Example1 Assets liabilities +

Jordan has totaled up his assets and determines their value is $285 000. His liabilities are $24 000. In addition, he also has a mortgage of $54 000. liabilities

a) Calculate Jordan's Net Worth.
b) Calculate Jordan's Debt-Equity Ratio.
c) Do you think a bank would lend money to Jordan? Why or why not?

a) Net Worth = TOTAL ASSETS − TOTAL Liabilities
= $285 000 − $(24 000 + 54 000)
= $28500 − $78 000 = $207 000 (Networth)

b) DER = Total liabilities − mortgage / Net worth

$$\frac{\$78000 - \$54\,000}{207\,000} \times 100\% = 11.59\%$$

c) The bank will Lend money to Jordan, because the DER (11.59%) is less than 50%.

Example 2

Jody is applying for a mortgage for a new home. Her mortgage broker has calculated that the monthly mortgage payment would be $772.98. From the realtor selling the home, Jody learned that the monthly heating bill is $125 and the monthly property tax bill is $112. Finally, Jody's gross monthly income is $3250.75. Jody is worried that she will not be approved for the mortgage because her GDSR will be too high. Will Jody be approved for the mortgage?

$$G.D.S.R = \frac{\text{monthly mortgage} + \text{monthly heating} + \text{monthly property tax}}{\text{Gross monthly Income}} \times 100$$

$$= \frac{772.98 + 125 + 112}{3250.75} \times 100\%$$

$$= 31.07\%$$

Jody will be approved for the mortgage because the GDSR (31.07%) is below 32%.