

DSCR

Debt Service Coverage Ratio



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Agenda

- Define DSCR
- Review program Highlights and Details
- Review documentation requirements
- Navigate through resources
- Q&A



Investor Products and Product Support



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Product Support

- We make subject matter experts available from beginning to end to support a flawless execution.
 - Your credit teams will have access to a dedicated group to assist your credit teams with scenarios, single loan variances, and guideline expertise.
 - Nonagency@silverhillcap.com can be utilized for all **pre-close questions**, scenarios and Single Loan Variance (SLV) requests.
 - Nondelclientmanagersupport@silverhillcap.com or Nonagencyclientmtg@silverhillcap.com can be utilized to answer your **post-closing, pre-purchase questions** regarding loan status, suspense conditions, escalations and rebuttals



Investor Products

- Investor Suite of Products includes:
 - Agency Investor
 - Agency Investor Plus (AIP)
 - DSCR
- AIP and DSCR are business purpose only loans
- Our Jumbo and Bank Statement products also offer investor occupancy options



Defining DSCR



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DSCR

Definition of our DSCR or Debt Service Coverage Ratio product:

- Secured by real estate owned by an individual or a business
- For business purposes only and are attested by the Borrower(s) and/or Guarantor(s) via a Business Affidavit
- Properties cannot be occupied by the Borrower(s) and/or Guarantor(s)



Product Benefits

- Underwrite is based on the debt of the property and not individual debt
- Less documentation needed
- Business entity can be the Borrower
- Maximum loan sizes
- Blanket mortgage options (*delegated underwriting only*)
- Fixed rate and interest-only options.
- The DSCR ratio on an I/O loan can be calculated using the ITIA.



DSCR Product Details and Highlights



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Program Details

- Investment properties only
- Best Efforts and Bulk/Mandatory delivery options
- Standard: delegated or non-delegated underwriting
- Blanket: **delegated underwriting only**
- Minimum DSCR is **.75** (1.0 for blanket)
- Minimum Fico is **660**
- Maximum LTV/LTC is **80%**
- 30-year fixed
- 10-year Interest Only option available, calculated using ITIA payment
- Minimum loan amount – **\$100,000**
- Maximum Loan amount – **\$2,000,000** (Standard), **\$2.5 million** (2-4 units), **\$6.25 million** (Blanket)



Eligible Borrowers

Eligible

- Natural Borrower
- Legal Business Entities Including:
 - LLCs
 - LPs
 - Partnerships
 - Corporations
- All business entity loans require at least one full recourse warm body personal guaranty
- Borrower/Guarantor(s) must:
 - Be a US Citizens or Non-US Citizen(s) lawfully present in the United States
 - Have a valid Social Security number

Non-Self-Employed

- Life Estates
- Irrevocable Trusts
- Blind Trusts
- Guardianships
- Community Land Trusts
- Land Trusts
- Foreign Nationals
- Non-profit organizations, 501(c)(3) and 501(c)(4)
- Trusts or LLCs whose members include other LLCs, corporations, partnerships, trusts, or where a Power of Attorney is used.
- Borrower/Guarantor with diplomatic immunity status.



Eligible Borrowers, continued

- First-time homebuyers are not eligible
- Both experienced and inexperienced investors are permitted.
- An **experienced investor** is defined as:
 - Having a history of owning and managing:
 - Commercial or non-owner occupied residential real estate for at least 12 consecutive months in the most recent three (3) years, or
 - Three or more properties each over the past 24 months



Entity Requirements

- Business Entity must:
 - Be a legal entity domiciled in the United States, including LLCs, LPs, partnerships, and corporations
 - Be an entity with natural person members
 - Be a U.S.-based entity in Good Standing
- Suggestion or encouragement of the formation of an Entity is prohibited



Entity Requirements, continued

- Personal Guarantor requirements:
 - Must have at least one full recourse warm body, personal guaranty
 - Any owner of 25% or more of the borrowing entity must be a personal guarantor. The majority owner of the entity (if no owner represents 25% or more) must be a personal guarantor
 - At least 51% of the ownership of the underlying entity must be personal guarantor(s)
 - Any managing member or controlling holder who is not a borrower must be a personal guarantor



Underwriting Criteria

- Manual underwrite.
- Simultaneous submissions – do not need to be underwritten simultaneously.
- Fraud Report and Background check requirements include:
 - Compliance with OFAC and the Exclusionary List policy
 - Third-party background check/fraud detection report for all borrowers/guarantors dated within 90 days of loan origination
 - Background search dated within 90 days of loan origination. Lender must address all “high-level” and “red flag” alerts on the report.
 - Verification that all parties are not citizens of or reside in a country identified by Financial Action Task Force (FATF) as being a high-risk jurisdiction
 - Must include a liens and judgement search



Credit

- Tri-merged credit reports are required on all borrower/guarantor(s) dated within **90 days** of loan origination.
- The representative score for the loan is the **lowest** representative score of the borrower(s) or guarantor(s), as applicable.
- Mortgage history requirements:
 - **1x30x12** between all disclosed mortgages.
 - Provide a 12-month history on the primary residence and the subject property for all borrower/guarantor(s)



Significant Derogatory Credit

- Three years, unless otherwise noted in product matrix.
- Multiple derogatory events require a seven (7) year wait period.
- Any loan shown to be in **active** forbearance is considered a significant derogatory credit event
- **Any forbearance resulting in subsequent loan modification is considered a significant derogatory credit event and subject to a three (3) year waiting period.**



Blanket/Multi-property/Cross-collateralized

- **Delegated underwrite only**
- Inexperienced investors are not permitted
- Up to **25** properties combined into a single loan
- Minimum of **2** properties
- **10% LTV** reduction applicable with certain loan characteristics
- Maximum **60% LTV** for blanket loans considered to be short-term rentals
- Maximum loan amount of **\$6,250,000**
- Minimum asset value of **\$100,000** for each property included in blanket
- Maximum asset value of **\$1.5M** per unit for each property included
- Minimum **1.0** DSCR
- Partial releases are permitted



Property Types

Eligible

- 1-4 unit residential
- Attached or detached
- Planned Unit Developments (PUDs)
- Leaseholds
- Condominiums (both warrantable As defined in product matrix and non-warrantable, follow guidelines in product matrix)
- Legal or Legal non-conforming use
- ADU-rental income is not permitted

Non-Self-Employed

- Assisted living or nursing homes
- Community Land Trusts
- Cooperatives
- Condotels or time-shares
- Lease with option to purchase
- Manufactured/Mobile Homes
- Mixed use
- Model home leasebacks
- Multi-family (5+ units)
- Appraisal notes Rural or environmental issues



Appraisal Requirements

- **Appraisals:**
 - A Market Rent Comparable Schedule (FNMA 1007 or 1025) must be provided
- **Valuation Requirement**
 - A **Collateral Desktop Analysis (CDA)** from Clear Capital or a **Consolidated Collateral Analysis (CCA XP)** from Consolidated Analytics.
 - If the **CDA** or **CCA XP** indicates a lower value than the appraised value that exceeds a 10% tolerance, the lower value of the two must be used
 - A **CU score of 2.5 or lower** would be accepted in lieu of the CDA or CCA XP
- **Second Appraisal Requirement:**
 - Property Flips as defined in the product matrix
 - The increase in value should be documented with commentary from the appraiser as well as show recent comps
 - For Loan amounts >\$2M



Occupancy

- Cannot be occupied by any borrower or guarantor
- All tenants on leases must be natural persons
- Occupied/Leased Property:
 - A property that has at least the following number of occupied/leased units
 - Single-family = 1/1
 - Two-family = 2/2
 - Three-family = 2/3
 - Four-family = 3/4



Reserve Requirements

- DSCR \geq 1.0: **3** months PITIA for subject property.
- DSCR $<$ 1.0: **6** months PITIA for subject property.
- Gift funds are not permitted to meet reserve requirements
- Funds utilized for down payment and closing costs cannot be included in reserve funds
- Cash out may be utilized for reserves if FICO is $>$ 700
- Interest Only: Reserves permitted to be based on the ITIA payment



LTV/LTC Restrictions

- Blanket Loan Restrictions:
 - Max **60%** LTV/LTC for all blanket loans where 25% or more of the properties are short-term rentals
 - **10%** LTV/LTC reduction for following:
 - Non-warrantable condos
 - 25% per more properties in the blanket loan have individual DSCRs between .75 and .99
 - Vacant Blanket transactions
- Short-term Rental Standard – Maximum **60%** LTV/LTC
- Reduce LTV by **10%** for non-warrantable condominiums with a maximum of **70%** LTV/LTC.
- Maximum LTV/LTC of **75%** for the inexperienced investor



Calculating the DSCR

- DSCR is calculated as the gross rents divided by PITIA (**P**rincipal, **I**nterest, **T**axes, **I**nsurance, **A**ssociation)
 - Use the note rate to calculate PITIA
- Interest-only loans may use the ITIA payment for the DSCR calculation
 - DSCR is program minimum as determined by individual loan characteristics plus .10

Minimum DSCR is .75 Standard (1.0 Blanket)



Short Term Rentals Calculations

- **DSCR Calculation**

- Monthly gross rent (as determined by transaction type – see below) multiplied by 80% (to account for costs associated with operating a short-term rental property) divided by PITIA (or ITIA for IO loans) = DSCR

- **Short-term Rental Requirements**

- Maximum 60% LTV for all Standard and Cross Collateralized (Blanket) transactions using short-term rental income to qualify
- Minimum DSCR 1.25
- Interest-only permitted
 - DSCR is program minimum as determined by individual loan characteristics plus .10
 - Qualify on ITIA
 - Inexperienced investors not permitted to qualify via short-term rental



Documentation Requirements



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Documentation

- Complete Application and Credit Package (See Delivery Checklist)
- 1-4 Family Rider
- Business Purpose Affidavit
- Interest-only Rider (if applicable)
- Interest-only Note (if applicable)
- Pre-payment Penalty Rider (if applicable)
- A clear OFAC check for all individuals with 25% or more ownership of the entity as confirmed by a current listing of ownership interests (if closing in LLC)



Gross Rent Documentation

- **Standard**

- **Purchase**

- 1007 or 1025 Comparable Rent Schedule survey reflecting long-term or short-term market rents

- **Lease**

- Must be fully executed by both the borrower/guarantor and an Eligible Tenant
 - The following would NOT be an Eligible Tenant:
 - Any affiliate of the borrower/guarantor
 - Any holder of a direct or indirect interest in borrower such affiliate, any office, director, executive employee, or manager of the borrowing entity
 - And any family member (spouse, siblings, ancestors, and lineal descendants)
 - Landlord is the borrower/guarantor or their verified property manager.
 - Rental rate and terms consistent with other properties in the area.
 - Lease agreement is a form that is standard to the property location and complies with all applicable legal requirements.
 - Covers 100% of the unit's square footage



Gross Rent Documentation

- **Short-Term Rental**

- **Purchase**

- 1007 or 1025 Comparable Rent Schedule survey reflecting long-term or short-term market rents
 - AIRDNA Rentalizer and Overview reports

- **Refinance**

- Most recent 12-month rental history statement from a third party rental management service not to exceed 125% of market rent.
 - Most recent 12-month bank statements from the borrower evidencing rental deposits not to exceed 125% of market rent.
 - If no rent received, use zero for that month.
 - Borrower must provide rental records for the subject property to support monthly deposits



Residential vs. Commercial Documents

Product	Standard Document Type	Interest Only Note (when applicable)	Business Purpose Affidavit	Personal Guaranty Agreement	Additional Riders Possibly Needed	Cash-out Explanation Required (may be combined w/ Business Purpose Affidavit)
DSCR	Residential Paper (FNMA/FHLMC) Standard DSCR only	Yes	Yes	Yes (if a business entity borrower)	IO, PPP, 1-4 Family Rider, Personal Guaranty	Yes, if natural borrower
DSCR	Commercial Paper	Yes	Yes	Yes (if a business entity borrower)	IO, PPP, 1-4 Family Rider,	Yes, if natural borrower



Resources and Training

LakeviewCorrespondent.com



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