CORRESPONDENT
Debt Service Coverage Ratio (DSCR)

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Today's agenda: DSCR

- Definition and purpose
- Types of DSCR Grades offered: Select and DSCR (Standard) and No-Ratio
- DSCR required calculation
- Why does it matter & Advantages
- What is allowed & what is restricted
- Credit/Income/Asset & Documentation
- Short term Rentals and Lease agreement
- 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 Standard** – 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)

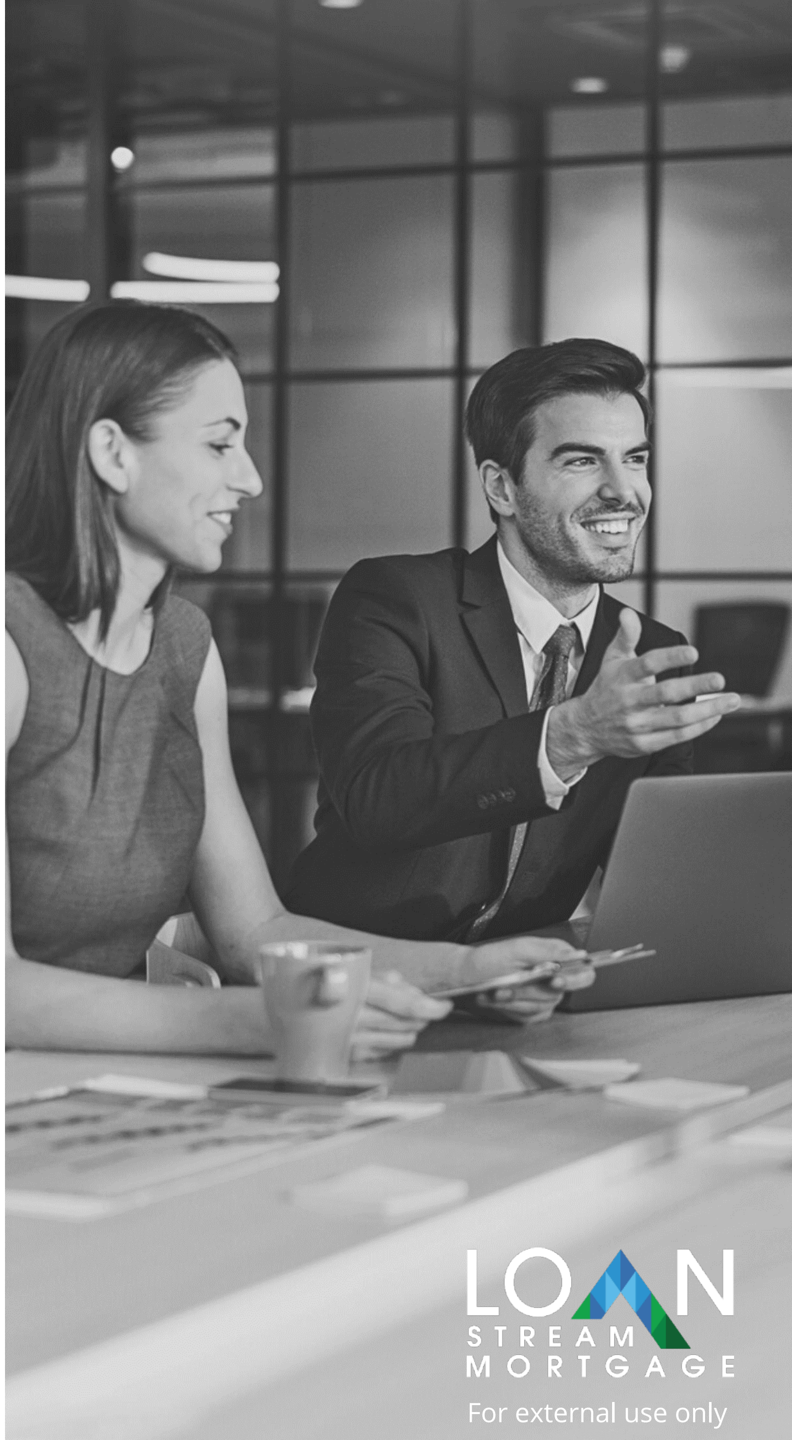
Experienced Investor vs. Inexperienced Investor (adjusters may apply):

Experienced:

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

Inexperienced:

- Must have owned a residence for a minimum of 12 mo. within recent 12 months
    - DSCR Select/Standard (>1:1 ratio) – Max LTV 75% (R/T) 70% (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



NanQ Investor Programs

DSCR Select Ratio 1.25 | DSCR Ratio 1.0 | No-Ratio Ratio < 1.0

	Select DSCR		DSCR					No Ratio
	FICO to Max LT/CLTV		FICO to Max LTV/CLTV					FICO to Max LTV/CLTV
Loan Amount	740+	700+	740+	720+	680+	640+	620+	640+
$ 1,000,000.00	75%	75%	85%	85%	80%	75%	70%	70%
$ 1,500,000.00	75%	75%	85%	85%	80%	70%	65%	65%
$ 2,000,000.00	75%	70%	80%	80%	75%	70%	60%	60%
$ 2,500,000.00	70%	65%	75%	75%	70%	65%	55%	55%
$ 3,000,000.00	65%	60%	70%	70%	65%	≤ 60%	≤ 50%	50%
$ 3,500,000.00			65%	65%				
$ 4,000,000.00								
$ 5,000,000.00								
Purchase	Max 75%		Max 85%					Max 70%
Rate and Term	Max 75%		Max 85%					Max 70%
Cash Out	5% Reduction | Max 75%							
Ratio	Min 1.25 Ratio		Min 1.00 Ratio | >80% LTV Min 1.20 Ratio					Min 0.75 Ratio
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		> 65% LTV, 3 Mos.; *cash-out can be utilized;* 12 Months on Foreign Nationals					6 Months
	Loan Amt > $3m, 12 mos. reserves; > $2m, 6 mos. reserves, cash out cannot be utilized							
Min Loan Amount	Min. $250,000		Min. $125,000					Min. $125,000
Max LTV	Condo - 75% Condo NW - No Condotel - No 2-4 Unit - No Rural - No		Condo - 80 % Condo Non-Warrantable (Max $3m) - 75 % Condotel - 75 % 2-4 Unit - 80 % Rural - 65 %					60 % 60 % No 60 % No
Short Term Rentals	Not allowed		5% Reduction | Max 80%					Not allowed
Declining Mkt Rent	≥ 1:1 DSCR Max LTV 65% OR Program Max LTV ≥ 1.25 DSCR							Not allowed
Recently Listed w/C/O (< 6Mos. Off Mkt)	≥ 3 mos. Off Mkt., ≥ 3 mos. Leased, 3 mos. Reserves (not from C/O), 1 yr. min. PPP required, 70% Max LTV							Not allowed
ITIN	Not allowed		• 700+ FICO • Max 75% LTV • $1.5M Max • Condotels ineligible					Temporary Suspension
Foreign National	Not allowed		• 700+ FICO • Max 75% • C/O 65% • Max LA $2M • Condotels ineligible					Temporary Suspension
Interest Only	• Qualify on IO Payment ALL States • Reserves based on IO Pmt							

LOAN STREAM MORTGAGE

For external use only

DSCR – Debt Service Coverage Ratio

How is it calculated – DSCR Ratio

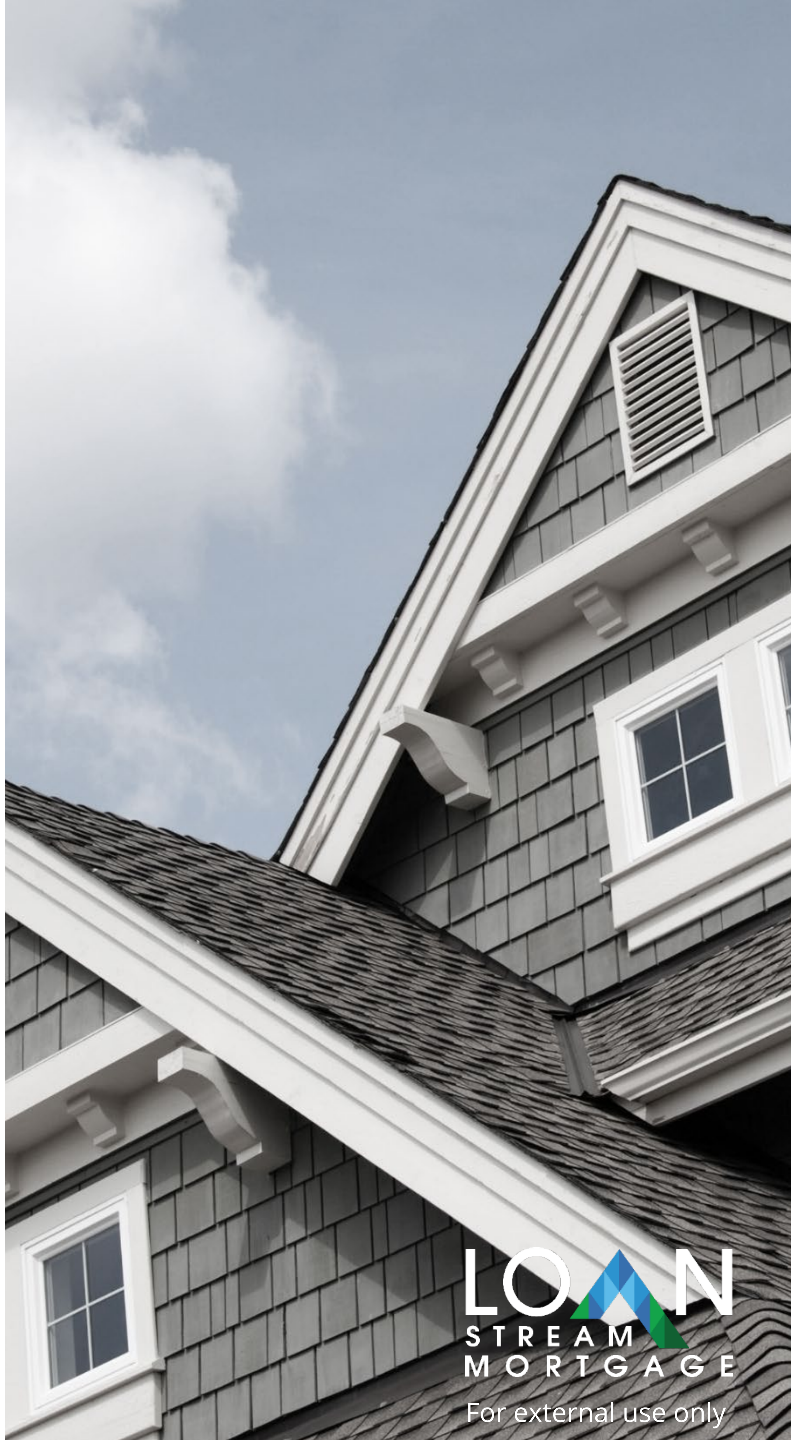
PITIA=Principal Interest, Tax, Insurance & Association (SG NanQ 8.8.1)

- Rent (or Gross Market Rent)/PITIA or ITIA= 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*



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

Debt Service Coverage Ratio

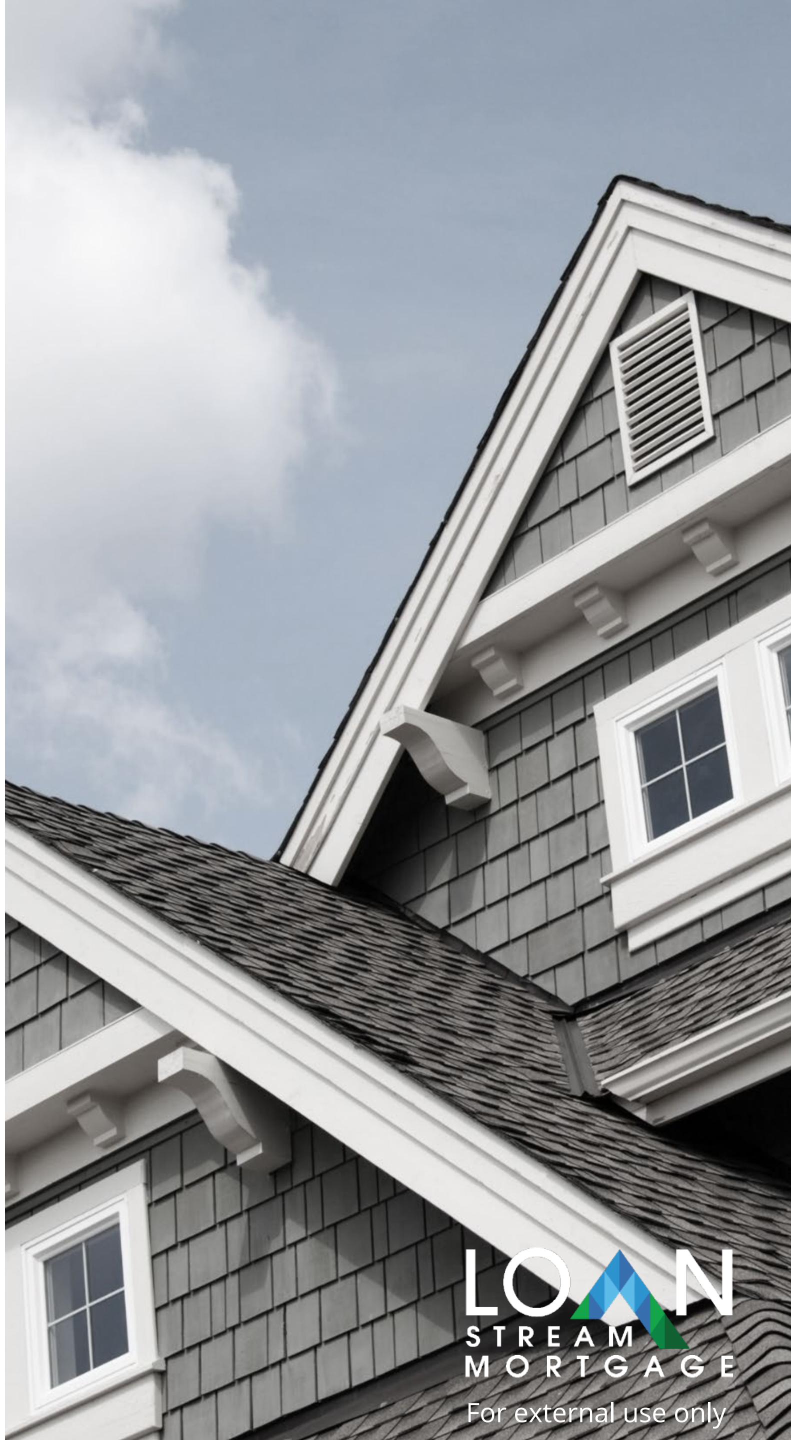
Can & Cannot:

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
- 30 and 40-year IO allowed for DSCR loan programs
- If DSCR Select ≥1:25, minimum loan amount is $250,000
- DSCR Standard (1:1) and DSCR No Ratio (≥.75) min loan amount is $125,000
- Inexperienced Investor max LTV/CLTV=75% ≥ 1:00 Ratio; max LTV 60% < 1
- 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/income on 1003. If these documents are provided, loan is ineligible for DSCR

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
- Limited tradelines allowed with Max 70% LTV, not allowed with No Ratio Program
- Commercial property (including 4+ units) can be excluded from REO, but if mortgages are reflected on credit report, they need to meet required ratings per the Matrix (SG NanQ 8.8.5)

Income:

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

LOAN STREAM MORTGAGE

DSCR – Debt Service Coverage Ratio

Asset Documentation

- Most recent 30-days of Asset verification is required
  - Large deposits should be sourced
- If account has other names in addition to borrower(s) a 100% access letter and LOE are required
- Business funds may be used for down payment, closing costs and calculating reserves:
  - Borrower must be listed as sole owner of the account OR
  - Borrower may use a max of their percentage of ownership as qualifying assets

Income 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)

Short Term Rental (STR)

<u>General requirements</u>:

- Purchase & R/T transactions allowed
- 5% LTV Reduction required
- Apply 20% Management Fee Reduction (Gross Rents X 0.80/PITIA=DSCR)
- Rural Properties NOT available
- ‘Declining Market Value’ identified – Max is 65%.
- ‘Declining Market Rent’ identified – Reduce to 65% LTV <u>OR</u> Min 1.25 Ratio (Select Grade) only

<u>Documentation:</u>

- Must include 1007 / 1025 appraisal report reflecting long and short-term market rents
- Most recent 12 mo. rental history from third party rental/management company (may be provided by Seller for purchase transaction)
- AirDNA Rentalizer
  - Purchase only, forecast 12 mo. from Note Date, Occupancy >65%, 6 comparison properties within 2 miles of subject – similar in size, room count, amenities, availability and occupancy.

➢ SG NanQ 8.8.10

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 NanQ 8.8.9)

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. OR if a brand-new lease, use the validation of security deposit and first month's rent.
- Market Rent provided by the appraiser required. 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
- Airbnb, VRBO or similar rentals can be considered
- ADU leases cannot be used unless verified by the appraiser & lease agreement is supported by rental comps (1007)

DSCR – Debt Service Coverage Ratio

Vacant / Unleased Property

<u>Unleased / Vacant Property</u>: 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 NanQ 8.8.9)

<u>Unleased / Vacant Property LTV/CLTV Restrictions:</u>

- Purchase Transaction: Program Max
- Refinance (Rate/Term)
  - Loan Balance ≤ $1,000,000 - 70%
  - Loan Balance > $1,000,000 - 65%
- Refinance (C/O)
  - Loan Balance <$1,500,000 – 60%

Vacant / Unleased Properties

- Purchase Transaction Program Max
- Refinance Rate/Term
  - Loan Balance ≤ $1,000,000 – 70% LTV Max
  - Loan Balance ≤ $2,000,000 – 65% LTV Max
- Refinance Cash-Out
  - Loan Balance ≤ $1,500,000 – 60% LTV Max
- LOE for cause of vacancy

*(contact AE for details)

DSCR – Debt Service Coverage Ratio

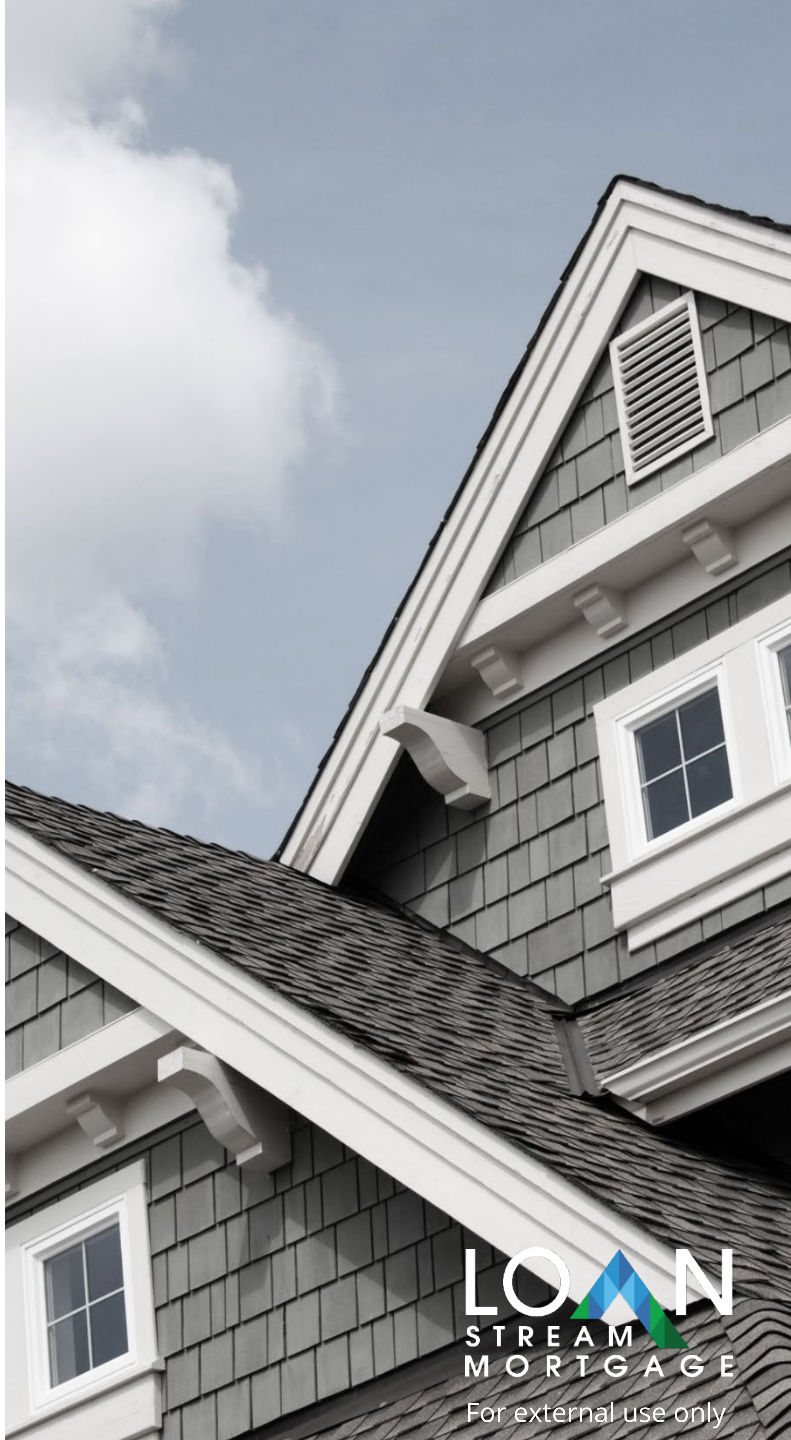
Closing in an LLC

<u>What is it?</u> 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

<u>What's needed to close in an LLC or Business Entity</u>?

- 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 (LLC Borrowing Cert)
- 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 NanQ 2.6.3)



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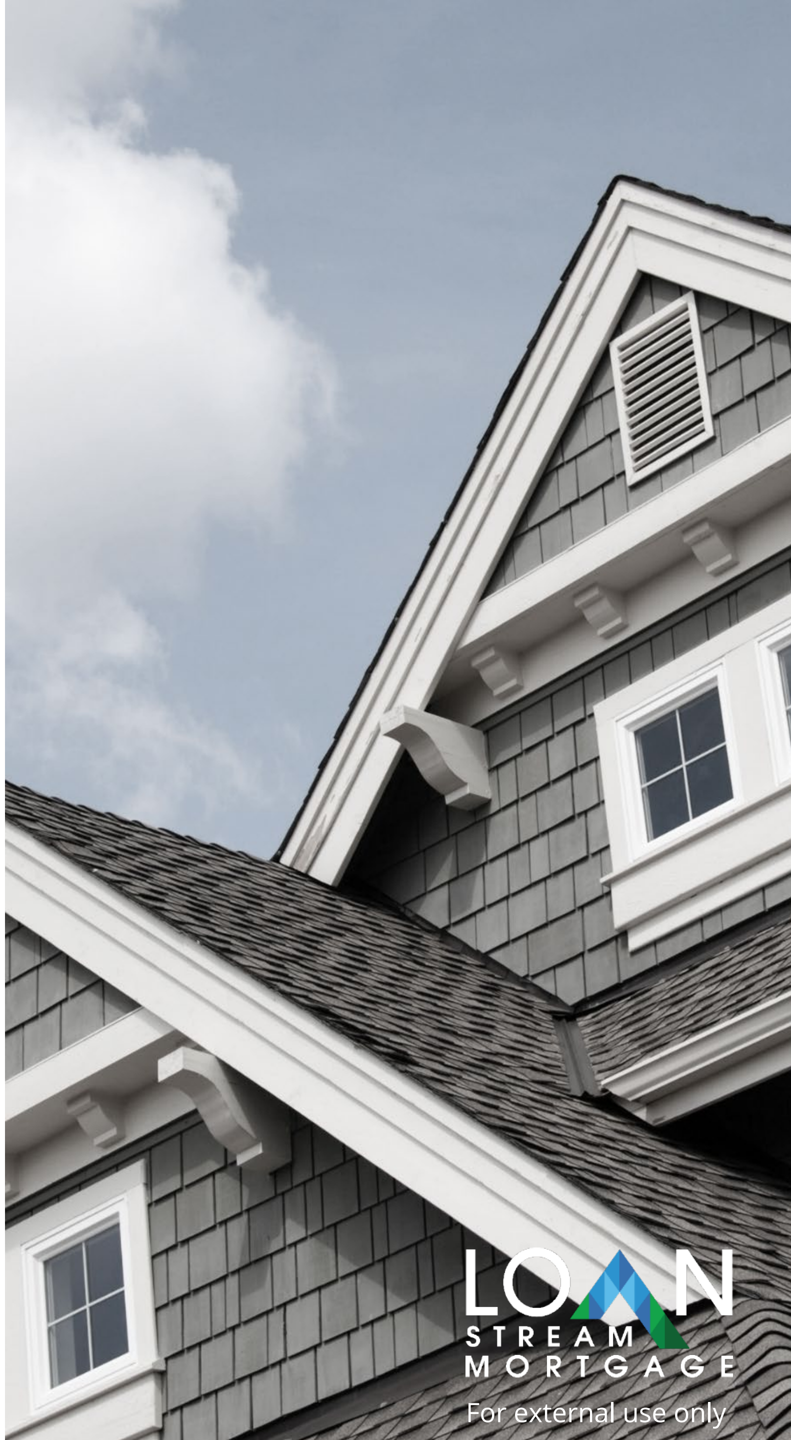
TRID

- 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



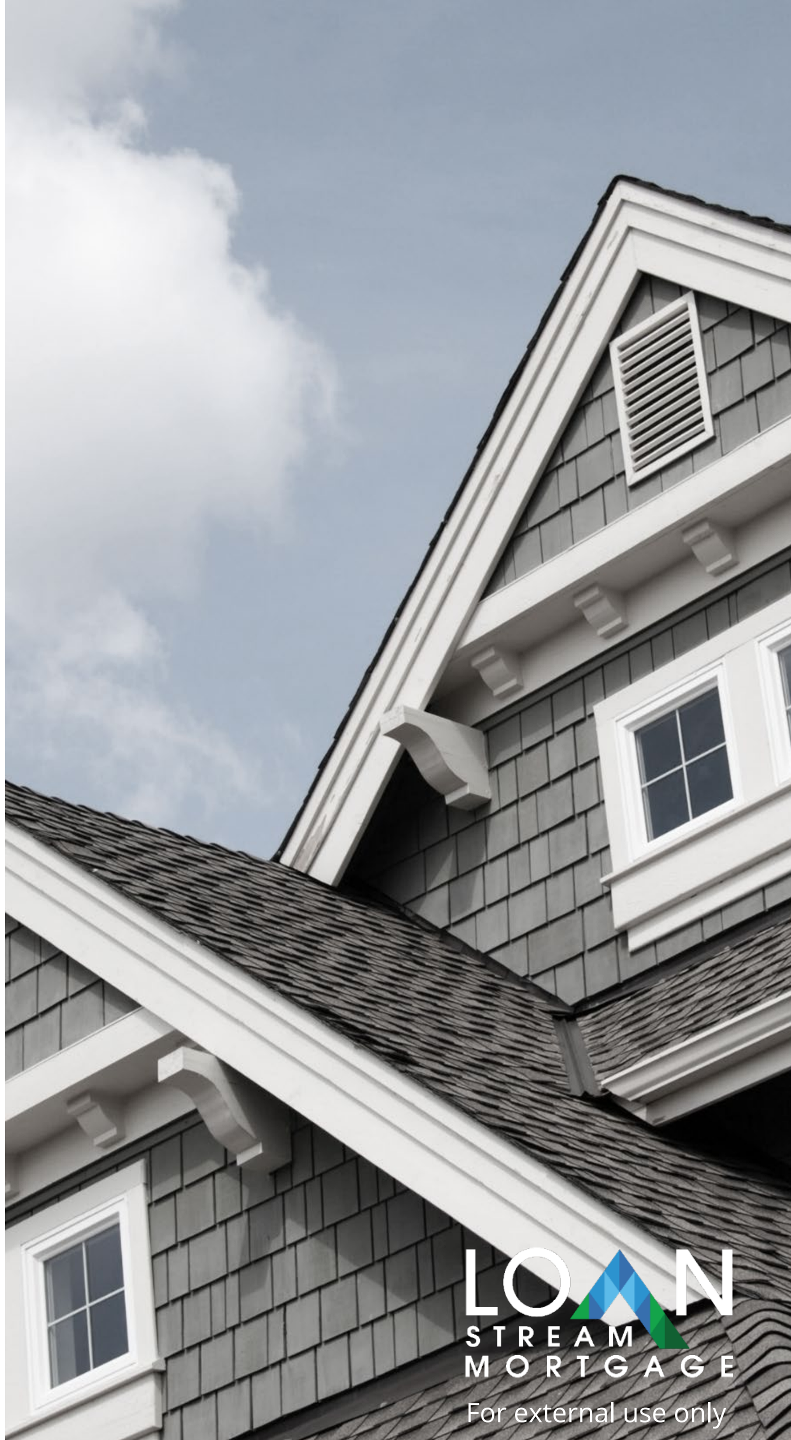
DSCR – Debt Service Coverage Ratio

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
- Assets/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

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