

Gross Debt Service Ratio (GDSR) Practice Problems

Key

1. Describe two (2) ways people can decrease their Gross Debt Service Ratio (GDSR). (Jan 2013)

- o larger down payment.
- o lengthen the mortgage

2. Carrie is thinking of purchasing a house. The monthly mortgage payment, heating cost, and property tax would be \$836.25, \$150, and \$135, respectively. Carrie has a gross monthly income of \$2800.

- a) Determine Carrie's Gross Debt Service Ratio (GDSR).

$$\text{GDSR} = \frac{(836.25 + 150 + 135)}{2800} = \underline{0.40}$$

- b) Explain whether Carrie can afford to purchase this house. (Jan 2014)

No, greater than 0.32

3. A couple has chosen a house to purchase. The bank calculates the couple's Gross Debt Service Ratio (GDSR) to be 40%. State two ways the couple could decrease their GDSR. (June 2014)

- o larger down payment
- o perhaps look at a less expensive house.

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4. Lorenzo wants to buy a house. His monthly property taxes will be \$125, his monthly heating costs will be \$160, and his monthly mortgage payment will be \$1216. He has a gross income of \$38 400 per year.

$$\div 12 = 3200$$

- a) Calculate his Gross Debt Service Ratio (GDSR) as a percent.

$$\frac{1216 + 160 + 125}{3200} = 0.469$$

- b) Explain if his loan application will be approved based on the GDSR calculated in Part a). (June 2015)

No, higher than 0.32.

5. David is planning on purchasing a house. The monthly mortgage payment will be \$925 and the monthly heating costs will be \$235. The annual property taxes will be \$3180. $\div 12 = 265$

- a) Calculate David's Gross Debt Service Ratio (GDSR) if his gross monthly income is \$3958.

$$\frac{925 + 235 + 265}{3958} = 0.36$$

- b) Explain whether David will be approved for the home mortgage. (Jan 2016)

No, higher than 0.32

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6. Marcia earns \$52,500 annually and wants to buy a new house. Her monthly mortgage payments will be \$725, the monthly property taxes will be \$262.50, and the monthly heating costs will be \$215.

a) Calculate Marcia's Gross Debt Service Ratio (GDSR).

$$\text{GDSR} = \frac{(725 + 215 + 262.50)}{4375} = 0.27$$

b) Explain whether Marcia will be approved for the home mortgage.
(June 2016)

yes! less than 0.32

7. David is planning on purchasing a house. The monthly mortgage payment will be \$925 and the monthly heating costs will be \$235. The annual property taxes will be (\$3180 ÷ 12) = 265

a) Calculate David's Gross Debt Service Ratio (GDSR) if his gross monthly income is \$3958.

$$\frac{(925 + 265 + 235)}{3958} = 0.36$$

b) Explain whether David will be approved for the home mortgage.
(Jan 2016)

No, GDSR is greater than 0.32

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8. Paco earns \$3100 monthly and would like to purchase a new house. The monthly mortgage payment will be \$797, the monthly heating costs will be \$150 and the annual property taxes are \$2400. Calculate Paco's Gross Debt Service Ratio (GDSR). (June 2017)

$$\frac{(797 + 200 + 150)}{3100} = 0.37$$

9. Explain why a bank usually limits the Gross Debt Service Ratio (GDSR) to 32% when determining if a homebuyer will be approved for a mortgage. (Jan 2018)

- more than this makes it tough to "make ends meet"
- budget guidelines.

10. George is considering purchasing a home. He earns a gross income of \$44 400 annually. The monthly heating costs are \$140, the monthly property taxes are \$200, and the monthly mortgage payment is \$940.

Calculate George's Gross Debt Service Ratio (GDSR). (June 2018)

$$\frac{(940 + 200 + 140)}{3700} = 0.35$$