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Q & A with June Fish of Ashworth Mortgage

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What is a debt yield and how does it apply to underwriting? - P.C. Attleboro, Mass.

Debt yields have become part of the loan underwriting jargon especially in these recent years after the real estate market downfall we have lately experienced which so dramatically affected real estate values.

Debt yield ratio is defined as the net operating income (NOI) divided by the first mortgage debt (loan) amount, times 100%. Today debt yields are often teamed with or replace debt service coverage (DSC) (the multiple by which the Net Operating Income (NOI) must surpass the debt service on a loan. DSC's are now used more as the focus for loan sizing and deal credit worthiness, but not for risk evaluation.

Debt yields, on the other hand, are a way for a lender to measure the risk of default. The lower the debt yield the greater the risk.

A simple example would be that the debt yields for hotel underwriting, long considered one of the more taxing in underwriting, and are often in the mid-teens percentage wise. In comparison, a well occupied office building in a CBD will be in the ten and sub-ten range. A couple of years ago this figure was closer to 11%.

Debt yields are considered to be a more accurate indice of the value of the income stream and property as of the date of its imposition. Bottom line, debt yields are considered by many if not most lenders as the most objective method of determining proceeds in the underwriting process.

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