

2.5c

Knowing the 5C's of credit, what are 3 ways you would be able to increase your credit score?

Activity: DTI and LTV

1. Rachel earns \$3,000 per month after taxes. She has monthly debts totaling \$800, including her car loan, credit card payments, and student loans. Calculate Rachel's debt-to-income ratio and determine if it falls within the recommended range for financial health.

2. Luke is considering taking out a personal loan to buy a new laptop for \$1,500. The loan has an interest rate of 8% APR and a term of 12 months. If Luke's monthly after-tax monthly income is \$2,500 and he already has monthly debts of \$600, will he be able to afford the monthly loan payment without exceeding a debt-to-income ratio of 35%? (Use the simple loan payment equation.)

3. Jason and Natasha are looking to buy their first home. They've found a house they love, priced at \$200,000. If their combined monthly after-tax income is \$6,000 and they currently have monthly debts of \$1200, including car payments and credit card bills, what monthly mortgage payment can they afford while keeping their debt-to-income ratio below 40%?

4. Jamie is buying a car valued at \$20,000. He is making a down payment of \$4,000 and taking out a \$16,000 loan to cover the remaining amount. What is the loan-to-value ratio for Jamie's car loan?

5. Rebecca is purchasing her first home for \$250,000. She's making a down payment of \$10,000. Calculate the loan-to-value ratio for Rebecca's home purchase.

6. Jeremy is attending college and needs a car to get him to and from campus. He found a reliable car priced at \$10,000, and he has some established credit from being an authorized user on his parents' credit card. He can make a \$1,000 down payment on the car if he has to. The lender said that if his credit score comes back at a 720 or higher, they will lend up to 110% the value of the vehicle. After researching the vehicle, it has a value of \$9,400. The seller won't come down on the price. The lender runs Jeremy's credit application for \$10,000 and his credit score comes back at a 732. Will Jeremy be able to borrow the full \$10,000 for the vehicle? What is the LTV if he borrows the full \$10,000? What is the LTV if he makes a \$1,000 down payment?