
LESSON NINE: PERMANENT LOAN UNDERWRITING: DEEP DIVE ON HOW THE NUMBERS WORK

1.1 UNDERWRITING THE STABILIZED LOAN

The following factors are used when lenders underwrite the stabilized loan. An explanation of each factor is also provided below:

- **Loan rate:** This is the total rate, without amortization (6.75% in the example).
- **Loan spread:** Spread + index = rate (T Bill @ 5% + 175 bps = 6.75 in the example).
- **Amortization:** Typically 30 years but some loans will have an interest only portion (30 years in the example).
- **Loan Constant:** The real or actual rate that the property pays the lender. Combines both interest and debt amortization (7.78% in the example).
- **Reserve deductions:** Lender decreases NOI for future uses of cash flow.
- **LTV constraint:** Maximum loan based on underwritten value and maximum loan to value (typically 75-80%; \$8,045,161 in the example)
- **DSC coverage constraint:** Minimum debt service coverage of the property based on “selected constant,” typically 1.20-1.25x (\$8,010,867 in the example).
- **Holdbacks and Reserves:** Lenders require holdbacks or escrows from the NOI, held in case the property needs cash in the future. The following are a few examples of reserves:
 - Tenant improvements: Future tenant build out for new tenants
 - Leasing commissions: Future broker commissions for leasing rollover
 - Capital reserves: For future maintenance over the loan term
- **Repayment lock-outs:** Typically these loans cannot be repaid for 9.5 years. Typically, they can be assumed.

1.2 TENANT ASSUMPTIONS

There are two tenant assumptions that are considered. The first is the future lease rate increases. “Contract” bumps on existing leases that take effect in year one; can generally be counted as income. The second is tenant retention. At the tenant roll date, the lender applies a “stay vs. go” assumption. Typically, it is assumed that each rolling tenant:

- 75% stay
- 25% leave
- For rolling tenants, an NOI deduction is taken into account for:
 - Downtime
 - New tenant improvements
 - Leasing commissions