

# DSCR Underwriting



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# Agenda

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- Define DSCR
- Review a Standard DSCR Calculation
- Review a Short-Term Rental Transaction
- Review a Cross-Collateralized transaction
- Navigate through resources
- Q&A



# Define DSCR



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# Our DSCR Product

- 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), Guarantor(s) or any family or affiliate of the borrower/guarantor.



# Product Benefits

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



# 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](mailto:Nonagency@silverhillcap.com) can be utilized for all **pre-close questions**, scenarios and Single Loan Variance (SLV) requests.
  - **Your assigned underwriter** can be utilized to answer your **post-closing, pre-purchase question** regarding loan status, suspense conditions, escalations and rebuttals.



# DSCR Standard Transaction



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# Program Details

- Investment properties only
- Delegated or non-delegated underwriting
- Minimum DSCR is **.75**
- 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), or **\$6.25 million** (Blanket)





# Eligible Borrowers

## Eligible

- Natural Borrower
- Legal Business Entities Including:
  - LLCs
  - LPs
  - Partnerships
  - Corporations
- 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
- All business entity loans require at least one full recourse warm body personal guaranty

## Ineligible

- 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 for at least twelve (12) months over the past 24 months



# Eligible Borrowers, continued

- An **inexperienced investor** is defined as:
  - Currently owns a primary residence for at least one year
  - Blanket mortgages not permitted
  - Borrowers not meeting the definition of an experienced investor are inexperienced; loans must meet the additional criteria:
    - Minimum DSCR of **1.0**
    - Maximum LTV **75%**
    - Minimum loan amount of **\$150,000** and maximum loan of **\$1 mil**



# 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
  - Liens and Judgements 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.
- Housing history requirements:
  - **1x30x12** between all disclosed mortgages.
  - Provide a 12-month history on the primary residence, whether they rent or own, and the subject property for all borrower/guarantor(s)
  - The mortgage history may be from the credit report, credit supplement or a third-party verification service. If the mortgage holder is a party to the transaction or relative of the borrower/guarantor, then cancelled checks or bank statements are required to verify a satisfactory mortgage history.



# 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
- If any loan was subject to a prior forbearance granted between 4/1/20 and 4/1/21, if such forbearance has been exited and all subsequent payments must have been made on time since the exit then such event will not be 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**





# 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

## Ineligible

- 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
- Third party valuation product is also required to support the value of the appraisal. The Seller is responsible for ordering. The following options are available
  - A CU score of 2.5 or lower
  - A Collateral Desktop Analysis ordered from Clear Capital
  - A CCA XP ordered from Consolidated Analytics
- If the CDA/CCA XP indicate a lower value than the appraised value that exceeds a 10% tolerance, the lower value of the two must be used

- **Second Appraisal Requirement:**

- Property Flips as defined in the product matrix
- For Loan amounts >\$2M



# Occupancy

- Cannot be occupied by any borrower/guarantor or any family or affiliate of the borrower/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 = one unit
  - Two-family = two units
  - Three-family = two units
  - Four-family = three units



# Reserve Requirements

- Reserves
  - 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

- LTV/LTC Restrictions
  - Reduce LTV by **10%** for non-warrantable condominiums
  - Reduce LTV by 5% for vacant/unleased properties
  - Maximum LTV/LTC of 75% for the inexperienced investor
  - Maximum LTV/LTC of 60% for Short Term Rentals



# Lease Requirements

- Must be fully executed by both the borrower/guarantor, or their verified property manager, and an Eligible Tenant.
- The following would **NOT** be an Eligible Tenant:
  - Entities (tenants must be natural persons)
  - 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.





# 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)**



# Standard Transaction Calculator

- Customer is refinancing a single unit property for \$220,000. Interest rate is 6.85%. The current lease rate is \$2,230.00 permonth.

Principal & Interest	Taxes	Insurance	HOA Fees	Total Payment
\$1,398.32	\$360.00	\$61.00	\$300.00	\$2,119.32





# Interest-Only Transaction Calculator

- Customer is purchasing a 2-unit property for \$525,000.00. The interest rate will be 5.87% and the customer is putting 20% down. Potential rent will be \$4,900.00 combined

Principal & Interest	Taxes	Insurance	HOA Fees	Total Payment
\$2,568.13	\$678.00	\$74.00	0	\$3,319.13



# Cross-Collateralized Transaction



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# Blanket/Multi-Property/Cross-Collateralized

- **Delegated underwrite only**
- Up to **25** properties combined into a single loan
- Minimum of **2** properties
- 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



# LTV/LTC Cross-Collateralized 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 if 25% or more properties fall into one of these categories:
    - Non-warrantable condos
    - Have an individual DSCRs between .75 and .99
    - Vacant Blanket transactions



# Cross-Collateralized Calculations

1. Determine rent from each property according to guidelines:
  - **Purchase:** Use Market rent
  - **Refinance/Cash-out:** Use lesser of lease or Market Rent
  - **Short term rentals:** Use average of 12 month's receipts
2. Determine monthly Taxes, Insurance and any applicable HOA fees (TIA) for each property
3. Gross TIA = the sum of all the properties' taxes, insurance, and any applicable HOA fees
4. Gross Rent = the sum of all rents
5. Calculate the Principal and Interest payment using the note rate
  - Interest-only loans must use fully amortized PITIA payment.
6. Add the principal and interest payment to the gross TIA to obtain the PITIA
7. DSCR Calculation =  $\text{Gross Rent} / \text{PITIA}$



# Short-Term Rental Transaction



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# 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 **OR**
- 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





# 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





# Short-Term Standard Transaction Calculator

- The investor is refinancing a single unit property for \$950,000 loan amount in Greer, AZ. The interest rate is 6.35%. The average short term rental income is \$10,200.00.

Principal & Interest	Taxes	Insurance	HOA Fees	Total Payment
\$5,911.24	\$1,719.00	\$98.00	\$530.00	\$8,569.36



# Short-Term I/O Transaction Calculator

- The investor is purchasing a short-term rental in Lake Placid for \$825,000. The interest rate will be 6.95%. Potential monthly rental earnings are \$8,943.00

Principal & Interest	Taxes	Insurance	HOA Fees	Total Payment
\$4,778.13	\$1,134.00	\$165.00	\$750.00	\$6,827.13



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# Questions?

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- Review program Highlights and Details
- Utilize the DSCR Calculator
- Navigate through resources
- Q&A

