

LOAN TO VALUE

The Loan to Value Ratio (“LTV”) is computed by dividing the first mortgage loan amount by the value of secured collateral. The lower the loan to value, the more safety there would be in the event of a downturn in property values for the church to refinance or sell the property in the future. The higher the loan to value, the less maneuverability the church would have in the event of difficult economic periods. Ideally, the LTV ratio should be 70% or less (above 80% is substandard). New purchases typically meet the LTV ratio by having existing equity in a current property that is being sold, adequate cash savings, or proceeds from a capital campaign bridge loan. Property values typically are confirmed by a Brokers Opinion of Value, tax assessment (where applicable) Commercial Evaluation Report, or appraisal (required by ICFG on new purchases) and are at the borrower’s expense.

DEBT SERVICE COVERAGE

The Debt Service Coverage Ratio (“DSCR”) is computed by dividing the current Net Cash Flow by the proposed annual debt service. Adjustments in cash flow may be made by excluding capital campaign funds and restricted funds from gross income. Net Cash Flow includes an add back of the current debt service (if it will be eliminated by the new loan) and current lease/rent payments (if they will be eliminated by the new loan). The minimum DSCR is 105% and is computed based on the previous and current year to date. A safer margin for DSCR is 125% or more.

DEBT SERVICE TO INCOME

The Debt Service to Income Ratio (“DSI”) is computed by dividing the proposed annual debt service by the General/Unrestricted revenue of the Borrower. General/Unrestricted revenue should be based on the prior year/twelve (12) months. (Debt service is based on same number of months as the YTD financials.) The maximum DSI is 35% and is computed over two years.

DEBT SERVICE PLUS SALARY TO INCOME

The Debt Service Plus Salary to Income Ratio (“DSSI”) is computed by dividing the proposed annual debt service plus salary expense by the general/unrestricted revenue of the Borrower. **Salary expense** should

encompass salary, fringe benefits, housing and payroll taxes of Borrower. The maximum DSSI should be 70% and is computed over two years.

IMPORTANT NOTE: FFS underwriting is not based on one ratio alone, but each ratio is weighted against the total of all ratios, with a grade assigned to the total. This allows a prospective borrower to have a marginal ratio (or even substandard ratio), but because of the total weighted grade, the loan often can be approved. By completing a preliminary loan questionnaire, FFS can evaluate the information and determine how FFSLF might best serve your church.