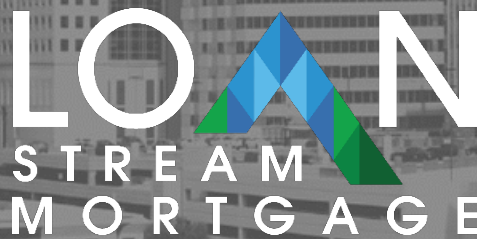


DSCR – Debt Service Coverage Ratio Correspondent



www.LSCorrespondent.com

Today's agenda: DSCR

- Definition and purpose
- Types of DSCR: Select and DSCR (Standard) and No-Ratio
- DSCR required calculation
- Why does it matter & Advantages
- What is allowed & what is restricted
- Credit/Income/Documentation
- Property Types and Transactions
- Closing in an LLC
- TRID and PPP
- Submission, required documents and contacts



Definition/purpose:

Debt Service Coverage Ratio

Business Purpose Loan

What is DSCR?

DSCR is defined as gross rents divided by qualifying PITIA or ITIA. 100% of the rents can be used and no vacancy factor is required. A minimum of 1.00 DSCR is required for all DSCR programs and min of .75 for No Ratio.

Under the Debt Service Coverage documentation option **PROPERTY INCOME** is used to qualify the transaction. Debt Service Coverage is available to Experienced and First-Time Investors purchasing or refinancing investment properties to hold for business purposes.

What makes it Business Purpose Loan?

OFFICIAL INTERPRETATION TO §1026.3(a) [CFPB Rules and Policies Exemptions]

- NON-OWNER-OCCUPIED RENTAL PROPERTY.
- Credit extended to acquire, improve, or maintain rental property (regardless of the number of housing units) that is not owner-occupied is deemed to be for business purposes.

Debt Service Coverage Ratio

3 types of DSCR loans:

- **DSCR Select** – Min 1.25 Ratio Requirements (Min FICO 700)
- **DSCR** – Min 1:1 Ratio Requirements (Min FICO 620)
 - Min 1.2 Ratio Requirements >80% LTV
- **DSCR No Ratio** -- <1:1 to min .75 Ratio Requirements (Min FICO 640)

Types of transactions allowed:

- Purchase
- Refi
- Cash Out – for business purposes only (6 Mo. Seasoning and 5% reduction)

Experienced Investor vs. Inexperienced Investor (adjusters may apply):

Experienced:

- Owned 2 or more properties greater than 12 mo. OR
- Owned 1 investment property greater than 24 mo. OR
- Ownership in commercial RE or Investment in RE Investment Trust within 12 mo.

Inexperienced:

- Must have owned a residence for a minimum of the most recent 12 months
 - DSCR Select (>1:1 ratio) – Max LTV 75% (R/T & C/O)
 - DSCR No Ratio (<1:1 ratio) – Max LTV 60% (R/T)
 - Cash-Out NOT ALLOWED on DSCR No-Ratio program for Inexperienced Investors



OVERVIEW

Debt Service Coverage Ratio

NanQ Investor Programs								
DSCR Select Ratio 1:25 DSCR Ratio 1:1 No-Ratio Ratio < 1:1								
Loan Amount	Select		DSCR					No-Ratio
	FICO to Max LTV/CLTV		FICO to Max LTV/CLTV					FICO to LTV/CLTV
	740+	700+	740+	720+	680+	640+	620+	640+
\$ 1,000,000	75%	75%	85%*	80%	75%	75%	70%	70%
\$ 1,500,000	75%	75%	80%	75%	75%	70%	65%	65%
\$ 2,000,000	75%	70%	75%	75%	70%	65%	60%	60%
\$ 2,500,000	70%	65%	75%	75%	70%	65%	55%	55%
\$ 3,000,000	65%	60%	70%	70%	65%	60%	50%	50%
\$ 3,500,000			65%	65%				
\$ 4,000,000								
\$ 5,000,000								
*>80% LTV			*Purchase only					
Ratio	Min 1.25 Ratio		Min 1.00 Ratio, >80% LTV Min 1.20 Ratio					Min 0.75 Ratio
Cash Out	5% LTV Reduction							
Housing History	0 x 30 x 12		1 x 30 x 12					0 x 30 x 12
Credit Event (BK,SS,FC,DIL)	48 Months		36 Months (12 BK 13 & 24 SS/DIL, Ch. 7 BK)					36 Months
Reserves	3 Months		> 75% LTV, 3 Months					3 Months
Min Loan Amount	Min. \$250,000		Min. \$100,000					Min. \$100,000
Max LTV	Condo - 75 % Condo NW - no 3-4 Unit - no Rural - no		Condo - 80 % Condo Non-Warrantable (Max \$3m) - 75 % 3-4 Unit - 80 % Rural - 65 %					60 % 60 % 60 % No
Currently Listed w/C/O								
ITIN	Not allowed		• 700+ FICO • Max 75% LTV • \$1.5M Max					Not allowed
Foreign National	Not allowed		700+ FICO • Max 75% • C/O 65% • Max LA \$2M					Not allowed
Interest Only	• Qualify on IO Payment ALL States • Reserves based on IO Pmt							



DSCR – Debt Service Coverage Ratio

How is it calculated – DSCR Ratio

PITIA=Principal Interest, Tax, Insurance & Association

- **Rent (or Gross Market Rent)/PITIA=DSCR Ratio**
 - **DSCR SELECT** Example: Rent \$2500 / PITIA \$2000= 1.25
 - *Discounted price*
 - **DSCR Standard** Example: Rent \$2500 / PITIA \$2500 = 1.00
 - *Discounted price*
 - **DSCR No-Ratio** Example: Rent \$1500 / PITIA \$2000 = .75
 - *Applicable adjusters*



Debt Service Coverage Ratio

Can & Cannot:

Can – take Cash-Out on a transaction. Most Important is the Cash-Out letter of explanation – must include:

- Confirmation funds will be used **ONLY** for business purposes:
 - Acquiring property
 - Maintaining property
 - Used for property

Cannot – use the Cash-Out for personal.

Some examples of personal use:

- Paying off personal debt on the credit
- Paying off or using funds in any personal way



DSCR – Debt Service Coverage Ratio

Cans and Cannot continued...

- See NanQ ONE Matrix for FICO allowance, credit grades and max LTV
- Can have Gift Fund - see section 7.4 Gift Funds/Gift of Equity
- Can do 40-year IO for DSCR loan programs
- If DSCR < 1.00, minimum loan amount is \$100,000
- Inexperienced Investor max LTV/CLTV=75% > 1:00 Ratio
- Cannot close with consumer debt (DSCR Standard only 1x30). Debt must be current and no longer delinquent. Post Closing team will condition for supplement accordingly
- Cannot have delinquent tax liens. If paid outside of closing, funds must be sourced that paid off liabilities
- Cannot disclose tax returns/signed 4506-C, OR employment on 1003. If these documents are provided, loan is ineligible for DSCR



DSCR - Why does this matter?

Allows a different categorization compared to traditional Agency Non-Owner Occupied:

- Faster Closing
- Less Documentation
- Less Disclosures

Advantages of going business purpose?

- Non-TRID= No waiting periods= STREAMLINE processing and faster closing



DSCR – Debt Service Coverage Ratio

Credit & Income

Credit:

- Mortgage/Rental ratings required for borrower's primary residence and for subject property only. All other REOs owned by borrower/LLC/Corporation, unless reported on credit report, are not required. If other mortgages are reflected on credit report, will need to meet required ratings per the Matrix.
- Tradeline requirements: 3 reporting 12 mo. w/ 12 mo. activity, OR 2 reporting 24 mo. w/ 12 mo. activity
- Commercial property (including 5+ units) can be excluded from REO, but if mortgages are reflected on credit report, they need to meet required ratings per the Matrix (SG 8.9.2)

Income:

- No proof of income required
- The employment section of the 1003 loan application should not be completed
- The income section CANNOT be completed and must remain blank



DSCR – Debt Service Coverage Ratio

Documentation:

Purchase

- Full Interior/Exterior appraisal required; UCDP/SSR/1007
- Existing lease agreement(s), if applicable

Refinance (Rate/Term and Cash-Out)

- Full Interior/Exterior appraisal required; UCDP/SSR/1007
- Existing lease agreement(s)

REO Section will ONLY list:

- Subject Property
- Primary Residence
- Any homes with mortgages that show up on the credit report, if not on credit we don't need to know about it



DSCR – Debt Service Coverage Ratio

NO Ratio DSCR

- No listed or documented rental income required
- Lower LTV's
- No Proof of Income, leave income section blank
- Employment section should not be completed including no income
- REO Section will ONLY list
 - Subject Property
 - Primary Residence
 - Any homes with mortgages that show up on the credit report. If the property is not on the credit report, no need to supply.

If transaction type is Cash-Out, the CASH-OUT LETTER must include:

- Confirmation that Cash-Out will NOT be used for personal use OR
- To pay off ANY consumer debt



DSCR – Debt Service Coverage Ratio

Vacant / Unleased Property

Unleased / Vacant Property: A property where 1 or both of the following exist:

- A lease or month to month rental agreement does not exist, and rent is being collected only on a verbal agreement, and/or
- Home is vacant (SG 8.9.5)

Unleased / Vacant Property LTV/CLTV Restrictions:

- Purchase Transaction: Program Max
- Refinance (Rate/Term and Cash-Out)
 - Loan Balance \leq \$1,000,000 - 70%
 - Loan Balance $>$ \$1,000,000 - 65%



DSCR – Debt Service Coverage Ratio

Lease review/requirements

Purchase transactions:

- Use the rents provided on the comparable rent schedule from the appraiser.
 - If the subject property is currently rented, and purchase contract is assigning rental agreement to proposed buyers, then rental agreement can be used (SG 8.9.5)

Refinance transactions:

- Use the leases used throughout the year and average over the 12-month period.
- If there are months where the property is vacant, use zero for that month in the average. The average should be supported by the comparable rent schedule (within reason)
- Market Rent provided by the appraiser required. Short Term Leases are currently suspended.
- Lease not required on refinance transactions if loans amount < \$1MM and LTV < 65%. Utilize rents from appraisal (1007 or Rent Survey) – leased properties only per appraisal



DSCR – Debt Service Coverage Ratio

Closing in an LLC

What is it? Closing in the name of an Entity such as a Limited Liability Corporation (LLC), Corporations, S-Corporations, or Partnership.

- Only allowed on Business Purpose Loans
- Only allowed on Investment Properties

What's needed to close in an LLC or Business Entity?

- Purpose and activities are limited to ownership and management of real property
- Restricted to investment properties, business purpose loans, only
- Entity must be domiciled in a US State
- Any business structure is limited to a maximum of 4 owners or members
- All members, partners, or shareholders of the Entity, must provide personal guarantees
- Each Entity Member providing a personal guarantee must complete a Form 1003
- Each person's credit score and creditworthiness will also be used to determine qualification and pricing
- Each Member/Officer of the Entity must receive notice of the loan and its terms prior to closing (initial disclosures or equivalent) (SG 3.5.1)



DSCR – Debt Service Coverage Ratio

TRID

- TRID disclosures ARE NOT REQUIRED on DSCR/Business purpose loans
- If TRID disclosures are used, you must adhere to the TRID requirements from beginning to end of loan disclosure – through the closing.

Pre-Payment Penalties – the original PPP

Will I have PPP on a business purpose DSCR loan?

- Yes
- Unless you are in a state that specifically states business purpose loans do not allow the PPP

Pre-Payment Penalty <i>For Bus. Purp. Only</i>	6 months interest on 80% of the original balance. Not allowed in: IL*, MD, MI, MN, ND, NJ*, NM, OH, PA *Allowed to close in the name of a Corp.
---	---



DSCR – Debt Service Coverage Ratio

Submitting the credit package

- Correspondent UW LSS
- Application (REO schedule completed)
- Credit Report
- Lease Agreements/Proof of rents
- Full Interior/Exterior Appraisal; 1007
- Title/Escrow
- Insurance
- Reserves
- LLC Borrowing Certificate or Certificate of Authorization (proof of holding title in the name of business/LLC; business purpose loan.)

Submitting the closing package

- Personal Guaranty: Only applicable when holding title in the name of a business (business purpose loans)
- Business Purpose & Occupancy Affidavit: Only applicable on investment property business purpose loans



Contact Us

Chrisi Gordon

Client Services Representative

Cameo Mancini

Client Services Representative

Phone: (833)-311-0126

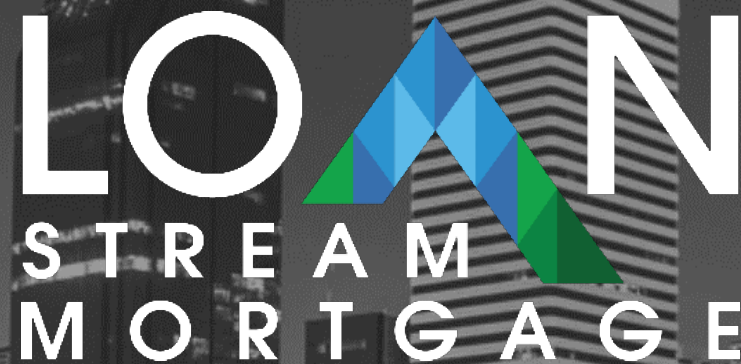
Email:

LSMCorrespondent@LSMortgage.com



www.LSCorrespondent.com

THANK YOU



www.LSCorrespondent.com

LoanStream Mortgage, 19000 MacArthur Blvd, Ste 200, Irvine, CA 92612 | Phone: (800) 760-1833 | LoanStream Mortgage is a registered DBA of OCMBC, Inc. NMLS ID #2125. Programs and rates are subject to change without notice. Turn time estimates are not warranted or guaranteed. Intended for use by real estate and lending professionals only and not for distribution to consumers. OCMBC, Inc. is licensed in the following states that require specific licensing disclosures: AZ (#0909401), CA CFL - Loans made or arranged pursuant to the California Financing Law, GA Georgia Residential Mortgage Licensee (#20571), IL MB.6759942 Illinois Department of Financial and Professional Regulation, Division of Banking, 100 West Randolph, 9th Floor, Chicago, IL 60601 1-888-473-4858, MA Lender (#ML2125). Rhode Island Licensed Lender. Licensed by the N.J. Department of Banking and Insurance. Licensed by the Department of Financial Protection and Innovation under the California Residential Mortgage Lending Act (#4130724). VA - NMLS ID # 2125 (www.nmlsconsumeraccess.org) Not licensed or conducting business in New York. For more licensing information, visit the Nationwide Multistate Licensing System's Consumer Access website www.nmlsconsumeraccess.org. Copyright 2022

For external use only