

## Calculating the Gross Debt Service Ratio

When determining if a mortgage is affordable, financial institutions use a formula to calculate your *Gross Debt Service Ratio* (GDSR). The formula is:

$$\text{GDSR} = \frac{\text{Monthly Mortgage Payment} + \text{Monthly Property Tax} + \text{Monthly Heating}}{\text{Gross Monthly Income}} \times 100$$

If the GDSR is under 32%, financial institutions will consider you for the mortgage (although other issues such as credit rating will also be considered).

If the GDSR is over 32%, the financial institution will definitely **not** approve the mortgage. A GDSR over 32% means that the housing costs will use up too much of your income; the mortgage is not affordable.

### Example 2

- a) You would like to buy a house with a monthly mortgage payment of \$775.75, monthly property tax of \$125 and an average monthly heating cost of \$150. Your gross monthly income is \$3000. Use the formula to calculate the GDSR.

monthly payments = \$ 775.75  
 " property tax = \$ 125.00  
 " heating = \$ 150.00  
 Gross " income = \$ 3000.00

$$\begin{aligned} \text{GDSR} &= \frac{775.75 + 125 + 150}{3000} \times 100 \\ &= \frac{1,050.75}{3000} \times 100 \\ &= 35.03\% \end{aligned}$$

↑  
unit of GDSR = %

- b) Would the bank be likely to grant you a mortgage? Justify your answer.

No, because the GDSR is over 32%.  
 (note: you must mention 32%)

- c) Explain how a person could **lower** their GDSR.

- get a lower cost house.
- larger down payment
- increase gross income.