

Debt-to-Income Ratios and How They Affect Mortgage Approvals

Helping Buyers Understand Mortgage Qualification

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Slide 2: What is a Debt-to-Income (DTI) Ratio?

- DTI measures a borrower's monthly debt compared to monthly income
- Lenders use DTI to determine borrowing ability
- A lower DTI generally improves approval chances
- DTI helps lenders evaluate financial risk
- DTI is one of the most important mortgage qualification factors

Expert Tip: Many buyers focus only on their credit score. Educate them that income and debt levels are equally important to mortgage approval.

Slide 3: How DTI is Calculated

- Add all monthly debt obligations
- Divide total monthly debt by gross monthly income
- Multiply by 100 to get the percentage
- Gross income is income before taxes
- Most lenders calculate both front-end and back-end ratios

Example: \$2,000 monthly debt ÷ \$6,000 monthly income = 33% DTI

Expert Tip: Encourage buyers to provide accurate income and debt information early to avoid surprises during underwriting.

Slide 4: Front-End vs. Back-End DTI

- Front-end DTI focuses on housing expenses only
- Includes principal, interest, taxes, and insurance
- Back-end DTI includes all monthly debts
- Credit cards, auto loans, student loans count toward back-end DTI
- Most lenders place greater emphasis on back-end DTI

Expert Tip: When discussing affordability, focus on total monthly obligations, not just the mortgage payment.

Slide 5: Common DTI Guidelines for Mortgage Programs

- Conventional loans often prefer DTI below 45%
- FHA loans may allow higher DTI ratios
- VA loans offer flexible DTI requirements
- USDA loans have program-specific limits
- Strong credit may offset higher DTI in some cases

Expert Tip: Every lender has different overlays. Encourage clients to speak with a lender before assuming they won't qualify.

Slide 6: Debts That Impact Mortgage Approval

- Minimum credit card payments
- Auto loans and leases
- Student loans
- Personal loans
- Child support and alimony obligations

Expert Tip: Small monthly payments add up quickly. Even a few hundred dollars can significantly reduce purchasing power.

Slide 7: How Buyers Can Improve Their DTI

- Pay down credit card balances
- Avoid financing major purchases before closing
- Pay off small installment loans
- Increase verifiable income when possible
- Avoid opening new credit accounts

Expert Tip: Tell buyers not to buy furniture, appliances, or vehicles until after closing on their home.

Slide 8: Realtor Strategies for Helping Buyers

- Recommend pre-approval before home shopping
- Discuss budget expectations early
- Connect buyers with trusted lenders
- Help clients understand affordability limits
- Monitor major financial changes during escrow

Expert Tip: The best Realtors educate buyers on financing from day one. Preventing financing issues is easier than solving them after a contract is signed.

Closing Thought

“A buyer’s debt-to-income ratio can determine whether they qualify, how much they qualify for, and what loan options are available. Realtors who understand DTI can better guide clients and help transactions close smoothly.”