

When you apply for a home mortgage, the lender will use your gross monthly income and expenses to calculate your **debt-to-income ratio**. There are often two qualifying measures, called the *28/36 rules*.

- **28% Rule:** The ratio of your monthly mortgage (including loan payment, property taxes, and insurance) to your gross monthly income is expected to not exceed 28%.

$$\frac{\text{Monthly mortgage}}{\text{Gross monthly income}} \leq 28\%$$

- **36% Rule:** The ratio of your total monthly debt payments (including mortgage, credit card minimum payments, loans, and all other debts) to your gross monthly income is expected to not exceed 36%.

$$\frac{\text{Monthly debt payments}}{\text{Gross monthly income}} \leq 36\%$$

EXAMPLE 6 Qualifying for a Home Mortgage

You are considering buying a home for \$325,000. After your down payment, the monthly mortgage payment (including property taxes and insurance) would be \$1450.00. Your gross annual income is \$63,000, and you already have a monthly car payment and a monthly credit card payment totaling \$250. According to the 28/36 rules, do you qualify for the home mortgage?

SOLUTION

Your gross monthly income is $\$63,000/12 = \5250 .

$$\begin{aligned} \text{28\% Rule: } \frac{\text{Monthly mortgage}}{\text{Gross monthly income}} &= \frac{1450}{5250} \\ &\approx 0.276 \\ &= 27.6\% \end{aligned}$$

$$\begin{aligned} \text{36\% Rule: } \frac{\text{Monthly debt payments}}{\text{Gross monthly income}} &= \frac{1450 + 250}{5250} \\ &\approx 0.324 \\ &= 32.4\% \end{aligned}$$

Both of your debt-to-income ratios are in the acceptable range, so you do qualify for the home mortgage.

✓ Checkpoint

Help at Math.andYOU.com

You are considering buying a home for \$425,000. After your down payment, the monthly mortgage payment (including property taxes and insurance) would be \$1950.00. Your gross annual income is \$73,000, and you already have a monthly car payment and a monthly credit card payment totaling \$450. According to the 28/36 rules, do you qualify for the home mortgage?

