



COURSE 12 / Beginner / Intermediate / 20-25 min

How Lenders Evaluate an Investment Deal

Branded cheat sheet: the calculations and decisions to keep beside your next scenario.

Core decision checklist

1. Present a concise and documented scenario.
2. Understand borrower and collateral review.
3. Identify the binding loan-sizing constraint.
4. Resolve conditions and explain a credible exit.

Worked examples at a glance

01 Borrower Strength and Execution Capacity

An investor shows \$100,000 cash, but \$40,000 is committed to another renovation and \$35,000 is required for this closing. Only \$25,000 remains before further reserves. Reporting the full \$100,000 as post-closing liquidity would overstate capacity and obscure the actual ability to fund delays.

02 Property Quality and Marketability

Two houses each list for \$300,000. One is habitable with standard access; the other has an unresolved access easement and unpermitted addition. The same asking price does not imply equal collateral quality. The second needs legal and property review before its value and financeability can be treated as comparable.

03 Leverage, Coverage and Liquidity Tests

Requested loan is \$250,000. Value leverage permits \$240,000, eligible-cost leverage \$230,000 and income coverage \$220,000. The preliminary limit is \$220,000 before additional underwriting. If the project needs \$280,000 total sources, the investor must show \$60,000 equity or another permitted committed source.

04 Package the Deal and Resolve Conditions

A refinance exit expects \$240,000 net proceeds against a \$230,000 interim payoff. An updated rent analysis lowers net proceeds to \$215,000. The revised package must show at least a \$15,000 repayment gap and its cash source. Keeping the old \$10,000 surplus in the summary would misstate the exit.



Apply it to your deal

Use documented inputs. Keep lender qualification, investment economics and cash timing visible as separate calculations.

Practice before submitting

Borrower Strength and Execution Capacity

Prepare a sponsor summary with funds available after commitments and closing. List relevant completed projects honestly and identify the roles of professionals. Reconcile bank evidence with your capital plan. Explain one execution weakness and the concrete support or reserve that mitigates it.

Package the Deal and Resolve Conditions

Write a one-page scenario with an attached document index. Add a conditions tracker listing owner, deadline and status for each item. Recalculate the exit after one weaker assumption. Identify the exact cash source for a shortfall and confirm final terms against the preliminary quote before closing.

Quick glossary

Sponsor: Investor or group responsible for the project.

Liquidity: Funds available for obligations after committed uses.

Relevant experience: Prior execution applicable to the proposed strategy.

Collateral: Asset securing a loan.

Marketability: Ability to sell or lease on reasonable terms.

Easement: Legal right affecting use or access to property.

Underwriting: Evaluation of facts and risk against lending requirements.

Binding limit: Constraint producing the smallest permitted loan.

Primary-source reading

FDIC: commercial real estate lending

FDIC: construction and land development lending

These sources provide context, not universal program requirements. Formulas, eligible costs, qualifying income, seasoning and fees depend on the transaction. Examples are illustrative and are not actual loan offers.