

GROSS DEBT SERVICE RATIO AND TOTAL DEBT SERVICE RATIO

The amount of mortgage you may qualify for depends on two things: income and the amount of debt you are carrying. Financial institutions use two different ratios to measure your borrowing ability. The first is your Gross Debt Service Ratio (GDSR). The second is your Total Debt Service Ratio (TDSR).

Gross Debt Service Ratio

Gross Debt Service Ratio (GDS) is the percentage of your gross income (before deductions such as income tax) required to cover home-related costs, such as:



Example:

Principal and Interest Monthly	\$915.59
Heat Monthly	\$75.00
Taxes Monthly	\$125.00

Total for debt service \$1,115.59

Gross Monthly Income \$3,500.00

GDS Ratio calculation

$$\frac{\$1,115.59}{\$3,500} = .318$$

GDS Ratio 31.8%

In the above example, the homeowner is spending 31.8% of their household income on housing expenditures.

To qualify for a mortgage, most lenders traditionally require that your GDSR is at or below 32%. As of October 2006, the insurers and some lenders will allow a GDSR of up to 35%.

This, coupled with the option of extended amortizations, significantly increases the consumer's borrowing power. Extended amortizations are not available for insured mortgages.

Total Debt Service Ratio

Total Debt Service Ratio (TDS) is the percentage of gross income required to cover home-related costs (mortgage payments, property taxes, heating, and 50% of condo fees, if applicable), plus all of your other debts, such as:



Example:

Principal and Interest Monthly	\$915.59
Heat Monthly	\$75.00
Taxes Monthly	\$125.00

Car Loan Monthly \$200.00

Credit Card Payments Monthly \$50.00

Total for debt service \$1,365.59

Gross Monthly Income \$3,500.00

TDS Ratio calculation

$$\frac{\$1,365.59}{\$3,500} = .3902$$

TDS Ratio 39.02%

In the above example, the homeowner is spending 39.02% of their household income on housing expenditures and other debt.

In order to qualify for a mortgage, traditionally lenders have required that your TDSR be at or below 40%. Since October of 2006, some insurers and lenders will allow up to 42% TDSR and in the case of a borrower with exceptional credit, may allow for a TDSR of up to 44%.

Compare the results with the estimated costs for your new home

Estimate what the costs will be for your new home, including all the ones described in the GDS and TDS ratios. If the total costs you estimate are lower than the maximum amounts you calculated, you will probably qualify for a mortgage loan with the lender. If you find that your debt service ratios are higher than you'd like, some of your options include:

- looking at homes in a lower price range
- saving for a larger down payment
- reducing your debts

Section 1. AT A GLANCE

1

What is the minimum down payment required to purchase a home?

The minimum down payment required to purchase a home is 5% of the purchase price (see also p. 4).

2

What can I use for a down payment?

The down payment is usually from your own resources (e. g. savings, sale of another property), but can also come from alternate credit sources (e. g. a loan) if certain criteria are met (see also p. 4).

3

What's classified as income?

Employment income, seasonal income, overtime, AISH and pension income, child tax credit (see also p. 2 and 3)

4

What do I need to consider if I'm self-employed?

You can still qualify for a mortgage, but you will need to provide proof of a consistent income (p. 2). Additionally, it's possible that you will be asked to provide a higher down payment (see also p. 12).

5

How is the amount of mortgage I qualify for determined?

This depends on your income and the amount of debt you are carrying (p. 5).

6

How do I calculate my GDSR or my TDSR?

Explanations and calculation examples can be found on page 5.

7

What can I do if my debt service ratios are too high?

Some of your options include looking for homes in a lower price range, reducing your debts, or saving for a larger down payment (p. 5).

8

Can I qualify for a mortgage if I am unable to confirm my income?

This depends on a number of factors, for example if you are willing to pay a higher down payment; I can help you determine if there are alternatives or workarounds for your individual issues.

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