**3 Calculations for Real Estate Investors Seeking a Loan**

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**You’ve most likely heard of “the 1% rule”, but have you heard about “the 50% rule”? This investing rule of thumb can help you estimate if your rental property will provide positive cash flow, as well as help determine if your lender’s expense load will be higher than your actual expense load.**

Tips like these can help new and seasoned real estate investors better manage their expectations before reaching out to a lender. Thanks to some simple “back-of-the-envelope math” and the following three steps, you’ll be well on your way to accurately assessing what your properties may qualify for.

**1. Divide annual gross rent in half (50% rule)**

Compile the annual gross rent on your investment property, and then divide that number in half to estimate your expense load. Your actual expenses might be less than that figure, but lenders generally add in a few extra expenses as a conservative measure anyhow. In fact, many of the rental portfolios that I have seen at CoreVest carry an expense load of 35% to 45%. By cutting the gross rents in half, you simplify your math and are erring on the side of caution.

2**. Calculate annual PITI payment in Excel**

In order to determine your annual PITI payment, which represents your principal, interest, taxes, and insurance, you first need to calculate your estimated loan amount with one simple equation: take the estimated value for the property or portfolio, and multiply that number by 0.75 (75%). Then, plug your number into the PMT function in Excel as an easy way to calculate your annual PITI. This calculation amounts to your annual principal and interest payments (additional estimates for insurance are needed).

If you choose to utilize the PMT function, you would plug in the following formula: =pmt (rate, nper, loan amount). Consult your lender for the exact interest rate. CoreVest’s rates, for example, are determined by multiple factors, with loan size and LTV as the primary drivers.

3**. Test the DSCR to see if it meets LTV requirement**s

DSCR stands for debt service coverage ratio—the figure most lenders use to help determine if they can lend at the given LTV. For example, loans over $1 million at 75% LTV are typically required by CoreVest to have at least 1.20x coverage.

DSCR is calculated using the following equation: annual NOI divided by annual payments. If the number you come up with is 1.20x or greater, your portfolio will likely qualify for financing at 75% LTV. What happens if the number you end up with is less than 1.20x? This generally means that the lender will offer financing at a lower LTV, if they lend at all. However, if the DSCR comes close to 1.20x, remember that you might still qualify for 75% LTV thanks to the cushion you created in step 1, by erring on the conservative side in regards to expense load.

While the three steps above will help investors get a better picture of what they could qualify for and help them better prepare and manage their expectations, there is no true replacement for sending investment property or portfolio details to a qualified lender for a thorough review.