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Key Formulas and Definitions

- **Loan to Value (LTV)** – Calculated by dividing the in-place or proposed loan amount by the current value of the property. Often used by banks as metric to measure risk. Usually the maximum LTV for conventional investment loans is around 75%. It can be much higher for owner occupied loans.

- **Net Operating Income (NOI)** – Calculated by subtracting overall operating expenses (including taxes, insurance, utilities, management, and recurring maintenance) from the gross income collected., this number is used to calculate cap rates and other investment metrics , as well as some lending metrics including debt coverage ratio and debt yield.

- **Debt Service Coverage Ratio (DSCR)** – Calculated by dividing the annual NOI by the annual principal and interest payment, DSCR is a ratio used by lenders on 5+ unit apartment buildings as a way of ensuring that the annual net operating income of the property exceeds the annual loan payments. Typically, lenders like to see a 1.20dscr meaning that for every $100 of loan payment, there is $120 of income to cover it.

- **Underwriting Analysis** – The stage in the loan process in which the lender completes their full and final analysis on all borrower and property related items. Final approval or denial is obtained when this process is completed.

- **Debt to Income Ratio (DTI)** – Calculated by dividing by monthly debt obligations (including new proposed housing payment) by gross pretax monthly income, this is a metric used by residential 1–4-unit lenders to determine a borrower's ability to qualify for a mortgage.

- **Liquidity** – Rapidly accessible funds in the form of checking and savings accounts, brokerage accounts, and sometimes retirement accounts. Most lenders like to see that borrowers have 6-12 months of payments as liquid reserves after a loan is closed.

- **Agency Lenders –** Loans made by large government backed mortgage agencies such as Fannie Mae, Freddie Mac, VA, and FHA. These loans are typically pooled, securitized, and sold as mortgage-backed securities.

- **Portfolio Lenders -** Typically local banks, credit unions, and nonbank lenders, that lend their own funds that they've either borrowed through other banks or through their client's deposits. These loans are not sold as often as agency loans and typically are less uniform in terms of rates and program requirements than agency debt would be.