LESSON FOUR: WHAT IS PERMANENT FINANCING?

1.1 DEFINITION

Permanent financing relates only to stabilized properties. *Only stabilized properties can qualify for permanent financing.*

1.2 TYPICAL PERMANENT FINANCING STRUCTURE

Term: 10 years

Loan to Value: 65-80%

Rate: A “spread” over the 10 year Treasury, typically a fixed rate.

Debt Service Coverage: The difference between the property cash flow (NOI) and debt service payments. Typically 1.20-1.40x.

Amortization: Typically 30 years, but is negotiable. In recent years, amortization has been dropped and loans have become interest only.

Recourse: Typically not required

Loan Constant: This is the true rate of interest. This rate includes the loan spread and the amortization.

Bells & Whistles: Look out periods, reserve requirements, prepayment options

1.3 REPAYING THE PERMANENT LOAN

Permanent loans are repaid by another permanent loan or by a sale, in which case another permanent loan is obtained. The permanent lender that is underwriting the property will underwrite the loan to make sure it qualifies for another permanent loan at the end of the term.