Overview on Debt

SAFA Financial Literacy Lesson

What is debt and DTI?

Debt is money that you owe to another party. Your DTI is your debt-to-income ratio. Your DTI is calculated by dividing the summation of all of your monthly debts by your gross monthly income before money like taxes are deducted.

Debt Examples:

Mortgage Loan Debts

Student Loan Debts

Credit Card Debts

Medical Debts

Vehicle Loan Debts

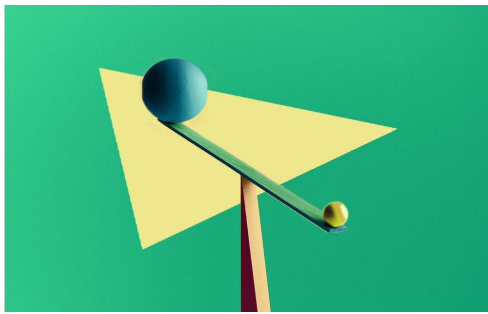
Types of Debt

There are 4 main types of debt, which are secured debts, unsecured debts, revolving debt, and mortgages. Secured debts are debts that have a collateral asset/property to secure the debt, ensuring that you will have to pay the debt. This is because the collateral is valuable enough that when sold, it can cover the funds of the loan. Unsecured debts do not secure the debt using collateral, but since there is no collateral, there is a far greater analysis into an individual's credit to ensure that they are trustworthy(they will pay back the debt). Revolving debt is an amount of money that you can borrow from repeatedly, as in you can use up the funds, repay the debt, and borrow the funds. Finally, mortgages are real estate debts, and they are essentially a type of secured debt. They are one of the largest debt that consumers will owe.

Why should you manage your debt?

It is good to manage your debt since it can allow for you to be financially secure and struggle for years trying to pay off your debt using inefficient methods. In addition, you will have to pay back more money as interest leads to the debt increasing, and once you pay it back, you will be able to focus on other financial goals. DTI is used by lenders to determine your borrowing risk, meaning that you can only take certain loans if you have a certain DTI, and paying off debt can allow you to increase your credit score.

Optimal DTI



Usually, having above a DTI ratio above 43% means that you can not qualify for mortgage, so it is important to manage debt so that you can get mortgage loans to attain real estate properties(your first house). If you have more than 36% DTI, that means that you can do a lot of work to limit your debt and allow you to reap the many benefits of having less debt. Below that, debt is generally manageable. To summarize, including expenses, optimally, your DTI should be below 36% to be financially secure, and without expenses, it should be 28% or less.