Debt Service Coverage Ratio and Repayment Capacity

Quick Reference for WES Clients - 9.2 Release

Overview

WebEquity Solutions (WES) lending application provides financial institutions with standard and custom ratios that help assess and underwrite a customer’s loan request. The 9.2 release provides a new feature that enhances the legacy processing of the Term Debt Coverage Ratio (TDCR) with a new flexible Debt Service Coverage Ratio (DSCR) that ties to enhanced repayment capacity analyses.

Features

In using the 9.2 features, you can:

- Associate a customized coverage ratio model to a customer’s income/expense template to automatically recalculate repayment capacity scenarios.

- Apply a proposed debt period to a borrower’s historical performance for a trending analysis of repayment capacity.

Set Up

Your access to DSCR and repayment capacity processing depends on the site configurations and security settings established by your system administrator. A system administrator also has the ability to customize and name the DSCRs that are consistent throughout all credit action forms and reports.

Topics

This Quick Reference tells you how to apply a DSCR to a customer and then assess the expanded repayment capacity. It also provides an update of how the new options relate to the legacy processing for consolidations, credit actions, and scoring models.

Steps

1. To apply a custom DSCR model to a customer, select Chart of Accounts from the drop-down list of the Inc / Exp menu on the lending application.

2. On the Inc/Exp model that appears, select from the following DSCR options.

   - To add a DSCR calculation to an Inc/Exp model, select a site-customized ratio from the Debt Coverage Ratio drop-down list.

   - To change to a different income/expense model with a site-customized ratio included, click the Change Model link and select from the list that appears.

FYI

Your DSCR options depend on the Functionality Groups model established by your system administrator.
DSCR and Repayment Capacity Features, 9.2 Release

3. Applying a custom DSCR model to a customer’s Inc/Exp template generates an expanded **Repayment Capacity** page.

   1) To see how the coverage ratio affects customer repayment scenarios, select **Income / Expense Trends** from the **Inc / Exp** menu.

   2) For analysis of a customer’s total current and proposed debt obligations, click the new **Repayment** link or scroll to the new **Repayment Capacity** section on the Trends page.

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**Example of Expanded Repayment Capacity with Debt Coverage Ratio (Summary View)**

<table>
<thead>
<tr>
<th>Radio buttons at the top of the Repayment Capacity page determine:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Summary or Detail display</td>
</tr>
<tr>
<td>• Proposed Debt Period calculations</td>
</tr>
</tbody>
</table>

**NET INCOME** section shows additional details from the income statement.

**REPAYMENT CAPACITY** section includes add-backs (Plus) and deductions (Less) to provide transparency around a borrower’s ability to service debt.

**Total Debt Service** includes the debt schedule of all obligations. It can also include your term and operating items.

These same details appear on your **Repayment Capacity** report and **Credit Action** forms.
DSCR and Repayment Capacity Features, 9.2 Release

### Applying Proposed Debt Period

Selecting a **Proposed Debt Period** radio button on **Repayment Capacity** provides a comparison of both the actual **Debt Coverage Ratio** and the recalculations of the **Proposed DSCR** for each period.

### N/A Proposed Debt Period

When a proposed debt period is not selected, you see only the actual **Debt Coverage Ratio** calculated for each period.

### Detail

When you select the **Detail** radio button on **Repayment Capacity**, you see a list of creditors, beginning with your debt obligations (Example: Universal Bank).
You can apply custom DSCR models to a consolidated file. You can also apply a custom DSCR model to the entities within a consolidated file; these entities retain their custom DSCR and repayment capacity settings.

The following data matches the entity’s repayment capacity analysis.

The 9.2 release allows you to show additional details for Operating Loans within the Entity Financials section (dependent on system administration settings).

Term Debt Coverage Ratio is re-labeled as Debt Coverage Ratio and may include Operating Loans (dependent on the custom DSCR model).

After your system administrator applies the expanded repayment capacity configurations to a credit action form, the output matches the Summary vs Detail and Proposed Debt Period settings selected on your Repayment Capacity page.

All values for Repayment Capacity, Margin After Debt Servicing, and Debt Coverage Ratio that are the result of a custom debt coverage ratio appear on your scoring model.

**BEST PRACTICES TIP**

Remember to click the Save & Update link on your Credit Action after you make changes to Repayment Capacity page settings.

**Questions?**

WebEquity Solutions

Telephone: 800.264.0787  FAX: 402.344.5288
eMail: support@webequitysolutions.com