

DSCR Underwriting

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Agenda

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



Correspondent Lending Structure



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Correspondent Lending



AGENCY PRODUCTS

-  FNMA/FHLMC
-  FHA
-  HFA/Affordable Lending
-  USDA
-  VA



NON-AGENCY PRODUCTS

-  Agency Investor Plus
-  Bank Statement
-  DSCR
-  Jumbo AUS
-  Jumbo ARMs
-  Conforming (2nd Home/NOO)
-  High LTV Medical Professionals



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Correspondent Lending

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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

Utilized for all pre-close questions and scenarios

nonagencyclientmgt@silverhillcap.com

Utilized to answer your post-closing, pre-purchase questions regarding loan status, suspense conditions, escalations and rebuttals.



DSCR Standard Transaction



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Program Details



Investment properties only



Maximum LTV/LTC is **80%**



Best Efforts & Bulk/Mandatory delivery options



30-year fixed



Minimum DSCR is **.75**



10-year **Interest Only** option available, calculated using ITIA payment



Minimum Fico is **660**



Minimum loan amount - **\$100,000**



Maximum Loan amount - **\$2,000,000** (Standard) - **\$2.5 million** (2-4 units), - **\$6.25 million** (Cross-collateralized)



Borrower Eligibility



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



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.



Borrower Eligibility, continued



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



An inexperienced investor is defined as:

- Currently owns a primary residence for at least one year
- Inexperienced borrowers must meet the additional criteria:
 - Minimum DSCR of 1.0
 - Maximum LTV 75%
 - Minimum loan amount of \$150,000 and maximum loan amount of \$1 million



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



Appraisal Requirements

- **Appraisals:**



- A full interior appraisal including appraisal reports completed under UAD version 3.6 and the redesigned Uniform Residential Appraisal Report (URAR)

- **Valuation Requirement:**



- **Collateral Desktop Analysis (CDA)**
from Clear Capital, or



- **Consolidated Collateral Analysis (CCA XP)**
from Consolidated Analytics, or



- **RicherValues Oversight Report**
or



- **Collateral Underwriter (CU)**
with a score of 2.5 or less in lieu of a CDA, CCA XP, or RicherValues Oversight

- **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 borrowers or guarantor or their immediate family



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: 6 months PITIA for subject property



DSCR $<$ 1.0: 9 months PITIA for subject property



Inexperienced Investor: Minimum 12 months PITIA for subject property



Simultaneous Closings: Total reserve requirements are cumulative and are the sum of the minimum reserve requirements for each closed loan



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



Standard Loan Restrictions

- 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



Gross Rent Documentation



STANDARD PURCHASE

- A full interior appraisal including appraisal reports completed under UAD version 3.6 and the redesigned Uniform Residential Appraisal Report (URAR)



STANDARD LEASE

- Must be fully executed by both the borrower/guarantor and an Eligible Tenant
- 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.
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- Covers 100% of the unit's square footage



INELIGIBLE TENANTS

- Any affiliate of the borrower In/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)



Calculating the DSCR



- **DSCR is calculated as the gross rents divided by PITIA** (Principal, Interest, Taxes, Insurance, Association)
 - 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

Standard Transaction Calculator



Customer is refinancing a **single unit** property for \$220,000

- Interest Rate: 6.85%
- Current Lease Rate: \$2,230.00
- Appraised Value: \$310,000

 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 refinancing a **two-unit** property for **\$525,000.00**

- Interest Rate: **5.87%**
- Potential Lease Rate: **\$4,900.00**
- Appraised Value: **\$525,000.00**
- Downpayment: **20%** (\$420,000.00)

 Interest Only	 Taxes	 Insurance	 HOA Fees	 Total Payment
\$1,398.32	\$678.00	\$74.00	0	\$3,319.13



Short-Term Rental Transaction



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Gross Rent Documentation



SHORT-TERM RENTAL – PURCHASE

- A full interior appraisal including appraisal reports completed under UAD version 3.6 and the redesigned Uniform Residential Appraisal Report (URAR)
- AIRDNA Rentalizer and Overview reports



SHORT-TERM RENTAL – 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



Short Term Rentals Calculations



- **DSCR Calculation**

- Monthly gross rent (as determined by transaction type) 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 (Cross-collateralized) transactions using short-term rental income to qualify
- Minimum DSCR 1.25
- Interest-only permitted
 - DSCR 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 Rental Transaction



Customer is refinancing a **single unit** property for \$950,000.00

- Interest Rate: 6.35%
- Average Rent: \$13,500.00
- Appraised Value: \$1,700,000.00

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



Cross-Collateralized Transaction



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Cross-collateralized



Inexperienced investors are not permitted



Partial releases are permitted



Up to 25 properties combined into a single loan



Maximum loan amount of \$6,250,000



Minimum of 2 properties



Minimum asset value of \$100,000 for each property included in blanket



Minimum 1.0 DSCR



Maximum asset value of \$1.5M per unit for each property included



Maximum 60% LTV for blanket loans considered to be short-term rentals



10% LTV reduction applicable with below characteristics:

- 25% or more properties are non-warrantable condos
- 25% or more properties have an individual DSCR of .75-.99
- 25% or more properties are vacant



Cross-Collateralized Example

Property	Rent	Taxes	Insruance	HOA Fees
12 Smith Drive	1000	500	30	125
14 Smith Drive	1000	500	30	125
1821 Red Lane	1250	650	60	
191 Elm Street	1100	650	60	350
Total	4350	2300	180	600

- Gross Rent = \$4,350
- Principal and Interest = \$508
- Gross Taxes, Insruance and HOA fees = \$3,080
- PITIA = \$3,58

DSCR = Gross Rent / Gross PITIA

\$4,350/\$3,588



Resources and Training



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Questions?



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