

NAME: _____

DATE: _____

INSTRUCTION

Debt-to-Income Ratio

What + Why: Calculate debt-to-income ratio (DTI) to evaluate when debt levels may affect repayment capacity and financial stability.

How much debt is too much? Use the formula to find Kai's DTI.

Debt-to-Income (DTI) Formula

Debt-to-Income Ratio (%) =

$(\text{Monthly Debt Payments} \div \text{Monthly Income}) \times 100$

Example Calculation

- Income = \$2,000 per month
- Debt payments = \$600 per month
- Calculation:

$$600 \div 2000 = 0.30$$

$$0.30 \times 100 = 30\%$$

Instructions:

1. Calculate Kai's DTI.
2. Answer the discussion questions. If you have time left over, start answering the debrief questions.

Be ready to discuss your answers and what the ratio means.

Kai's Information

- Monthly income = \$1,200
- Maximum monthly manageable repayment amount = \$250
- Current Credit Card Minimum Payment = \$25

Discussion Questions

1. What is Kai's DTI if he uses the full \$250 maximum manageable repayment amount? (Be sure to include his existing minimum credit card payment.)
2. How does Kai's DTI compare to the 33% threshold, and what does this mean for Kai's ability to borrow money?

Debrief Questions

3. What makes a higher DTI harder to manage?
4. What would happen to Kai's ratio if his income decreased or his debt payments increased?

Key Terms

- **debt:** money owed to a lender that must be repaid, usually with interest
- **debt-to-income ratio (DTI):** a calculation lenders use to determine your ability to take on new debt and still pay your bills; calculated by dividing all monthly payments by gross income
- **minimum payment:** the smallest required payment on a debt account; making only minimum payments often increases total repayment time and interest cost
- **interest:** a fee received or paid for the use of money, usually expressed in the form of a percentage