

Terminology and Formulas

Net Operating Income (NOI): Gross rents or income received less expenses.

Annual Debt Service: Monthly principal and interest times 12 months.

***Debt Service Coverage Ratio (DSCR):** Principle and Interest divided into NOI (net operating income). 1.15+ to 1.25+ depending on property type. NOI has to be bigger than the PI payment.

The debt service coverage ratio, **DSCR** is defined as net operating income divided by total debt service.

$$\text{Debt Service Coverage Ratio (DSCR)} = \frac{\text{Net Operating Income}}{\text{Total Debt Service}}$$

For example, suppose Net Operating Income (NOI) is \$120,000 per year and total debt service is \$100,000 per year. In this case the debt service coverage ratio (DSCR) would simply be \$120,000 / \$100,000, which equals 1.20. It's also common to see an "x" after the ratio. In this example it could be shown as "1.20x", which indicates that NOI covers debt service 1.2 times.

Cap Rate: A measurement of the rate of return on an investment. NOI divided by the purchase price. The general range should be between 8%-13%.

Global Cash Flow Analysis: Used to assess the combined cash flow of a group of people and/or entities to get a global picture of their ability to service the proposed debt.

Gross Rent Multiplier: A measure of the rate of return on an investment. Property value divided by the annual gross income. The general range should be between 4-8.

Return on Investment (ROI): It is calculated by taking the annual cash flow or equity increase and dividing it by the amount of cash invested.

Cash on Cash Return: Annual Debt Service / Net Operating Income (NOI).

Qualification Rate: The rate the lender uses to qualify or size the loan. We us start rate as the qualification rate. The lower the qualification rate and higher the amortization the bigger the loan amount.