## What is Debt to Income (DTI), how is it calculated for Primary, Second Homes, and Investment Properties in Encompass and how to troubleshoot the front-end and back-end DTI ratios?

Knowledge Article Number: 000031091, Last Modified: 1/19/2023

### **Summary:**

- Debt to Income (DTI) Compares the amount of monthly income to the amount the borrower will owe each month in the house payment (PITI) plus other debts. This ratio is commonly used to see if the borrower has the capacity to repay the debt.
- Calculation of DTI for Primary Residence To calculate the DTI for Primary Residence two numbers are used.

#### Details:

#### Issue:

What is Debt to Income (DTI), how is it calculated for Primary, Second Homes, and Investment Properties in Encompass and how to troubleshoot the front-end and back-end DTI ratios?

#### Resolution

**Debt to Income (DTI) -** Compares the amount of monthly income to the amount the borrower will owe each month in the house payment (PITI) plus other debts. This ratio is commonly used to see if the borrower has the capacity to repay the debt.

Calculation of DTI for Primary Residence - To calculate the DTI for Primary Residence two numbers are used. These numbers are calculated in the Underwriting Information section of your 1008 form (Transmittal Summary). They are frequently referred to as the ratios:

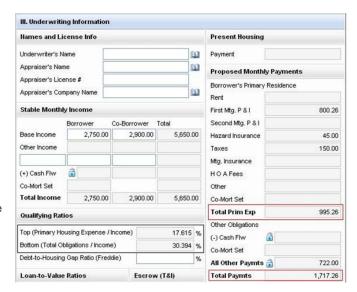
- I. Front-end ratio [740], also known as the housing or primary ratio, is calculated by taking Total Primary Expenses [1731] divided by the Total Monthly Income [1389].
- II. Back-end ratio [742], also known as the total ratio, is calculated using by taking Total Payments [1742] divided by the Total Monthly Income [1389].

#### In the following example (Transmittal Summary Form):

- Front-end ratio = 995.26 divided by 5650 = 0.17615221 or 17.615%
- Back-end ratio = 1717.26 divided by 5650 = 0.3039398 or 30.394%

Calculation of DTI for Second Homes and Investment Properties - To calculate the DTI for Second Homes and Investment Properties two numbers are used. These numbers are calculated in the Underwriting Information section of your 1008 form (Transmittal Summary). They are frequently referred to as the ratios:

- Front-end ratio [740], also known as the housing or primary ratio, is calculated by taking Total Primary Expenses [1731] divided by the Total Monthly Income [1389].
- Back-end ratio [742], also known as the total ratio, is calculated by taking Present Housing Payment [737] plus Total Payments [1742] and dividing the sum by the Total Monthly Income [1389].



**Note:** When there are Multiple 1003 Applications, the DTI Ratio found on the primary borrowers 1003, Front-end ratio [740] and Back-end ratio [742] are inclusive of the both the primary borrowers debt and income as well as any other Co-Mortgagors debt and income as the Primary Borrower application is the application used for underwriting.

The subsequent 1003 applications will only include their own debt and income for the DTI Ratio. The field ID's for each co-mortgagor set is the same as the primary borrower.

The Co-Mortgagors information debt will show up in the following sections of the Proposed Monthly Payment section of the primary borrower:

- Primary Residence: Co-Mort Set [1379]
- Other Obligations: Co-Mort Set [1384]

The Co-Mortgagors information for income will show up in the following sections of the Stable Monthly Income Section of the primary borrower:

Co-Mort Set [1374]

## Troubleshooting DTI Issues:

- When just the back-end ratio is incorrect, check the monthly payments from the 1003 Page 2. This can be done through the VOL listings.
   Any revolving or instalment items that are not being paid off will be added to the monthly payment. The sum of those payments, plus the primary expense field, should be equal to the Total Payments field.
- When the front-end ratio is incorrect or not populated, check the Present Housing Expense located on the 1003 Page 2. Once one of the field ID's 119-126 is completed with values for calculation.
- If both DTI numbers are incorrect, make sure that the monthly income is correct. If so, verify that the Total Primary Expense and Total Payments fields are correct.

### **Details:**

The user has completed a VOM record for a Pending Sale (PS) and their DU Findings (Assets section) have "A Pending Sale REO property has negative equity of XXX.XX. This amount was added to required funds to close."On the VOM record, the Present Market Value (field FMXXXX) was blank.

**Note:** Fannie Mae's calculation is the Present Market Value \* 90% - Mortgage Balance.



Address

### **Details:**

Verification of Other Assets

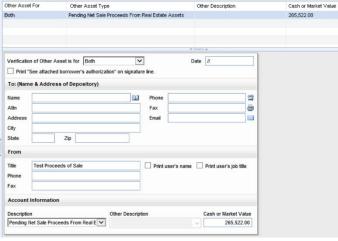
If a VOM is marked as PS, DU will not account for the assets toward available funds if a VOOA is not created as "Pending Net Sale Proceeds From Real Estate Assets".

Property Is

Primary Residence Second Home

ADD VOOA FOR PENDING NET SALE PROCEEDS FROM REAL ESTATE ASSETS

# DU FINDINGS WILL SHOW ASSETS FROM PROCEEDS



Date // VOM is for Both V ✓ Print "See attached borrower's authorization" on signature line. From Title Print user's name Print user's job title Phone Property Information Foreign Address Subject Property Property is used as Primary Residence Street Address Property will be used as Y Unit Type Other Description Unit # City Haddon Heights ✓ Include in Export (deselect if this is duplicated State NJ asset) Number of Units Zip 08035 Country US Does Not Apply Attach/Show Liens Mortgage Balance 116,978.00 425,000.00 Mortgage Payment 1 2,626.00 Present Market Value PS Property Status (S.PS.R) Gross Rental Income Type of Property Taxes, Ins, Expenses Single Family Percentage of Rental Purchase Price Date Acquired Participation % Net Income / Loss Year Built

Once the VOOA is created, DU will now account for the assets in the Funds Available.

34 The following assets were counted towards available funds. With the exception of cash on hand, all available funds greater than the amount required to close have been added to cash reserves. (MSG ID 0059)



Funds			
Total Available Assets	\$265,522.00	Net Cash Back	\$0.00
Funds Required to Close	\$123,428.85	Excess Available Assets, not required to be verified	\$142,093.15
Reserves Required to be Verified	\$0.00	by DU	
		Months Reserves	51
Total Funds to be Verified	\$123,428.85		
Cash Back	\$0.00		