



## **Mortgage Lending 101 - DLC**

Have you ever wondered just what lenders are looking for in the perfect client? Do you want to approach a lender knowing exactly what they are looking for, and allowing yourself a stress-free mortgage experience? Thankfully, I can share this information with you and help you to better understand just exactly what a lender is looking for, and how you can use that knowledge for your own benefit.

There are really two important factors when it comes to lending money to you. These are your Gross Debt Service Ratio (GDS) and your Total Debt Service Ratio (TDS). By understanding your GDS and TDS ratios, you can be well on your way to securing the best mortgage possible.

### **What is Gross Debt Service Ratio (GDS)?**

Your GDS is simply the amount of your monthly income which is dedicated each month to servicing your house-related debt. This includes your mortgage, taxes and insurance. Your GDS should be less than 32% to obtain a favorable mortgage interest rate.

To calculate your GDS ratio, you take your monthly mortgage payment and add to it your monthly property taxes, plus your projected heating bill, and 50% of your monthly maintenance fee costs. Divide this number by your gross monthly income, multiply the result by 100, and you have your GDS ratio percentage.

For your GDS calculation, your monthly mortgage payment is determined by the principle and interest you will have to pay each month on your new mortgage. This amount depends on the amount you wish to borrow, the interest rate charged, and the length of your mortgage loan. If you do not know how much heating your new property will cost, you can estimate this at \$50 per month. You will generally only have monthly maintenance fees if you are purchasing a condo or other property with required association fees.

### **What is Total Debt Service Ratio (TDS)?**

Your TDS is the amount of your monthly income which is dedicated each month to servicing your total debt. This includes your home, your credit cards, vehicle debt, etc? Your TDS should be less than 40% to obtain a favorable mortgage interest rate.

To figure your TDS, lenders will use all of the information from your GDS, as well as any other debt you might have which can be seen on your credit report. This includes car loans, credit cards, open lines of credit, and any other consumer debt you have. However, it does not include your monthly utilities, as they are not on your credit report for your lender to evaluate.

### **What Else Do Lenders Consider?**

In addition to your GDS and TDS ratios, mortgage lenders look at your credit rating, your income, and job stability as well. They are looking to make sure you have a good credit rating, a decent income for the amount of money you wish to borrow, as well as a stable job which will allow you to repay your loan.

### **Okay, But What If I Have Bad Credit?**

The good news is that even if you do not have the best credit, or ideal GDS and TDS ratios, you can still likely obtain a mortgage. If you are applying for a conventional mortgage, one with 75% or less loan to value (LTV), then lenders are much more willing to work with you if you have some negative credit issues or higher ratios. With a 75% LTV you will have 25% interest in your property. Lenders see this as a very positive thing and know that you do not want to lose that much money by having your property foreclosed on. This gives you an extra motivation to pay your mortgage each month and lenders understand this.

In addition, you can get a non-conventional mortgage with higher ratios and less than stellar credit, however you will pay a lot more for the risk that the lender is taking in lending to you. Your lending fees and interest rate will be higher if you have bad credit or higher than average ratios.

The best thing you can do if you are looking for a mortgage is to know your GDS and TDS ratios, and understand lending from the lenders point of view. If you can come to the table with all of your information as they want to see it, then you will have a much less stressful time in securing financing.