

Affordability Guide

Use these important formulas to determine how much you can afford to pay for housing. This is how lenders determine the maximum monthly costs you can carry. Review the examples to see how you can settle on the best home price for you.

Maximum monthly housing costs you can afford

Gross Debt Service Ratios (GDS)

Your gross monthly salary*	\$	_____
+ Your spouse's gross monthly salary*	\$	_____
+ Other monthly income	\$	_____
Total	A	\$ _____
		x 32%
= Maximum monthly housing costs you can afford	B	\$ _____

This maximum monthly payment includes principal, interest, taxes, heating (P.I.T.H.) and 50% of condominium fees, if applicable.

*Gross salary is income before taxes

Example: Janes' gross monthly income is \$2,500 and Deepak's is \$2,000 for a total of \$4,500 per month. They should pay no more than \$1,440 (\$4,500 x 32%) for their monthly housing expenses.

Maximum monthly debt load you can afford

Total Debt Service Ratio (TDS)

Total monthly income	A	\$ _____	x 40%
= Maximum monthly debt service load you can afford	C	\$ _____	
- Monthly auto payment		\$ _____	
- Monthly loan payment		\$ _____	
- Monthly credit card/l.o.c. payment		\$ _____	
- Other monthly payments		\$ _____	
= Maximum income left for housing	D	\$ _____	

If the home you want costs more per month than you can afford right now (D), consider these strategies: lower your expectations and buy a cheaper home; lower your non-housing debt obligations; and/or raise a larger down payment.

Example: Jane and Deepak have a gross monthly income of \$4,500. Their total debt load should not exceed \$1,800 (\$4,500 x 40%). They have a monthly car payment of \$400, a student loan of \$200 and credit card payments of \$150, for a total of \$750 in non-housing debt payments each month. That means they would have no more than \$1,050 available for monthly housing payments (\$1,800 - \$750). That is lower than the \$1,440 suggested by their Gross Debt Service calculation (B).

Maximum home price you can afford

It depends on how much your down payment is and how much you can carry in monthly debt service. And that depends on variables such as mortgage rates, your debts and monthly expenses, and personal preferences. For a rough idea, take a look at the income guide.

Example: Jane and Deepak have a down payment of \$30,000. They want a conventional mortgage with 25% down, so they estimate their maximum home price at \$120,000. That would leave them a mortgage of \$90,000. At 10% interest, amortized over 25 years, that means monthly mortgage payments of \$805.00. Add monthly property tax instalments of \$160 and monthly heating costs of \$60. Their total monthly housing costs will be \$1,025. That is just below the maximum \$1,050 allowed according to their Total Debt Service ratio calculations. That's too close for comfort for Jane and Deepak. What if mortgage rates go up when it's time to renew? They decide to look for a home priced at a maximum of \$100,000. That would leave them with a \$70,000 mortgage and monthly payments of \$626, plus lower taxes of \$135 and heating costs of \$60. Now their total monthly housing costs will be \$821. That makes their Total Debt Service ratio 35% instead of the maximum 40%. And that give Jane and Deepak a sense of financial comfort.*