

Give Your Debts a Financial Health Check

A debt-to-income ratio is a measure of financial stability calculated by dividing monthly minimum debt payments by monthly gross income. This calculation gives a straightforward depiction of your financial position. Typically, the lower your ratio, the better handle you have on debt.

Determining your debt

- * Collect your most recent credit billing statements for current balances
- * Outline your total monthly bills using two columns: bill type (such as car loan, mortgage/rent payments, and so on) and monthly payment. Do not include bills such as taxes and utilities in this list.
- * Add up the total for all of the monthly payments listed.
- * Calculate your monthly before-tax income. If you receive a paycheck every other week, as opposed to twice a month, your monthly gross income is your before-tax income from one paycheck times 2.17.
- * Your monthly debt-to-income ratio is calculated by dividing your monthly debt payments by your monthly income. For example, someone with a monthly income of \$2,000 who is making monthly payments of \$500 on loans and credit cards has a debt-to-income ratio of 25% ($\$500 / \$2,000 = .25$ or 25%).

Staying aware of your ratio can help avoid debt reaching a problematic stage.

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