

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:

- 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 using by taking Total Payments [1742] divided by the Total Monthly Income [1389].

In the following example (Transmittal Summary Form):

- Front-end ratio = $995.26 \div 5650 = 0.17615221$ or 17.615%
- Back-end ratio = $1717.26 \div 5650 = 0.3039398$ 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].

III. Underwriting Information			
Names and License Info		Present Housing	
Underwriter's Name	<input type="text"/>	Payment	<input type="text"/>
Appraiser's Name	<input type="text"/>	Proposed Monthly Payments	
Appraiser's License #	<input type="text"/>	Borrower's Primary Residence	
Appraiser's Company Name	<input type="text"/>	Rent	<input type="text"/>
Stable Monthly Income		First Mtg. P & I	800.26
		Second Mtg. P & I	<input type="text"/>
Base Income	2,750.00	Hazard Insurance	45.00
Other Income	<input type="text"/>	Taxes	150.00
		Mtg. Insurance	<input type="text"/>
(+) Cash Flw	<input type="text"/>	H O A Fees	<input type="text"/>
Co-Mort Set	<input type="text"/>	Other	<input type="text"/>
Total Income	2,750.00	Co-Mort Set	<input type="text"/>
Qualifying Ratios		Total Prim Exp	995.26
Top (Primary Housing Expense / Income)	17.615 %	Other Obligations	<input type="text"/>
Bottom (Total Obligations / Income)	30.394 %	(-) Cash Flw	<input type="text"/>
Debt-to-Housing Gap Ratio (Freddie)	<input type="text"/>	Co-Mort Set	<input type="text"/>
Loan-to-Value Ratios		All Other Paymts	722.00
Escrow (T&I)		Total Paymts	1,717.26

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 FMXXX) was blank.

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

VOM	
Property Is	Address
<input type="button" value="Attach/Show Liens"/>	<input type="checkbox"/> Does Not Apply
Present Market Value	<input type="text"/>
Mortgage Balance	0.00
Mortgage Payment	0.00

Details:

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".

ADD VOOA FOR PENDING NET SALE PROCEEDS FROM REAL ESTATE ASSETS

DU FINDINGS WILL SHOW ASSETS FROM PROCEEDS

Verification of Other Assets			
Other Asset For	Other Asset Type	Other Description	Cash or Market Value
Both	Pending Net Sale Proceeds From Real Estate Assets		265,522.00

Verification of Other Asset is for	
Both	Date //

☐ Print "See attached borrower's authorization" on signature line.

To: (Name & Address of Depository)

Name	Phone
Attn	Fax
Address	Email
City	
State	Zip

From

Title	Test Proceeds of Sale	<input type="checkbox"/> Print user's name	<input type="checkbox"/> Print user's job title
Phone			
Fax			

Account Information

Description	Other Description	Cash or Market Value
Pending Net Sale Proceeds From Real E		265,522.00

VOM	
Property Is	Address
Primary Residence	
Second Home	

VOM is for Date //

☒ Print "See attached borrower's authorization" on signature line.

From

Title	<input type="checkbox"/> Print user's name	<input type="checkbox"/> Print user's job title
Phone		
Fax		

Property Information

Foreign Address	<input type="checkbox"/> Subject Property
Street Address	Property is used as <input type="button" value="Primary Residence"/>
Unit Type	Property will be used as <input type="button" value=""/>
Unit #	Other Description
City	<input checked="" type="checkbox"/> Include in Export (deselect if this is duplicated asset)
State	NJ
Zip	08035
Country	US
Number of Units	1

☐ Does Not Apply

Mortgage Balance	116,978.00
Mortgage Payment	2,626.00

Present Market Value

Property Status (S,PS,R)	PS	Gross Rental Income	
Type of Property	Single Family	Taxes, Ins, Expenses	
Purchase Price		Percentage of Rental	
Date Acquired	//	Participation %	
Year Built		Net Income / Loss	

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)

BORROWER	ASSET TYPE	INSTITUTION NAME	AMOUNT
Joseph 2020 Smith	Net equity		\$265,522.00

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 by DU	\$142,093.15
Reserves Required to be Verified	\$0.00	Months Reserves	51
Total Funds to be Verified	\$123,428.85		
Cash Back	\$0.00		

The Recommendation for this case is: Approve/Eligible