

Lesson 3 GDSR

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Lesson 3 Gross Debt Service Ratio (GDSR)

Gross Debt Service Ratio is one of the factors used to determine whether you will be approved for a mortgage. It determines whether you can afford the mortgage payments for the house you have chosen.

A GDSR over **0.32 or 32%** will not be approved.

$$GDSR = \frac{(Monthly\ Mortgage + Monthly\ Property\ Taxes + Monthly\ Heating)}{Gross\ Monthly\ Income} \times 100$$

Example 1

Nick wants to purchase a house for \$215 000. His monthly mortgage payment would be \$1125. The monthly property taxes would be \$220 and the monthly utilities for that property are \$200. Nick and his partner have a combined gross monthly income of \$5100.

a.) Calculate the GDSR.

$$GDSR = \frac{(1125 + 220 + 200)}{5100} \times 100$$

$$= 30.3\%$$

b.) Will the bank approve this mortgage? Explain.

Yes, because their GDSR is under 32%.
 ↳ must reference 32%.

Example 2

The Seavers want to purchase their dream home. They would have a monthly mortgage payment of \$1212.75. Maggie has a gross monthly income of \$2450 and Jason has a gross monthly income of \$2400. The utility company estimates the annual utilities on this property to be \$2460 and the municipality shows property taxes as \$3600 per year. Determine whether the bank will approve this mortgage.

<p>monthly income</p> <p>2450 + 2400</p> <p>4850</p> <p>utilities</p> <p>2460</p> <p>12</p> <p>205</p>	<p>Property taxes</p> <p>3600</p> <p>12</p> <p>300</p>	<p>GDSR = $\frac{(1212.75 + 300 + 205)}{4850} \times 100$</p> <p>= 35.4%</p>
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∴ No, the GDSR is over 32%.

Example 3

Alex Keaton has saved up \$12,500 for a down payment. He earns \$2800 per month. Using an interest rate of 7% and estimating monthly property taxes to be \$180 and monthly heating costs to be \$125.

a.) Determine the maximum amount of mortgage Alex can afford.

<p>monthly income</p> <p>2800</p> <p>x 0.32</p> <hr/> <p>896</p> <p>896</p> <p>180 prop tax</p> <p>- 125 heating</p> <hr/> <p>591 ← affordable mortgage payment</p>	<p>591 ÷ 0.00700 ← interest rate factor from Table 7 for 7%</p> <p>\$84,428.57 ← max amount of mortgage</p>
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b.) Determine the maximum affordable sale price of a house he can afford.

\$84,428.57

+ 12,500.00 down payment

\$96,928.57