NET-WORTH-TO-LOAN-SIZE RATIO

This ratio is defined as follows:

$$\frac{\text{Combined Net Worth of all of the Borrowers}}{\text{Loan Amount}}$$

This is a ratio that is mostly observed by banks but is often ignored by Life Companies and Conduits. Traditionally, this ratio had to be at least 1.0. In other words, the borrower's net worth had to be at least as large as the loan amount requested.

Bank's are typically as concerned about the borrower's credit behind the loan as they are about the real estate; therefore, the net-worth to loan size ratio is important to Banks. Life Companies are concerned about the credit of the borrower, but they look more to the real estate as their primary source of security behind the loan. Conduits are typically non-recourse loans so they place the least importance on the borrower and most on their security in the real estate. Private lenders also rely most heavily on the real estate as their security with the borrower's credit as secondary importance.

The typical bank will require a 1.5 Net Worth to Loan Size ratio. In other words, a borrower's net worth must be at least one and a half times larger than the loan he is seeking.

If you have a deal where a $400,000 borrower is trying to borrow $1 million on a leveraged real estate project, you probably would not want to bring his loan to a bank.