loans	41%	42-46%
Jumbo loans	36%	43%

**No maximum DTI specified, although VA loan applicants with higher DTIs could be subject to additional scrutiny*

Each homeowner's situation, goals, and future income opportunities are different. But a ratio below 43% will typically help you qualify for most loan programs. This means your monthly debt can only be 43% of your gross monthly income, before taxes.

Keep in mind that every loan can have different DTI ratio maximum limits.

In general, borrowers should have a total monthly debt-to-income ratio of 43% or less to be eligible to be purchased, guaranteed, or insured by the VA, USDA, Fannie Mae, Freddie Mac, and FHA; but, if borrowers meet certain product requirements, they may be allowed to have a DTI ratio higher than 43%.

How to qualify for a mortgage with a high DTI

It is possible to buy a home with a **high debt-to-income ratio**. If you are approved with a DTI above 43%, your loan may be subject to additional underwriting that can result in a longer closing time.

Overall, higher DTI ratios are considered a greater risk when an underwriter reviews a mortgage loan for approval. In some cases, if the DTI is deemed too high, the lender will require other compensating factors to approve the loan. Compensating factors can include:

- Additional savings or reserves
- Proof of on-time payment history on utility bills or rent
- A letter of explanation to show how an applicant will be able to make [mortgage] payments

A higher credit score or a bigger down payment could also help you qualify. Note that for conventional, FHA, and VA loans, your DTI ratio is basically a pass/fail test that shouldn't affect the interest rate you qualify for. But if you are making a down payment of less than 20% with a conventional loan, which will require you to pay mortgage insurance, your DTI ratio can affect the cost of that mortgage insurance. In other words, the higher your DTI, the higher your private mortgage insurance (PMI) rates.

What factors make up a DTI ratio?

Your debt-to-income ratio consists of two components: front-end DTI and back-end DTI. And, your lenders will examine both. Your front-end ratio simply looks at your total mortgage payment divided by your monthly gross income.

- **Front-end DTI:** Also known as your "housing ratio," this is the percentage of your monthly gross that pays for your mortgage payment, homeowners insurance, property taxes, and any HOA dues
- **Back-end DTI:** This is the percentage of your monthly gross that goes towards housing and your monthly debt repayment

Most lenders want to see a front-end ratio no higher than 28%. That means your housing expenses — including principal, interest, **property taxes, and homeowners insurance** — take up no more than 28% of your gross monthly income. Though in most cases, the front-end debt ratio is not the number that matters most in underwriting. Most loan underwriting programs today primarily look at the back-end debt ratio."

How to figure out your debt-to-income ratio

To determine your debt-to-income ratio (also called your "back-end ratio"), start by adding up all your monthly debt payments.

Monthly debts for DTI include:

- Future mortgage payments on the home you want (an estimate is fine) *
- Auto loan payments
- Student loan payments
- Personal loan payments
- Debt consolidation loan payments
- Any other installment loans you pay monthly
- Credit card payments and other revolving credit lines (use your minimum monthly payment)
- Alimony
- Child support

When estimating your monthly mortgage payment to calculate DTI, make sure it includes property taxes and homeowners' insurance. You can use a **mortgage calculator with taxes, insurance, and PMI to see your "real" payment. You can find a quality Mortgage Calculator through Google search, or your can do the calculations manually.*

Your DTI calculation should NOT include:

- Rent payments
- Utilities
- Cell phone bill
- Internet bills
- Groceries
- Health insurance
- Other non-debt expenses that don't appear on your credit report

Next, divide the sum of your debts by your unadjusted gross monthly income. This is the amount you earn every month before taxes and other deductions are taken out — otherwise known as your pre-tax income.

Then, multiply that figure by 100.

(Sum of Monthly Debts / Pre-Tax Monthly Income) * 100 = Your DTI

For example, say your monthly debt expenses equal $3,000. Assume your gross monthly income is $7,000.

$3,000 ÷ $7,000 = 0.428 x 100 = 42.8

In this case, your debt-to-income ratio is 42.8% — just within the 43% limit most lenders will allow.

How to lower your debt-to-income ratio

Are you worried that your debt-to-income ratio will make you ineligible for a mortgage loan? You can follow these tips to lower your DTI and improve your chances of mortgage approval:

1. Lower your monthly debt obligations

Temporarily prioritize debt payments over savings and investment account contributions, other than any employer-sponsored plan contributions you must make to qualify for your employer match. Throw as much money as you can at smaller debt balances that you can zero out quickly. Eliminating these payments and accounts will reduce your DTI ratio.

2. Avoid overusing your credit cards and racking up balances

Pay your monthly credit card debt in full instead of making only the minimum payment. Keep your "credit utilization ratio" low by minimizing your balance compared to your overall credit card limits. This can lower your DTI *and* improve your credit score, a double whammy on your loan application.

3. Don't take out any new loans before buying a house

Taking on new debt, like a car loan, increases your DTI. This can seriously reduce your home-buying budget. So, if possible, you want to avoid taking on any new monthly payments in the months or year(s) leading up to your home purchase.

4. Consult with one or more lenders before applying for a loan

Get their advice on your housing payment amount and what debt ratio caps will apply for the loan product you choose. Ask for your best plan of action to manage your debt.

5. Do your homework

Its recommended to have a solid understanding of how your DTI ratio affects your ability to get a mortgage. And understand your financial budget and goals, as well as specific debts that can be paid off to achieve those goals.

Even if your DTI is within the "good" range for mortgage qualifying, it doesn't hurt to try to lower it before you apply. The lower your existing debts, the more you'll be able to spend on your mortgage. Working to

improve your debt-to-income ratio before you apply for a home loan can make you eligible for a bigger, more expensive home.

Debt-to-income ratio FAQ

What is debt-to-income ratio?

Debt-to-income ratio (DTI) is a comparison between your monthly debt payments and your gross monthly income. Your DTI helps a mortgage lender determine how much cash you have left over each month and how large of a mortgage payment you can afford.

What is a good debt-to-income ratio?

A good debt-to-income ratio is often between 36% and 43%, but lower is usually better when it comes to applying for a mortgage. Additionally, many mortgage lenders like to see front-end DTI ratios of 28% or less.

What is the debt-to-income ratio for refinancing?

Homeowners generally need the same DTI ratio for a refinance or home equity loan as they would for a home purchase loan — between 36% to 43% for a conventional loan and no more than 50% for an FHA loan.

Does your DTI affect your credit score?

DTI ratio has no effect on your credit score, but it is one of the factors lenders use to approve a mortgage application or an additional credit line. Credit scoring models such as FICO and VantageScore use your credit history to determine creditworthiness, but not your monthly debt repayments.

Is rent included in debt-to-income ratio?

Rent is not included in the debt-to-income ratio because it is not considered a debt. Only monthly debt payments are figured into your DTI, including student loans, car loans, and credit card payments, to name a few. Your future mortgage payment will be included in your DTI because a home loan is a type of debt.

Check your mortgage eligibility

Estimating your DTI can help you figure out whether you'll qualify for a mortgage and how much home you might be able to afford. But any number you come up with on your own is just an estimate; a mortgage lender gets the final say on your DTI and home-buying budget.

When you're ready to get serious about shopping for a new home, you'll need a mortgage pre-approval to verify your eligibility and budget. You can get started right here.