How Do You Compare?

Real Investment Advice

Quick Take

WalletHub?s 2018?s [Best & Worst Cities at Money Management](#) is out! WalletHub, a comprehensive internet source of personal finance data, ranked 2,500 cities based on their financial acumen. Ten key indicators of money management including median credit scores, debt-to-income ratios and average number of late payments were calculated and ranked. Cities in California grabbed the top 3 spots. Texas doesn?t make the cut until #46 with Southlake falling within the 98th percentile. Houston, unfortunately, is one of the worst on the list.

Money Management by City

				Houston				
Rank (1=Best) ⬍	City ⬍	Percentile Rank* ⬍	Median Credit Score ⬍	Credit-Card Debt-to-Income Ratio ⬍	Mortgage Debt-to-Income Ratio ⬍	Car-Loan Debt-to-Income Ratio ⬍	Student-Loan Debt-to-Income Ratio ⬍	Avg. Number of Late Payments ⬍

How do you compare in your own household? Here are Clarity Financial?s and Real Investment Advice?s debt guardrails to consider: **Mortgage Debt-to-Income Ratio:** There?s that rule you?ve heard about how much to spend on an engagement ring based on three months? salary. I?ve created a threshold that?s worked for me and clients for years. Feel free to enhance it to relate to your personal situation. •••••• **House Mortgage = 2X Gross Salary or 200%.** It?s simple. To the point. It gets to the heart of my comfort factor. It separates emotion from the decision. For example, per the boundary, if you earn $50,000 a year, a mortgage obligation should not exceed $100,000. To be clear, this isn?t the house purchase price, it?s the mortgage or debt on the property. For most, it?s going to mean a reset of expectations, a greater down payment or a smaller abode. I would stray from the rule at great risk to your long-term financial health. **Student Loan Debt-to-Income Ratio:** *Keep loans limited to one year?s worth of total expense, tuition, room & board, everything.* You can divide the money across the full experience, 4-5 years, or all at once. However, no more than a year?s worth of expenses should be taken in the form of student loans. I?ll probably catch slack for this, but so be it. All I seek to do is get you thinking boundaries. **Student Loan = 1X 1 year?s college expense or 25%. Credit Card Debt-to-Income Ratio:** Today, credit cards are used for various reasons ? convenience, cash back, travel reward points and the most unfortunate, to meet ongoing living expenses in the face of structural wage stagnation. **Credit Card Debt = No greater than 4% of monthly gross income.** If your household gross income is $50,000 then credit card debt shouldn?t exceed $2,000. Per WalletHub?s study, Texas ranks 46 with $2,848 in average credit card debt. **Car Loan Debt-to-Income Ratio:** Cars are required like breathing here in Houston and Texas, overall. However, *they are not investments.* They do not appreciate in value. If anything, auto values decrease as soon as you drive away from the dealership. **Car Loan Obligation = No greater than 25% of monthly gross income.** For example, a household bringing in $60,000 a year shouldn?t have more than $15,000 in outstanding auto loan debt. In my household, the ratio is 18%. So, what do you think? What rules regarding debt do you follow in your household? I?d love to hear them and share on the radio. Send me an e-mail