

# Calculate Your Debt-to-Income Ratio

Fact Sheet No. 9.163

Consumer Series | Finance

by N. Porter\*

Are you carrying too much debt? You may have too much debt if:

- You worry about being able to make the minimum monthly payments on your debts;
- You are putting off paying some bills each month because you do not have enough money to pay all the bills that are due;
- You have to use your credit card to pay for necessities such as food and gas because there isn't enough left after paying the bills;
- You get a cash advance from one credit card to make a payment on another card; or
- You avoid answering the phone because you fear it is a bill collector.

These are a few of the warning signs that you have too much debt. Another way to decide if you have too much debt is to calculate your debt-to-income ratio. It is the financial benchmark many experts use to help you decide how much debt is too much.

It is recommended that your debt-to-income ratio be 15% or lower. Once debt-to-income ratios exceed 20%, problems with

repayment increase dramatically. It means that one day's pay out of a five-day paycheck must be used to re-pay debts and cannot be used for ordinary living expenses. At this point, seeking help from a trained consumer credit counselor may be needed.

PowerPay is a free, online program developed by Utah State University Extension that gives you the tools to develop a personalized, self-directed debt elimination plan. Discover how quickly you can become debt free and how much you can save in interest costs by following your debt reduction plan. Visit: <https://powerpay.org/>.

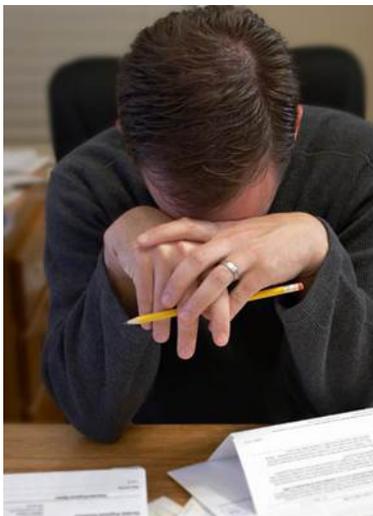
The total amount of your outstanding debt also affects your credit score. It can account for up to 30% of your credit score. For more information read 'Credit Score' fact sheet: [www.ext.colostate.edu/pubs/consumer/09142.html](http://www.ext.colostate.edu/pubs/consumer/09142.html).

How can you compare yourself to the recommended debt-to-income ratio? You need to figure the percentage of your take-home pay that goes to re-pay non-mortgage debt each month. Complete the worksheet on the next page to determine your ratio. An example is provided to use as a guide.



## Quick Facts

- Do you worry about being able to make the minimum monthly payment on all your debts?
- An ideal debt-to-income ratio should be 15% or less. Ratios between 15% and 20% may lead to problems making payments while paying other bills on time.
- Once debt-to-income ratios exceed 20%, problems with repayment increase dramatically. At this point, seeking help from a trained consumer credit counselor may be needed.
- The total amount of outstanding debt also affects your credit score and can account for up to 30% of that score.



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## Debt-to-Income Ratio Worksheet

**Step 1** List the monthly payment for all of your loans: auto, student, furniture, personal, credit cards, etc. Do not include your mortgage loan. For credit cards, use the amount you usually pay each month. If you pay your credit card balances in full each month, do not list them.

Example

Your Payments

Car loan	\$300		
Student loan	\$150		
Credit card(s)	\$60		
<b>Total</b>	<b>\$510</b>		

**Step 2** Divide the total amount of your monthly payments by your monthly take-home pay (your pay after taxes and deductions).

Example

Your Take-Home Pay

Week 1	\$600		
Week 2	\$600		
Week 3	\$600		
Week 4	\$600		
<b>Total</b>	<b>\$2400</b>		

Example      \$510    ÷      \$2400 = .21 debt-to-income ratio or 21%

In the example, 21% of net income goes to pay non-mortgage debt. Following this example, figure your own debt-to-income ratio.

You            \$ \_\_\_\_\_ ÷ \$ \_\_\_\_\_ = . \_\_\_\_\_ debt-to-income ratio or \_\_\_\_\_%

Ideally, you should aim for a debt-to-income ratio of 15% or less. People with ratios between 15% and 20% may be experiencing problems making their payments and still paying other bills on time.

*Notes:*

*Adapted for Colorado by Nancy M. Porter, in part from 'Steps to Wi\$ing Up – Step 4 -1; Calculate Your Debt-to-Income Ratio', by Nancy Granovsky, Texas AgriLife Extension Service.*

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