

CORRESPONDENT Debt Service Coverage Ratio (DSCR)



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Agenda

- Definition and purpose
- Benefits of the DSCR loan
- Getting Started
- Program Introduction including Matrix and Ratio Calculations
- Credit, Income, and Assets
- Short Term Rentals (Airbnb/VBRO)
- Lease Reviews, Vacant and Unleased and Closing in an LLC
- FAQ's
- Resources & Submitting your file
- Contacts

Definition & Purpose

DSCR Loan is for real estate investors

Under the Debt Service Coverage documentation option (Alt Doc) **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 is Debt Service Coverage Ratio (DSCR)?

- Gross rents divided by qualifying PITIA or ITIA
- Depending on the ratio, there's 3 types (DSCR Select, DSCR Standard, and No Ratio)
- 100% of the rents can be used and no vacancy factor is required

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.

DSCR: Benefits of the Program

- **Faster closing turn times**
 - Less documentation and disclosures
 - Non-TRID loan and NO waiting period
- **No income or employment** verification required
- Loan amounts up to \$3,500,000
- As little as **15% down payments** (experienced investor)
- **Purchase, Refi** and **Cash-out** (business purpose only)
- **Interest-only** loan option available
- DSCR LLC loans: **Close in the name of your LLC**
- **Short Term Rentals** (Airbnb/VBRO)
- **Condo Hotel**



DSCR: Getting Started

1. Investor Experience and Calculate DSCR Ratio

2. Select Your Grade

3. Review Matrix in Detail

- Determine borrower and property specifics (FICO, LTV, loan amount, credit profile, housing history, property type restrictions, etc.).
- Review the second page with more specifics around unique scenarios (delayed financing, seasoning, private party VORs, declining markets, limited tradelines, DTI, etc.).
- Don't forget about the PPP option (SG 1.18.2)

NanQ Investor Programs									
DSCR Select Ratio 1.25 DSCR Ratio 1.0 No-Ratio Ratio < 1.0									
C DO FICO)	Loan Amount	Select DSCR FICO to Max LT/CLTV		DSCR FICO to Max LTV/CLTV				No Ratio FICO to Max LTV/CLTV	
		740+	700+	740+	720+	680+	640+	620+	640+
00+	\$ 1,000,000	75%	75%	85%	85%	80%	75%	70%	70%
	\$ 1,500,000	75%	75%	85%	85%	80%	70%	65%	65%
	\$ 2,000,000	75%	70%	80%	80%	75%	70%	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								
x 70%	Purchase	Max 75%				Max 85%			Max 70%
x 70%	Rate and Term	Max 75%				Max 85%			Max 70%
Allowed	Cash Out					5% Reduction	Max 75%		

<p>*6 months interest on 80% of the original principal balance Minimum 3 Year Prepay Required for All Investment/DSCR Loans with LTV's >80% (States with No PPP >80% is not available) No PPP price option only allowed where prohibited by State *PPP is only Allowed on the following: Non-TRID Loans - Investment Non-TRID Loans - DSCR</p> <p>ALL STATES REQUIRE A PPP, STATE LEVEL RESTRICTIONS LISTED BELOW</p>									
									Min 0.75 Ratio
									0 x 30 x 12
									36 Months
									6 Months
									out cannot be utilized
									Min. \$100,000
									60 %
									60 %
									No

STATES	PPP REQUIRED WHEN:	PPP STRUCTURES	NO PPP ALLOWED WHEN:
Arkansas	Maximum of 3 years	Max Rates: 3-2-1	Never
Indiana	Fixed Rates	Normal Rates	ARM Loans
Iowa	Maximum of 5 years	Max Rates: 5-4-3-2-1	Never
Kansas	6 Months only	Normal Rates	Never
Kentucky	Always allowed	Max Rates: 3-2-1	Never
Maryland	Maximum of 3 years	Normal Rates	Never
Michigan	Maximum of 3 years	1% Fixed	Never
Missouri	Always allowed	Max Rates: 2-2-2-2	Never
New Jersey	Closed in name of Corp. or LLC	Normal Rates	Closed in name of individual
North Carolina	Closed in an LLC	Normal Rates	Closed in name of individual or corp.
Ohio	>= \$100,000	Normal Rates	< \$100,000
Pennsylvania	>\$301,022 and 1-2 Unit, or any 3-4 Unit	Normal Rates	<=\$301,022 and 1-2 Unit
Rhode Island	Maximum of 1 year	2% Fixed	Never
Texas	Purchase, or Non-Homestead Refinance	Normal Rates	Homestead Refinances

NEVER ALLOWED IN ILLINOIS, MAINE, MINNESOTA, AND NEW MEXICO

DSCR: Introduction

3 types of LoanStream products for DSCR:

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

Experienced 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 min of 12 mo. within recent 12 months
 - Restrictions for Inexperienced Investor:
 - Select & Standard – max LTV 80%
 - No Ratio – max LTV 60%
 - Cash-out **not allowed** on DSCR No-Ratio program
 - 3 mos. reserves, cash out cannot be utilized
 - 1.5MM max loan amount



DSCR: Matrix Sample

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	75%	75%	85%	85%	80%	75%	70%	70%
\$ 1,500,000	75%	75%	85%	85%	80%	70%	65%	65%
\$ 2,000,000	75%	70%	80%	80%	75%	70%	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								
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.; <i>cash-out can be utilized;</i> 12 Mos. on Foreign Nationals; 3 Mos. for Inexperienced Investors, cash out cannot be utilized					6 Months
	Loan Amt > \$3m, 12 mos. reserves; > \$2m, 6 mos. reserves, cash out cannot be utilized							
Min Loan Amount	Min. \$250,000		Min. \$100,000					Min. \$100,000
Max LTV	Condo - 75% Condo NW - No Condotel - No 2-4 Unit - No Rural - No		Condo - 80 % Condo Non-Warrantable (Max \$3.0M) - 75 % Condotel - 75% 2-4 Unit - 80 % Rural - 65 %					60 % 60 % No 60 % No

	Select DSCR	DSCR	No Ratio
Max LTV	Condo - 75% Condo NW - No Condotel - No 2-4 Unit - No Rural - No	Condo - 80 % Condo Non-Warrantable (Max \$3.0M) - 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
Condotel	Not allowed	• 75% LTV Max • R/T & CO 65% LTV • \$1.5M Max • \$250,000 Min	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
DACA	Not allowed	Max 80% LTV	Not allowed
Interest Only	• Qualify on IO Payment ALL States • Reserves based on IO Pmt		



DSCR: Ratio Calculation

$$\text{DSCR Ratio} = \frac{\text{Rent (or Gross Market Rent)}}{\text{PITIA or ITIA}}$$

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

Examples:

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

Example: Rent \$2500 / PITIA \$2000 = 1.25

DSCR Select *Discounted price*

Example: Rent \$2500 / PITIA \$2500 = 1.00

DSCR Standard *Discounted price*

Example: Rent \$1500 / PITIA \$2000 = .75

DSCR No-Ratio *Applicable adjusters*



DSCR: Credit

Credit (SG 8.8.5)

- 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 on the credit report, will need to meet required ratings per the matrix.
- Tradelines 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 (select and standard only)

Income (SG 8.8.5)

- Reminder: 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
- Rental Income determined using:
 - Full Interior/Exterior appraisal required; UCDP/SSR/1007
 - Existing lease agreement(s), if applicable



DSCR: Assets

Assets (SG 8.8.6 and 7.0)

- 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

Large Deposits Example

Month 1 deposits (1,000 + 1,500) = \$2,500

Month 2 deposits (2,500 + 5,000) = \$7,500

Total deposits = \$10,000 or monthly average of \$5,000

75% of the monthly average is \$3,750

The \$5,000 deposit in month 2 needs to be sourced

**These are the top two asset conditions*

DSCR: Short Term Rental (STR)

General requirements (SG 8.8.9)

- Purchase & Refi (R/T & C/O)
- 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 LTV 65%.
- 'Declining Market Rent' identified – Reduce to 65% LTV OR Min 1.25 Ratio (Select Grade) only

Documentation:

- 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.



DSCR: Lease Review

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 8.8.8)

Refinance transactions:

- **12-month review period using average rental amount**
 - If there are vacant months, use zero for that month in the average
 - If no documentation to support at least 8 months, this is considered unleased (with LTV limitations)
 - The avg rental amount should be supported by comparable rent schedule
- **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)
- **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 – 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 NanQ 8.8.8)

LTV/CLTV Restrictions

- Purchase Transaction: Program Max
- Refinance (Rate/Term)
 - Loan Balance \leq \$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 \leq \$1,000,000 – 70% LTV Max
 - Loan Balance \leq \$2,000,000 – 65% LTV Max
 - Refinance Cash-Out
 - Loan Balance \leq \$1,500,000 – 60% LTV Max
 - LOE for cause of vacancy
- *(contact AE for details)

DSCR: 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
- 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 2.7.3)

Documentation Required

- Refi Only: When you take the property out of the LLC and put it into an individual name an LOX may be required.
- All members, partners, or shareholders of the Entity, must provide personal guarantees (LLC Borrowing Cert) AND must complete a form 1003.

DSCR: FAQ

Are TRID disclosures required?

- No, TRID disclosures ARE NOT REQUIRED on DSCR/Business purpose loans
- However, if TRID disclosures are used, you must adhere to the TRID requirements from beginning to end of loan disclosure through the closing.

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. Reference NonQM rate sheet for specifics.

Do you allow gift funds?

- Yes! Up to 100% with LTV restrictions (SG section 7.4)

Do you allow I/O loans on DSCR?

- Yes! 30 and 40-year IO allowed for DSCR loan programs

What if my borrower has consumer debt?

- The DSCR Standard is the only option, allowing 1x30.
- Debt must be current and no longer delinquent. Post Closing team will condition for supplement accordingly.



DSCR: FAQ

Are cash-out's allowed for inexperienced investors?

- They are only allowed on *DSCR Standard* and *DSCR Select*. No Ratio does NOT allow cash-outs for inexperienced investors.

What can I use the cash-out funds for? Are there any restrictions?

- Yes, cash-outs are for business purpose ONLY (such as acquiring property, maintaining property, must be business purpose related).
- Cash-out funds can't be used for personal funds (paying off personal debt or any reason that's personal is NOT allowed).

What if my borrower has delinquent tax liens?

- We do not allow delinquent tax liens. If paid outside of closing, funds must be sourced that paid off the liabilities.



DSCR: Resources & Submitting Your Loan

Credit

- Corr Underwriting Loan Submission Checklist
- Application (REO schedule completed)
- 1008 Underwriting Transmittal
- Credit Report
- Lease Agreements/Proof of rents
- Full Interior/Exterior Appraisal; 1007
- Title/Escrow
- Insurance
- Assets/Reserves
- LLC or loans held in a Trust: Borrowing Certificate or Certificate of Authorization (proof of holding title in the name of business/LLC; business purpose loan).

Closing

- 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

Streamlined Process Great Rates, Unique Non-QM Products	
TPO CONTACTS	WELCOME
PIPELINE	ADD NEW LOAN
SCENARIOS	CORRESPONDENT RESOURCES
	DOCUMENTS
Documents	
Forms	
Correspondent Lock Request Form	PDF 181.00 KB
Emerging Banker Underwriting Loan Submission Form	PDF 72.00 KB
Emerging Bankers Lock Request form	PDF 80.00 KB
Correspondent Underwriting Loan Submission Form	PDF 87.00 KB
NanQ Foreign National - S/E Narrative	PDF 83.00 KB
NanQ (primary & second home) - S/E Narrative	PDF 83.00 KB
Correspondent Closed Loan Submission Form	PDF 354.00 KB
NanQ Business Purpose - Personal Guaranty	PDF 98.00 KB
NanQ Business Purpose - Contact Consent	PDF 60.00 KB
NanQ Business Purpose - LLC Certification	PDF 79.00 KB
NanQ Business Purpose - S/E Narrative	PDF 83.00 KB
NanQ Foreign National - Contact Consent	PDF 60.00 KB

Contact Us

Client Services Team

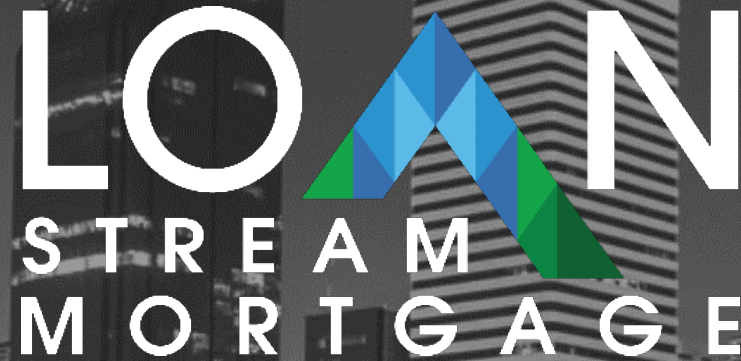
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