

### Week 3 (Day 3): Income-to-Debt Ratios

Time Needed	Materials Needed	Set-Up Needed
30 minutes	Calculator Worksheet	N/A
Task, Content, Rational Aim	Background, Givens, Focus	Group, Mood, Experiential Aim
Teach class how to determine Debt-to-Income Ratios	Clients not familiar with formula or calculator; how much debt is too much	Calculator Exercise
Topic	Procedural Steps/Activities/Key Points to be made	
<b>Introduction</b>	This ratio is one of the most popular approaches that lenders use to determine if have too much debt and to determine your credit worthiness. When you learn to calculate this ratio you will never again need to be anxious about applying for credit. You will know what your ratio is and be able to improve the ratio before applying for credit, thereby avoiding a ding on your credit report from being denied credit.	
<b>Discussion</b>	Showing that you can control your spending in relation to your income is what lenders are looking for when evaluating a potential customer. (see guidelines below)	
<b>Key Points</b>	<p>Guidelines:</p> <p>Housing costs: 30% of pre-tax (gross) income. This includes principal, interest, taxes, and insurance.</p> <p>Renters: Rent and insurance  <u>Can approach 40% if there is no other debt</u></p> <p>Consumer Debt: 20% or less of net (after tax) monthly income</p> <p>36% or less: Ideal debt load to carry for most people.            37-42%: Debts still manageable but start paying down before they begin to spiral. You can probably still get credit cards but acquiring loans may be more difficult.            43-49%: Your debt ratio is high and you should take immediate action            50% or more: Seek professional help to reduce your debt</p>	
<b>Activity</b>	<p>Walk participants through the calculations worksheet: Ratios:</p> <p>Housing Cost / pre-tax gross income</p> <p>Other debt (car+education+credit card+other) / after tax monthly income</p> <p>Total debt: housing cost + other debt / gross monthly income</p> <p>Review the Income-to-Debt Ratio Guidelines handout</p> <p>Have participants use the calculator on their phone:</p> <ul style="list-style-type: none"> <li>Review the Practice Calculation Exercises.</li> </ul>	
<b>Debrief</b>	<p>A few will be able to calculate in class but most will need to do this at home. Encourage participants to calculate their ratio with spouse if there is joint debt.</p> <p>Participants need to be able to answer the questions for themselves:</p> <p>Will a creditor find you credit worthy?</p> <p>What can you do to reduce your Income to Debt ratio?</p>	
<b>Wrap-Up</b>	<p>Tell participants that for <u>Homework</u> they will have to calculate their personal Income-to-Debt ratio. What do you need to do now?</p> <p>Continue to practice delivering a food or financial content activity to clients, family or friends.</p>	