

Debt to Income ratio

Find out what it means and how this can impact your loan!

WHAT DOES DEBT TO INCOME RATIO MEAN?



It is quite possible that you have never heard of this term before and in reality, most lenders have only started to use this measure recently, so let's cut to the chase...

The debt-to-income (DTI) ratio is a personal finance measure that compares an individual's monthly debt payment to his or her monthly gross income. It is used to measure an individual's ability to manage monthly payments and repay debts.

For the math lovers, the formula is: $\text{Total Debt} \div \text{Gross Income} = \text{Your Debt to Income ratio}$

Now onto a practical example:

A couple earns a gross annual income of \$150,000 and they want to borrow \$500,000, so their debt to income ratio is 3.33

Loan Amount



\$500,000



Annual Income



\$150,000



Debt to Income Ratio



3.33%

HOW COULD THIS HAVE AN IMPACT ON MY LOAN?



From most lenders' perspective, having a high DTI means you could be spending too much money to pay your debts and consequently have less disposable income left for your other month to month expenses.



WHAT INCOME IS USED TO CALCULATE DTI?

PAYG Income, self-employed income, all other incomes such as bonus, commissions, overtime and rental will be considered.

WHAT DEBTS ARE INCLUDED TO CALCULATE DTI?

Existing mortgages, credit cards, personal loans, tax debts and portfolio loans are included to calculate DTI.



WHAT DEBTS ARE NOT INCLUDED TO CALCULATE DTI?

HECS and TSL debts, company liabilities, lease and hire purchase are not included to calculate DTI.

HOW ARE LENDERS USING THIS MEASURE?

Recently, many lenders have opted to apply limits on the DTI ratio. For example, a DTI higher than 6 or 7 is considered high risk and lenders will start looking into income and employment stability to mitigate the risk. Some lenders do not accept applications with DTI over 6 whereas some of them could accept applications with DTI up to 8 depending on the strength of the application.



Your Peasy broker and relationship manager are here to support you through every step of the process and assist you in your property journey.

If you want to have a better understanding of your DTI, get in touch so we can help: 1800 3 PEASY

