

# FINANCIAL HEALTH

## Federal Credit Union

### DEBT-TO-INCOME RATIO

Too much debt in comparison to income limits the amount of money you are able to save for emergency purposes, for retirement, for college, etc. Too much debt also limits your ability to handle those small financial matters that crop up for all of us (car repairs, home maintenance, vacations, holidays, etc.). Debt-to-income ratio is age related. Younger families typically have more debt because they have young children and because they are buying cars, houses and furniture. As we age, our debt-to-income ratio should improve because our income rises as we age and because our debt declines.

### DEBT (Monthly Payments\*)

\* Few people get paid monthly and many have loan payments which match their pay dates.

To determine the monthly equivalent for **biweekly pay** or payments use the following formula:

*Pay Amount times 26 divided by 12 = Monthly equivalent.*

To determine the monthly equivalent for **weekly pay** or payments use the following formula:

*Pay amount times 52 divided by 12 = Monthly equivalent.*

For semi-monthly *multiply by 2.*

Mortgage	\$ _____
Second Mortgage	\$ _____
Rent	\$ _____
Auto Loan (1)	\$ _____
Auto Loan (2)	\$ _____
Student Loans	\$ _____
Credit Cards	\$ _____
Personal Loans	\$ _____
Other Debt	\$ _____

**TOTAL MONTHLY PAYMENTS** \$ \_\_\_\_\_

### INCOME (Monthly\*)

Employment #1	\$ _____
Employment #2	\$ _____
Employment #3	\$ _____
Other (Social Security, etc.)	\$ _____

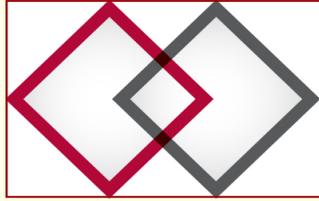
**TOTAL MONTHLY INCOME** \$ \_\_\_\_\_

\* For married people, unless you have totally separate bills, the best way to determine the debt-to-income ratio is to use all household bills and all sources of income. An alternative would be to divide rent/mortgage in half and use the car payment of the car you primarily drive.

### DEBT-TO-INCOME RATIO

(Total Debt divided by Total Income)

\_\_\_\_\_ %



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## **DEBT-TO-INCOME RATIO**

**60% - 25% - 15% GUIDELINE**

- ⇒ **60% of income for NEEDS:**  
Housing, cars, food, insurance, medical, utilities, credit cards
- ⇒ **25% of income for WANTS:**  
Clothing/shoes, beauty, cable, entertainment, vices
- ⇒ **15% of income for SAVINGS**