

Lesson Summary

- Lenders use the debt-to-income and housing expense-to-income ratios to assess your ability to afford a home mortgage.
- The housing expense-to-income ratio refers to the percentage of your gross monthly income that may be allocated to housing costs (PITI payment).
- The total debt-to-income ratio refers to the percentage of your gross monthly income that may be allocated to revolving and installment debt plus housing expenses.
- Debts that lenders consider when calculating your debt capacity include revolving charge accounts, installment accounts, and other recurring debt.
- Income generated through self-employment activities, such as making and selling arts and crafts, performing traditional dances, and drumming, can be counted if it is documented and verifiable.
- Recurring payments, such as Alaska PFD and per capita distributions from land claims, settlements, tribal casino revenues, and trust land lease income, can sometimes be included as income if they are verifiable and evidence that they are likely to continue exists.
- Your total monthly debt payments directly affect your affordability.
- Financial goals are statements about things you would like to buy or do with your money. You meet these goals by managing your spending and regularly saving money to meet your goals.
- Creating a spending plan requires calculating your income, identifying your expenses, examining the relationship between your income and expenses, and setting spending goals.
- Distinguishing between “needs” and “wants” will help you achieve your housing and financial goals.