

## **Demystifying Mortgages - How Much Can You Borrow?**



**A** home is typically the largest purchase you will make in your lifetime, and for most Canadians this means obtaining a mortgage. The amount of your mortgage will determine the size and location of your new home - not to mention the size of your payments. So how do lending institutions decide how large your mortgage loan can be?

Lending institutions (such as banks, credit unions, trust companies and insurance companies) want to be certain that you are capable of repaying the money you borrow. Consequently, the loan application process is thorough. Lenders consider your income, credit history, debt load, employment history and collateral, including the value of the property you wish to buy.

Although there is some discretion in determining the exact amount, the size of your loan is generally calculated using set formulas - Gross Debt Service Ratio (GDS) and Total Debt Service Ratio (TDS). GDS is the percentage of your gross monthly income (before taxes) required to cover monthly payments on mortgage principal, mortgage interest, property taxes and sometimes heating (often abbreviated as PITH). Your GDS should not exceed 30% to 32% to be eligible for most mortgages. Because many people also owe money to other lenders (car loan, student loan, credit cards, etc.), TDS offers a more accurate estimate of what you can afford. TDS is the percentage of your gross monthly income required to cover PITH plus any other debts. Your TDS should not exceed 40% of your gross monthly income.

There are many other factors that will impact the final mortgage amount. A poor credit history or a spotty employment record, for example, can disqualify you altogether or significantly alter the total. Keep in mind that just because a lender is willing to approve a large mortgage it is no guarantee that you can, in reality, afford the monthly payments.

To truly understand how much you can afford you must examine your other monthly expenses - those not accounted for in the lender's calculations (such as entertainment, charities, vacations, etc.). Remember that you will also need a lump sum down payment (at least 25% for conventional mortgages and as little as 5% for high-ratio mortgages) and money to cover closing costs. For more information on mortgages, calculators and online applications, visit:

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