IntelliTC Solutions Presents

DSCR / Sub-To / Seller Financing Analyzer Guide

A Structural Diagnostic for Creative-Finance Acquisitions — Sub-To, Seller Fin, and Hybrid Stacks

DEAL ARCHITECTURE

HIDDEN GEM 14

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This guide is intended for educational purposes only and does not constitute legal, tax, lending, or investment advice. The IntelliTC DSCR / Sub-To / Seller Financing Analyzer surfaces structural facts about the parameters you enter. It does not recommend the acquisition, sale, or financing of any specific property or contract. Always consult a licensed attorney, CPA, and mortgage professional before executing any creative-finance transaction.

Chapter 1: What the Analyzer Is — and Is Not

The Creative-Finance Diagnostic Framework

The DSCR / Sub-To / Seller Financing Analyzer is a structural diagnostic for creative-finance acquisitions. You enter the three capital layers a creative deal typically uses — the existing mortgage taken subject-to, a seller-carried note, and buyer cash to seller — along with the property's income and expenses. The Analyzer computes DSCR, blended LTV, cash-to-seller, cash-on-cash, and a full year-by-year amortization schedule across every debt leg. It surfaces structural facts and hands the deal back to you — and to the licensed professionals who close it.

> What it does: Reads your three-layer capital stack, blended cost of debt, and operating assumptions, then reports DSCR, blended LTV, cash-to-seller, levered cash flow, and a per-leg year-by-year amortization schedule. Flags fragile stacks (the "House of Cards" indicator) when the deal depends on a single point of failure.
>
> What it does NOT do: Recommend any specific acquisition or contract structure. Substitute for a real estate attorney's review of the sub-to documents, seller-financing note and deed of trust, or servicing agreement. Verify the existing lender's due-on-sale posture. Provide legal opinion on SAFE Act, Dodd-Frank, or state licensing.

The Three Modes: Sub-To, Seller Financing, Hybrid

The Analyzer supports three deal modes. Sub-To assumes the buyer takes title subject to the existing mortgage — payments continue on the seller's loan, the buyer controls the property and collects the cash flow. Seller Financing assumes the seller carries a note secured by the property in first or second position at negotiated terms. Hybrid stacks a sub-to first with a seller-carried second, plus buyer cash to seller at close. Each mode changes the DSCR profile, the LTV math, and the balloon-risk timeline — the Analyzer models them side-by-side.

Locked Framing — Structural Facts, Not Recommendations

The Analyzer will never say "do this deal," "take subject-to," or "carry paper at these terms." Every KPI closes with a structural interpretation and defers execution to the buyer, seller, and their licensed counsel. This is consistent with the framing architecture of the IUL Auditor (Hidden Gem 13) and the Late-Career Tax Diagnostic (Hidden Gem 12).

> Locked framing. The Analyzer surfaces DSCR, LTV, and amortization mechanics. It does not draft contracts, verify title, review lender policy, or evaluate borrower credit. Every creative-finance transaction requires a licensed attorney and, for many seller-financed structures involving owner-occupants, a licensed loan originator under the SAFE Act.

Chapter 2: The 3-Layer Capital Stack

Why a Layered View

A creative-finance acquisition is rarely one loan. It is a stack — often two debt instruments plus buyer cash — each with its own rate, term, amortization type, and risk profile. The Analyzer models each layer independently, then combines them for the blended-cost and DSCR calculations. This layered view is the difference between understanding your true monthly obligation and misreading a headline "seller rate."

Layer 1 — Existing Loan (Sub-To Wrap)

The existing loan is the loan already on the property when the seller conveys title. In a sub-to transaction, the buyer takes title but the loan remains in the seller's name. The buyer controls the payments, the property, and the tax attributes; the seller remains legally liable on the note unless a novation is executed with the lender (rare). The Analyzer captures the existing loan's current balance, note rate, and remaining term. These are the anchor terms of Layer 1.

Layer 2 — Seller Financing (2nd Position or Wrap)

The seller-carried note is a new instrument created at closing. It can sit in second position behind the sub-to loan, or in a full wrap where the seller's note obligates them to service the underlying loan. The Analyzer models three amortization types: standard fully-amortizing, interest-only with optional balloon, and amortized with balloon payoff at a specified year. Rate, amortization term, and balloon year are all user-controlled.

Layer 3 — Buyer Cash to Seller

Buyer cash at close serves two purposes: it compensates the seller for equity above the seller-financed portion, and it is the buyer's true cash-in-deal (before closing costs). The Analyzer separates purchase-price cash-to-seller from third-party closing costs so the buyer sees the total capital at risk, not just the down payment on the note.

How Layer Sequence Changes Total Leverage

Structure	Layer 1	Layer 2	Buyer Cash	Effective LTV
Straight Sub-To	$285K exist. @4.25%	—	$15K	63%
Sub-To + Seller 2nd	$285K exist. @4.25%	$120K @6% I/O 5yr	$45K	90%
Pure Seller Fin	—	$405K @7% 30-yr amort	$45K	90%
Hybrid Wrap	$285K exist. @4.25%	$135K wrap @6.5%	$30K	93%

Effective LTV is combined debt divided by purchase price. A $450K purchase with $285K + $120K in debt and $45K buyer cash produces a 90% blended LTV — a materially different risk than a 63% straight sub-to.

Chapter 3: Entering the Deal

Purchase Price, Down Payment, and Buyer Cash

Enter the total agreed purchase price. The Analyzer uses this as the denominator for LTV and appreciation calculations. Down payment (buyer cash to seller) is separate from third-party closing costs, both of which contribute to buyer cash-in-deal. If the seller-carried note plus the sub-to balance already equals the purchase price, the buyer's cash-to-seller is zero — a fact the Analyzer flags because it changes the seller's own tax profile (no down payment received, so no immediate installment gain).

Existing Loan — Balance, Rate, Term Remaining

For sub-to and hybrid modes, enter the current principal balance, the note rate, and the remaining term in years. The Analyzer computes the ongoing P&I payment from these three parameters. Do not use the seller's original loan amount or original term — use the balance today and the years remaining until the loan matures on its original schedule.

> Data source: Ask the seller for their most recent mortgage statement. The principal balance, note rate, monthly P&I, and next-payment date should all appear on a standard Fannie/Freddie servicer statement. Confirm the loan is not a HELOC or ARM before running the analysis — variable-rate loans require additional stress-testing that the base Analyzer does not model.

Seller-Financed Note — Amount, Rate, Amortization, I/O, Balloon

Enter the seller-carried note's principal, rate, and structure. The Analyzer supports three structures: standard amortization (fully self-liquidates over the amortization period), interest-only (with optional balloon payoff), and amortized-with-balloon (payments calculated on a longer amortization schedule, principal balance due at the balloon year). Balloon years typically fall between year 3 and year 10 — the Analyzer flags the balloon row in the amortization schedule so the buyer sees exactly when the refinance decision arrives.

Property Cash Flow — Rent, OpEx, Vacancy, CapEx

Enter monthly gross rent, monthly operating expenses (taxes, insurance, HOA, utilities the owner pays, ordinary maintenance), vacancy allowance as a percentage of rent, and a CapEx reserve. The Analyzer computes NOI (Net Operating Income), then subtracts total annual debt service across all layers to produce DSCR and levered cash flow. Rent growth and OpEx inflation are applied year-by-year in the amortization schedule.

Growth Assumptions — Appreciation, Rent Growth, OpEx Inflation

Appreciation compounds the property value forward for the equity-build calculation. Rent growth compounds gross rent. OpEx inflation compounds expenses. Conservative defaults are 3% appreciation, 3% rent growth, and 3% OpEx inflation — the Analyzer warns if the buyer relies on above-market growth assumptions to make a deal pencil.

Chapter 4: Reading the KPIs

DSCR — Debt Service Coverage Ratio

DSCR is NOI divided by total annual debt service across every debt leg in the stack. A DSCR of 1.00 means the property's NOI exactly covers debt service — zero cushion. A DSCR of 1.25 is the threshold most DSCR lenders require for refinance-out at year 3 to year 5. Below 1.00, the property is negatively levered — the buyer is subsidizing the note out of pocket.

DSCR Range	Interpretation	Refi Eligibility
>= 1.25	Healthy coverage; standard DSCR-lender territory	Yes — most lenders
1.10 – 1.24	Thin cushion; refinance depends on lender overlay	Some — check lender min
1.00 – 1.09	Break-even; single vacancy month wipes cushion	Rare — non-QM only
< 1.00	Negatively levered; buyer subsidizes each month	No — treat as house of cards

Blended LTV — Combined-Loan-to-Value Across the Stack

Blended LTV is the sum of every debt layer divided by the current property value. Above 90% blended LTV, most exit refis are locked out — the property must either appreciate materially or the buyer must contribute additional capital to reach a refi-eligible LTV. Blended LTV is the single strongest predictor of whether the exit plan will work.

Cash-to-Seller and Buyer Cash-in-Deal

Cash-to-seller is the buyer's cash payment to the seller at close. Cash-in-deal is cash-to-seller plus buyer-paid closing costs. A creative-finance deal's core advantage is low cash-in-deal; the Analyzer surfaces this figure alongside DSCR so the buyer can see the true return on cash committed.

Cash-on-Cash and Levered Cash Flow

Levered cash flow is NOI minus total debt service. Cash-on-cash is annual levered cash flow divided by total buyer cash-in-deal. Because creative-finance deals often have very low cash-in-deal, cash-on-cash can appear extremely high — the Analyzer counterweights this by displaying absolute levered cash flow next to the percentage return.

House-of-Cards Flag — When the Stack Is Fragile

The House-of-Cards flag surfaces when any one of the following is true: (a) DSCR is below 1.10, (b) blended LTV is above 92%, (c) the seller-financed balloon lands inside 3 years with no refinance runway, or (d) the buyer has zero cash-in-deal AND negative cash flow. The flag does not say "do not do the deal" — it says the stack has a single point of failure and requires additional professional review.

> House-of-Cards is not a rejection. It is a structural transparency indicator. Many experienced creative-finance investors close deals that trigger the flag — but they close them knowing exactly where the fragility is and with an explicit contingency plan. The flag protects newer investors from unknowingly assuming a fragile stack.

Chapter 5: The Year-by-Year Amortization Schedule

The year-by-year amortization schedule was the single meaningful modeling gap between the IntelliTC Analyzer and other creative-finance tools on the market. This chapter documents how the schedule works and how to read it.

Per-Leg Tables — Sub-To, Seller Note, Combined

The Analyzer renders three tables. The sub-to leg table shows year-by-year beginning balance, payment, interest paid, principal paid, and ending balance for the existing loan. The seller-note leg table shows the same columns for the seller-carried instrument, including balloon and payoff rows where applicable. The combined table sums the two legs by year, then adds the equity-build column (purchase price compounded by the appreciation rate minus combined ending balance).

Interest / Principal Split — Where Your Payments Go

In the early years of any amortized loan, most of the payment is interest. The Analyzer makes this explicit at the year level: in year 1 of a 30-year fully-amortizing note at 7%, roughly 85% of every payment is interest. By year 15, that ratio has inverted. Seeing the split year-by-year helps the buyer understand why paying down principal on a creative-finance note takes patience — and why a balloon structure often makes more economic sense than a 30-year amortization on the seller leg.

Balloon and Payoff Rows — Refi Trigger Years

When a note has a balloon, the Analyzer highlights the balloon year row in gold. The beginning-balance column shows the balloon amount due at that year — the number the buyer must refinance, sell, or pay from cash. If the year-by-year DSCR trajectory shows DSCR crossing 1.25 before the balloon year, the exit-refi plan is on track. If DSCR is still below 1.25 at the balloon year, the plan has a gap that needs a licensed mortgage professional's review.

Equity Build — Amortization + Appreciation Combined

The combined table's rightmost column is total equity: property value at the end of the year (compounded by the appreciation rate) minus combined debt balance. This is the number an investor cares about for the exit — total equity position at year 5, year 7, and year 10 tells the buyer whether the deal is compounding wealth or simply producing cash flow with little equity growth.

> Transparency note. Every number in the schedule is derived from the inputs you entered. There are no hidden assumptions. If a specific year seems wrong, verify the inputs first, then compare the formula reference in the Appendix. The Analyzer does not assume prepayments or additional principal contributions unless you enter them.

Chapter 6: Sub-To Structural Risks

Due-on-Sale Clause and Lender Acceleration

Almost every conventional mortgage originated in the last 40 years contains a due-on-sale (DOS) clause: the lender has the contractual right to call the loan due in full upon a transfer of title. In practice, lenders enforce DOS selectively — high-rate environments increase enforcement, low-rate environments decrease it. A sub-to buyer cannot know in advance whether the lender will exercise the DOS clause. The Analyzer does not model this risk quantitatively because it is legal and behavioral, not arithmetic. Consult a real estate attorney familiar with your state's foreclosure and equitable-title statutes before signing.

Insurance Naming and Escrow Continuity

The homeowner's insurance policy and property tax escrow must remain in the seller's name (or the seller's original entity) to avoid triggering lender review. The buyer's operational task is to ensure premiums and taxes are paid on time every month, including any escrow shortage adjustments. Missed escrow payments will result in lender notices to the seller — the person whose name is still on the loan.

Payment-Channel Discipline (Servicing Trust)

The industry standard for sub-to payment discipline is a third-party servicing arrangement — often a land trust with an independent trustee, or a licensed servicing company. The buyer sends funds to the servicer, the servicer sends the mortgage payment to the lender. This documents the payment stream, protects both parties, and provides a court-defensible record if disputes arise.

Seller Credit Risk on the Existing Loan

The seller remains legally liable on the existing loan. A late payment, a missed payment, or a loan modification triggered by escrow shortfalls all report on the seller's credit. The seller must understand this and agree to the arrangement in writing. A sub-to deal that damages the seller's credit is a lawsuit waiting to be filed.

> Attorney review is not optional. A sub-to transaction involves title transfer, an existing lender's rights, insurance naming, and (often) a servicing agreement. Each element carries independent legal risk. IntelliTC's Analyzer is a diagnostic — the contract set must be drafted or reviewed by a real estate attorney licensed in the property's state.

Chapter 7: Seller Financing Structural Risks

SAFE Act and Dodd-Frank Owner-Finance Rules

The federal SAFE Act (2008) and Dodd-Frank (2010, with CFPB Regulation Z implementation) restrict seller financing to owner-occupants. Depending on structure, a seller may need to (a) originate no more than one seller-financed loan to an owner-occupant per year (the "one-property exception" — no balloon permitted, ability-to-repay assessment required), (b) use a licensed loan originator (RMLO) to underwrite the borrower, or (c) structure the deal to non-owner-occupant investor buyers where these rules do not apply. Consult an attorney familiar with SAFE Act compliance in your state before closing any seller-financed transaction with an owner-occupant.

Balloon-Term Concentration Risk

A short balloon (3 years) creates concentrated refinance risk — everything depends on rates, property value, and DSCR eligibility at exactly that year. A longer balloon (7 to 10 years) diversifies the risk across multiple economic cycles. The Analyzer's year-by-year DSCR trajectory helps identify whether the projected exit refi is likely to work at the balloon year.

Recording, Title, and Priority Position

The seller-financed note must be documented as a promissory note secured by a mortgage or deed of trust (per state convention), and the security instrument must be recorded in the county land records. Second-position notes must be junior to the existing loan; any subordination or intercreditor language belongs in the recorded instrument. Title insurance for the transaction should reflect the priority order.

Servicing, Notices, and Default Cure Standards

Every seller-financed note should specify: how payments are made and to whom (many sellers use a third-party servicer), how late payments are cured, what constitutes default, and the notice-and-cure period before acceleration. State law dictates minimum cure periods in most jurisdictions. Missing or ambiguous default provisions are the leading source of seller-financing litigation.

Chapter 8: Exit and Refinance Paths

DSCR Refinance to Retire the Sub-To Leg

The most common exit for a sub-to acquisition is a DSCR refinance in year 3 to year 5. The refinance retires the existing loan (extinguishing the due-on-sale exposure), puts the loan in the buyer's name, and often extracts modest cash-out. DSCR lenders typically require 1.15 to 1.25 DSCR minimum, 75% to 80% max LTV, and 6 to 12 months of seasoning. The Analyzer's year-by-year DSCR trajectory shows exactly when the refinance becomes eligible.

Cash-Out Refi — Extract Trapped Equity

If the property appreciates faster than expected, a cash-out DSCR refi can recycle capital — retiring both the sub-to and the seller note while returning the buyer's cash-in-deal for redeployment. The Analyzer's equity-build column identifies the earliest year cash-out becomes structurally viable.

Full Payoff of Seller Note at Balloon

At the seller note's balloon year, the buyer must (a) refinance the property, (b) sell the property, (c) pay the balloon from cash, or (d) negotiate an extension with the seller. Each path has different tax and capital implications. The Analyzer flags the balloon year in gold on the amortization schedule so the buyer plans the exit consciously, not reactively.

Sell-Through — Wrap the Buyer or Assign the Note

Some creative-finance investors exit by selling the property to a new buyer on the same or better terms — either wrapping the buyer around the existing stack (buyer pays seller, seller pays their sub-to and seller note), or assigning the seller's position to the new buyer. Both structures require attorney-drafted contracts and, in many cases, lender-behavior monitoring for the underlying sub-to loan.

Chapter 9: Worked Example

$450,000 Deal — $285,000 Sub-To + $120,000 Seller Note

Consider a small multifamily at a $450,000 agreed purchase price. The seller has an existing conventional loan with a $285,000 balance at 4.25% and 24 years remaining. The seller agrees to carry a $120,000 second-position note at 6.0% interest-only with a 7-year balloon. The buyer brings $45,000 cash to seller at close. Monthly gross rent is $3,800; monthly operating expenses (taxes, insurance, ordinary maintenance) are $950; vacancy allowance is 5%; CapEx reserve is $150/month.

Parameter	Value
Purchase Price	$450,000
Existing Loan (Sub-To)	$285,000 @ 4.25% · 24 yr remaining
Seller-Carried Note	$120,000 @ 6.0% · Interest-Only · 7-yr balloon
Buyer Cash to Seller	$45,000
Estimated Closing Costs	$4,500
Monthly Gross Rent	$3,800
Monthly OpEx	$950 + 5% vacancy + $150 CapEx
Appreciation / Rent Growth	3% / 3%

Analyzer Output — Year 1

Blended LTV = ($285,000 + $120,000) / $450,000 = 90.0%. Cash-in-deal = $45,000 + $4,500 = $49,500. Monthly P&I on the sub-to leg is approximately $1,590; monthly interest-only on the seller leg is $600. Total monthly debt service = $2,190. Monthly NOI = $3,800 − $190 (5% vacancy) − $950 − $150 = $2,510. Levered cash flow = $2,510 − $2,190 = $320/month or roughly $3,840/year. DSCR = ($2,510 × 12) / ($2,190 × 12) = 1.146. Cash-on-cash = $3,840 / $49,500 = 7.8%.

Year-by-Year Trajectory — The Story the Schedule Tells

The sub-to leg amortizes normally, reducing principal by roughly $8,500 in year 1 and accelerating each subsequent year. The seller leg accrues zero principal reduction (interest-only). Rent grows 3% annually, OpEx grows 3% annually — DSCR climbs from 1.146 in year 1 to approximately 1.23 by year 5 and 1.31 by year 7. By the balloon year (year 7), the property is likely worth approximately $553,500 (3% CAGR from $450,000). Combined debt is approximately $253,000 (sub-to) + $120,000 (seller note balloon) = $373,000. LTV at year 7 = 67.4% — well within DSCR-lender refinance range.

Balloon Year Refinance Decision Point

At the year-7 balloon, the buyer's most likely exit is a DSCR refinance sized to retire both the sub-to and the seller note. At approximately 1.31 DSCR and 67.4% LTV, a standard DSCR refi to 75% LTV would produce loan proceeds of approximately $415,000 — sufficient to retire $373,000 in existing debt and return approximately $42,000 to the buyer as a cash-out at refinance (before refi costs). This is the compounding-wealth outcome creative-finance investors target.

Equity Position at Year 5, 7, and 10

Year	Property Value	Combined Debt	Equity	Equity %
1	$463,500	$396,500	$67,000	14.4%
5	$521,500	$378,700	$142,800	27.4%
7	$553,500	$373,000	$180,500	32.6%
10	$604,800	$120,000 (refi'd)	$484,800	80.2%

Year-10 figures assume a year-7 DSCR refinance that retired both debt legs and originated a new DSCR loan at 75% LTV; the new loan amortizes normally thereafter.

Chapter 10: How the Analyzer Pairs With Other IntelliTC Tools

Deal Underwriting Worksheet — the Traditional Baseline

Run the Deal Underwriting Worksheet first to establish a traditional-financing baseline on the same property. If the deal underwrites well on 25% down conventional, creative finance is a choice, not a necessity. If it only pencils on creative structure, the Analyzer surfaces exactly which structural risk you are trading traditional-lending cushion for.

Creative Finance Analyzer — Five Pillars Case Study

The Creative Finance Analyzer (Hidden Gem 9) walks through the Five Pillars of creative-finance wealth creation using the JR Ewing Duplex case study. Use it as an onboarding tool before running the DSCR / Sub-To / Seller Financing Analyzer on your own deal — the Five Pillars framework explains WHY the numbers work.

Capital Gains Impact — Seller-Side Tax Modeling

For the seller in an installment-sale creative-finance deal, run the Capital Gains Impact Analyzer to model installment-sale treatment (IRC §453). The seller often benefits from spreading the gain across the note's amortization period rather than recognizing it all in the sale year.

HELOC vs HEL vs HEA — Cash-to-Close Source Comparison

If the buyer plans to source the cash-to-seller from home equity, run the HELOC vs HEL vs HEA Comparison to model the three primary equity extraction paths side-by-side before committing capital.

Appendix: Reference Material

Glossary of Terms

Subject-To (Sub-To). Acquisition of real property in which the buyer takes title subject to the existing financing; the loan remains in the seller's name until refinanced or paid off.

Seller Financing. The seller extends credit to the buyer, secured by the property, in lieu of or in addition to third-party lender financing.

Wrap Mortgage. A seller-financed note that includes (wraps around) the balance of an existing mortgage; the buyer makes one payment to the seller, who then services the underlying loan.

Due-on-Sale Clause. A mortgage provision permitting the lender to demand full repayment upon transfer of title. Enforcement is discretionary and behaviorally sensitive to interest rate cycles.

DSCR. Debt Service Coverage Ratio = Net Operating Income ÷ Annual Debt Service. Measures the property's ability to cover its debt obligations from operations.

Blended LTV. The sum of every debt layer secured by the property divided by the property's current market value; the primary measure of total leverage in a creative-finance stack.

Balloon Payment. A large lump-sum payment due at a specified date, typically representing the unpaid principal balance of a partially-amortized or interest-only loan.

SAFE Act. The Secure and Fair Enforcement for Mortgage Licensing Act of 2008 — federal legislation regulating who may originate residential mortgage loans, including certain seller-financing transactions.

Formula Reference

Standard amortized payment: P × [r(1+r)^n] / [(1+r)^n − 1], where P is principal, r is the monthly rate, and n is the number of monthly payments.

Interest-only payment: P × r (monthly), balloon payoff = P at the balloon month.

Amortized with balloon: monthly payment calculated on a longer amortization schedule; balloon payoff = beginning balance of the balloon month.

DSCR: (Monthly NOI × 12) / (Monthly Debt Service × 12) = NOI / Debt Service.

Blended LTV: (Sub-To Balance + Seller Note Balance + any additional debt) / Current Property Value.

Equity in Year Y: Purchase Price × (1 + appreciation)^Y − Combined Debt Balance at End of Year Y.

Recommended Professional Consultation Checklist

→ Real estate attorney licensed in the property state — sub-to documents, deed of trust, servicing agreement, DOS analysis

→ Title insurance company — clear title, priority order, endorsement for creative structure
→ Real estate CPA — tax treatment of the acquisition, installment sale (seller-side), and any 1031 or cost segregation opportunity
→ Licensed mortgage professional — refinance eligibility, timing, and lender overlay requirements for the exit path
→ Insurance broker — property insurance naming, liability coverage, and umbrella policy compatibility with sub-to structure

Sources and Regulatory Citations

→ CFPB — Regulation Z & the SAFE Act

→ HUD — SAFE Mortgage Licensing Act Overview

→ IRC §453 — Installment Method (seller-financed sales)

→ Fannie Mae Selling Guide — Due-on-Sale Provisions

→ Freddie Mac Servicer Guide — Assumption & Transfer
