DEBT SERVICE COVERAGE AS IMPORTANT AS LOAN TO VALUE?

DSCR (debt service coverage ratio) is an analysis tool lenders use to determine a property's ability to service the mortgage. It is calculated by dividing the net operating income by the annual debt service. But this still does not explain why DSC is as important as the loan to value. The following example hopefully will clarify why:

Given:	**NOI= $100,000**
	Cap Rate= 6%
	Maximum Loan to Value for this type property is 65%
	Interest Rate=7%

<u>Traditional DSCR 1.2</u>	**<u>New DSCR 1.0</u>**
$100,000 divided by 1.2	**$100,000 divided by 1.0**
then divide by 7%	**then divide by 7%**
= $1,190,476.10 Max Loan	**= $1,428,571.40 Max Loan**
LTV= 55%	**LTV= 66%**

As one can see you able to borrow more money (closer to max LTV) and this means less down payment for the borrower. This will also increase the return on investment (ROI).

In many markets nationwide, loans for investment properties are being limited by traditional DSCR requirements. These financing options make it easier for brokers to service their commercial clients. The demand for investment real estate (low yielding money from the stock market or bank certificates of deposit) has driven up values.

Meanwhile, rental rates for whatever reason have been slow to keep up with increases in property value. With higher property values, increasing annual operating expenses (such as property taxes and insurance) and slow-to-increase rents narrows the profit margin and results in lower DSCR's.

Feel free to contact Bob or Marc at 831-375-9779 to answer any questions you may have or get a free property analysis with type of borrower needed.