Financial Ratios Calculations
Reference Guide

Savings Ratio: Is the amount of money that a person deducts from his/her disposable income to set aside for savings or retirement. Your savings ratio should be equal to 10% or more.

$$\text{Savings Ratio} = \frac{\text{Savings (+ Investments)}}{\text{Total Income}}$$

Example:

$$\text{Savings Ratio} = \frac{\$5{,}200}{\$60{,}000} = 8.66\%$$

*This family will need to save an additional $800.00 per year in order to achieve a 10% savings rate.

Housing Ratio: The amount of income allocated to housing. Includes principal, interest, taxes, insurance, and home owners' association dues (when applicable). Your Housing Ratio should not exceed 28% of gross monthly income.

$$\text{Housing Ratio} = \frac{\text{Principal + Interest + Taxes + Insurance}}{\text{Annual Gross Income}}$$

This ratio is used by lenders to make mortgage loan decisions to individuals. The lender wants to know if the individual makes enough money to pay back the mortgage loan without struggling to pay for other expenses. Most lenders will not approve a loan if the ratio is higher than 28%.

Total Debt Ratio: This Ratio determines your ability to repay debt. A healthy Total Debt Ratio is 36% or less.

$$\text{Total Debt Ratio} = \frac{\text{Annual Debt Repayments}}{\text{Annual Gross Income}}$$

Consumer Debt Ratio: Informs you on the amount of after-tax income that is going toward non-mortgage debt. A Healthy Consumer Debt Ratio is 20% or lower.

$$\text{Consumer Debt Ratio} = \frac{\text{Annual Non-Mortgage Debt Repayment}}{\text{Annual Net Income}}$$