

## Does your debt outpace your income?



### Not sure?

Try calculating your *debt-to-income ratio*. Lenders use it to help determine whether you can afford to borrow money for a house or a car. But *you* can use it to get a better picture of your financial health.

### What goes out

Start by adding up all your fixed monthly debt obligations. These include your housing payments (mortgage, homeowners insurance, property taxes), car payment, student and personal loan payments, credit card payments and any other fixed payments you have, such as child support.

### What comes in

Next, add up your monthly income from all sources. Include your gross pay (i.e., your pay before taxes are taken out) and any other income you receive, such as overtime pay, investment income, and bonuses, calculated on a monthly basis.

### A simple calculation

To figure out the ratio, divide your total monthly debt payments by your monthly gross income. This tells you what percentage of the money that's coming in is going out to repay current debts. The calculation gives lenders an idea of how much you can afford to spend on a house or other big purchase. A debt-to-income ratio of no more than 36 percent is generally considered good for mortgage loan purposes (housing-related expenses should not exceed 28 percent).

Although lenders base your debt-to-income ratio on your gross income, you may get a more realistic picture of your buying power by using net income for your own calculations.

### For further information on financial planning

We invite you to visit [mybmoreirement.com](http://mybmoreirement.com) or call the My BMO Retirement Line at **1-800-858-3829**.