MORTGAGE BASICS

Debt-to-Income Ratio Explained: What It Is, How to Calculate It, and Why It's So Important

Coltrain Mortgage Team · September 2026 · 7 min read

Credit score gets all the attention, but debt-to-income ratio, DTI for short, is the number that actually decides how much you can borrow, and sometimes whether you're approved at all. Most people have never calculated their own. Here's exactly how it works.

What DTI actually is

Debt-to-income ratio is the percentage of your gross (pre-tax) monthly income that goes toward paying debts. Lenders use it to answer one question: after everything you already owe, how much room is realistically left in your budget for a mortgage payment?

The two DTI numbers lenders look at

Most loan programs actually calculate two separate ratios:

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Front-End DTI

Just your proposed housing payment (principal, interest, taxes, insurance, and HOA if applicable) divided by your gross monthly income.

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Back-End DTI

Your proposed housing payment *plus* every other monthly debt — car loans, student loans, credit card minimums, personal loans — divided by gross monthly income.

Back-end DTI is the number that carries the most weight in most approval decisions, since it captures your full financial picture, not just the mortgage piece.

How to calculate your DTI, step by step

Let's walk through a real example. Say your household brings in **$8,000 a month** in gross income, and your monthly debts look like this:

🚗 **Car Payment: $450**	🎓 **Student Loan: $200**	💳 **Credit Cards: $150**	🏠 **Proposed Housing: $2,200**

Add those four numbers together: $450 + $200 + $150 + $2,200 = **$3,000** in total monthly debt. Now divide that by gross monthly income: $3,000 ÷ $8,000 = **0.375**, or a **37.5% back-end DTI**.

Debts ÷ Income

That's the entire formula. The complexity isn't the math — it's knowing exactly which monthly obligations count as "debt" in a lender's eyes.

Why DTI can matter more than your credit score

> **A 780 credit score doesn't override a DTI that's too high.** Credit score measures whether you've historically paid your bills on time. DTI measures whether you have room in your monthly budget for a new one. A lender can trust you completely and still not be able to approve a payment your income doesn't support — the two numbers answer different questions, and both have to check out.

Most loan programs cap back-end DTI somewhere in the 43–50% range, though the exact ceiling shifts based on the loan program, your credit profile, and other compensating factors like cash reserves. This is exactly why one lender's "no" isn't always the final word — different programs and different wholesale lenders draw that line in different places.

How to improve your DTI before you apply

PAY DOWN SMALL BALANCES

Eliminating a small credit card or auto loan entirely removes that whole monthly payment from the calculation.

HOLD OFF ON NEW DEBT

Avoid financing a car or opening new credit in the months before you apply — it adds directly to your ratio.

DOCUMENT ALL YOUR INCOME

Bonus, overtime, and side income can sometimes be counted if properly documented — which raises the "income" side of the equation.

CONSIDER THE LOAN PROGRAM

Different loan programs, and different wholesale lenders, allow different maximum DTIs for the same borrower profile.

Know your number before you shop

Calculating your own back-end DTI takes five minutes and tells you more about your real budget than almost any other number. If it's higher than you'd like, that's not necessarily the end of the conversation — it's usually the start of one about which program fits your actual numbers.

Want us to calculate your real DTI and what it qualifies you for?

Ready to talk it through?
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