

## Lesson One: Gross Debt Service Ratio

### Goals:

- Calculate the maximum monthly housing costs for a given monthly gross income
- Use monthly housing costs and gross income to calculate the value of the Gross Debt Service Ratio
- Use the Gross Debt Service Ratio to determine whether or not a mortgage is affordable

### Can I afford a Mortgage?

Many people are unsure of whether they can afford to purchase a property or not. Financial institutions have developed a formula that helps answer this question.

Financial institutions in Manitoba use the following rule: Your three main housing expenses (mortgage payment, property taxes, and heating bill) should not exceed 32% of your gross income.

#### Example 1

Your friend has a monthly gross income of \$4000 and says that he can afford monthly housing costs of \$2000. Explain why this is not true.

Because \$2000 of \$4000 is more than 32%

$$\frac{2000}{4000} \times 100\% = 50\%$$

What is the maximum amount he should be spending for housing costs (mortgage payment + taxes + heat)?

$$32\% \text{ of } 4000$$

$$= \frac{32}{100} \times 4000$$

$$= \underline{\underline{\$1,200}}$$

maximum amount  
he should spend