

Malik and Nancy Borrower are purchasing a house valued at \$450,000 and have \$80,000 as a down payment, resulting in a required mortgage of \$370,000. You have reviewed their application and have determined that the lender best for them is currently offering a rate of 4.75% with a 25-year amortization and monthly payments. You have calculated that the monthly mortgage payment on this proposed mortgage will be \$2,099.59.

From their application you know that they have a combined monthly income of \$8,355. They have car payments of \$175 and \$300 per month, credit card payments of \$190 per month and a student loan payment of \$100 per month. The property taxes for this home are estimated to be \$3,100 per year. Based on the lender's TDS ratio of 44%, will they qualify for this proposed mortgage?

Solution

Heat is standardized at \$100 per month.

$$\text{TDS} = [(\text{PITH} + \frac{1}{2} \text{ Condo Maintenance fee} + \text{Other Debts}) / \text{Income}] \times 100$$

$$\text{TDS} = [(\$2,099.59 + \$100(\text{heat}) + \$175 + \$300 + \$190 + \$100 + (\$3,100 / 12)) / \$8,355] \times 100$$

$$\text{TDS} = [(\$2,964.59 + 258.33) / \$8,355] \times 100$$

$$\text{TDS} = (\$3,222.92 / \$8,355) \times 100$$

$$\text{TDS} = 0.3857474566128 \times 100$$

$$\text{TDS} = 38.57474566128$$

$$\text{TDS} = 38.57\%$$

Therefore, Malik and Nancy qualify for this mortgage based on the lender's TDS requirement.

TDS: Included and excluded items

Examples of items included in the TDS ratio:

- Loans
- Mortgage payments
- Credit cards
- Child support
- Alimony
- Any payment that, if discontinued, would result in a balance owing.

Examples of items *not* included in the TDS ratio:

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- Child care expenses (that are not court ordered)
 - Food
 - Clothing
 - Entertainment
 - RRSP contributions
 - Car insurance
 - Property insurance
 - Life insurance
 - Any expense or payment that, if discontinued, would *not* result in a balance owing