



DTI AND YOUR BORROWING POWER

Understanding your Debt to Income ratio (DTI) is more important than ever. It's a financial compass, not just a number, and it directly impacts your ability to borrow money – including taking advantage of refinancing opportunities.

With regulatory changes coming in 2024 emphasising DTI, proactively addressing your financial health now is your strategic advantage.

What is DTI and why does it matter so much?

Your DTI is a snapshot of your debt obligations compared to your income.

To calculate:

- divide your total monthly debt payments by your gross monthly income (before taxes).

The result is a percentage that shows lenders how much of your income is dedicated to servicing existing debt.

Example:

Monthly debt payments of \$3,000 with a gross monthly income of \$8,000 results in a DTI of 37.5%

$(\$3,000 \div \$8,000 = 0.375 \text{ or } 37.5\%).$

Lenders love a low DTI because it indicates you have financial flexibility and a greater capacity to handle additional debt.

On the flip side, a high DTI could make lenders hesitate as it might mean you're already thinly stretched.

Key debts included in your DTI

It's crucial to know exactly which debts count toward your DTI:

Mortgages

Both your existing loans and any new mortgage you apply for.

Credit cards

Minimum monthly payments are factored in even if you pay more.

Personal loans

Outstanding balances and ongoing repayments.

Car loans

Payments on financed vehicles.

HECS-HELP/student loans

Repayments on higher education debt.



Buy Now, Pay Later (BNPL)

Those tempting instalments add up!

While lenders already consider DTI, it's about to become even more important. During 2024, Australian regulators are placing a stronger emphasis on DTI for loan approvals. Understanding your DTI now gives you a serious edge.

How to take charge of your DTI

Don't let your DTI control you.

Here's how to improve it proactively:

Debt demolition

Prioritise paying down debt by starting with those high interest culprits such as credit cards. Strategies like the debt snowball and debt avalanche can be highly effective.

Income boost

Explore ways to increase your earnings through a raise, side hustle or a higher-paying job.

Consolidate carefully

Combining debts into a lower interest loan could reduce your monthly payments, but make sure to consider all potential fees.

Pause on new debt

While you're improving your DTI, try to avoid taking on additional credit.

Refinancing success - Your DTI is key

Think of refinancing as applying for a fresh mortgage. Lenders will reassess your finances and your DTI plays a major role in these key refinancing benefits:

- **Demonstration of repayment capacity**

A strong DTI shows you have room in your budget to manage the new loan, even in a changing interest rate environment.

- **Better interest rates**

A lower DTI often unlocks those coveted lower interest rates and could save you thousands over the life of your mortgage.

- **Maximise borrowing power**

If your finances have improved since your original mortgage, a healthier DTI may even allow you to borrow more through refinancing – maybe by tapping into equity for renovations, investments or debt consolidation.

Additional criteria lenders assess when you apply for a loan

Your Debt to Income ratio (DTI) is a big factor in having a loan approved, but it's not the whole story. Lenders take a 360 degree view of your financial life before handing you a stack of cash.

Let's dive into the other key ingredients they toss into the decision-making mix.

The reputation factor

Think of your credit score as your financial report card. It's a number that reflects how responsibly you've handled borrowed money in the past. A stellar credit score shows lenders you're a reliable borrower and makes you more likely to get the green light for loans and potentially score those lovely lower interest rates. On the flip side, a less than ideal score might mean higher interest rates or stricter loan conditions.



The proof is in the pay stubs

Lenders like stability. A steady employment history demonstrates that you have a reliable source of income to meet those loan repayments. If you're self-employed, be prepared to provide evidence of your income history, such as tax returns and financial statements.

Show me the money (or the assets)

Any assets you own, such as a house, savings accounts or investments, can boost your attractiveness as a borrower. Assets act as a form of security for the lender and demonstrate you have resources to fall back on if needed. Plus, having a deposit saved up for a home loan shows you're serious and financially prepared.

Key takeaway

Your DTI is a dynamic tool for your financial success. By understanding its impact, proactively managing it and strategically approaching both new borrowing and refinancing, you empower yourself to achieve your finance goals – saving money, repaying your home loan faster or accessing equity to build wealth.

Remember, we are here to help you understand the jargon and walk you through the process of all your lending decisions. Use our expertise to find the most appropriate finance options for you.

Contact us to read
**'HEM - What is it?
Why does it matter for
your home loan?'**

