Example 1

Mr. Borrower wishes to purchase a home valued at $350,000. He has $87,500 as a down payment, leaving a required mortgage in the amount of $262,500. You have determined that his monthly mortgage payment will be $1,679.50. This is not a condominium and therefore there is no maintenance fee. Mr. Borrower has an annual income of $77,500 and pays $3,100 per year in property taxes. What is Mr. Borrower's GDS?

Solution

GDS = [(PITH) / Gross Income] x 100

GDS = [(($1,679.50 x 12) + ($100 x 12) + $3,100)/ $77,500] x 100

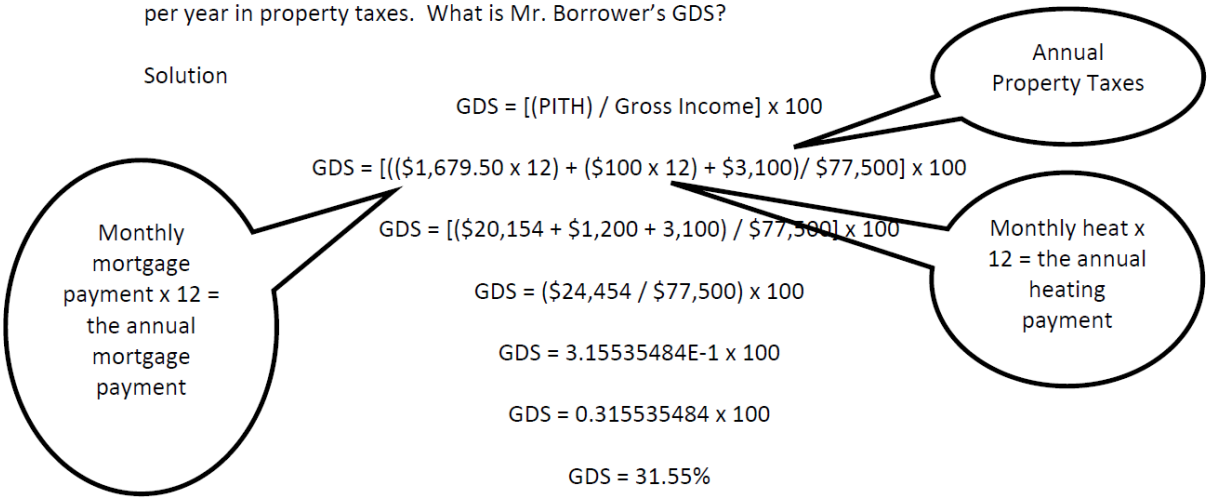
GDS = [($20,154 + $1,200 + 3,100) / $77,500] x 100

GDS = ($24,454 / $77,500) x 100

GDS = 3.15535484E-1 x 100

GDS = 0.315535484 x 100

GDS = 31.55%



Therefore Mr. Borrower's GDS is 31.55%.

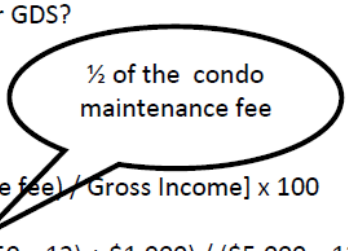
In this case Mr. Borrower's GDS is within the acceptable industry standard of 39%, meaning that his GDS will qualify with most lenders.

Ms. House owns a condominium unit valued at $200,000 that has a mortgage with an outstanding balance of $120,000. She would like to refinance this mortgage, increasing it to $145,000. Ms. House has informed you that the monthly condominium maintenance fee is $350, and her property taxes are $1,900 per year while she has a monthly income of $5,000. Based on your calculations you have determined that her monthly mortgage payment based on this proposed mortgage will be $927.72. What is her GDS?

Solution

GDS = [(PITH + ½ Condo Maintenance fee) / Gross Income] x 100

GDS = [(($927.72 x 12) + ($100 x 12) + (.50 x $350 x 12) + $1,900) / ($5,000 x 12)] x 100



GDS = [($11,132.64 + $1,200 + $2,100 + $1,900) / $60,000] x 100

GDS = ($16,332.64 / $60,000) x 100

GDS = 2.72210667E-1 x 100

GDS = 0.272210667 x 100

GDS = 27.22%