

## Synopsis

This product allows investors to qualify for the loan based on the subject property Debt Service Coverage Ratio (DSCR) rather than traditional income verifications and DTI (Debt to Income) calculations. This document is intended as a general guide, is not all inclusive, and provides basic product parameters. For items not otherwise addressed in this product description, refer to the PHH Selling Guide or FNMA guidelines, as applicable.

### Key Attributes at a Glance

Target Market	DSCR loans allow the borrower to qualify for a loan based on the cash flow generated from the investment property.
Documentation:	DSCR
Occupancy:	Investment
Condo:	Warrantable Condos: Max 75% LTV/CLTV
Non-Warr Condo:	Max 75% LTV/CLTV
Min/Max Loan Amt:	Non-Delegated: \$125k - \$2MM Delegated: \$125k - \$1MM* (up to \$3MM with approval)
LTV Maximum:	80%
Minimum FICO	660
Sub Financing:	Not permitted
Prepayment Penalty:	Permitted on Investment Properties only

### Product Codes:

Products			
Description	Amortization Term	Interest Only Period	Product Code
Non-Agency Silver 30 Yr. Fixed- DSCR	360 months	N/A	DSCR30S
Non-Agency Silver 15 Yr. Fixed - DSCR	180 months	N/A	DSCR15S
Non-Agency Silver 5/6 ARM - DSCR	360 months	N/A	DSCR56ARMS
Non-Agency Silver 7/6 ARM - DSCR	360 months	N/A	DSCR76ARMS
Non-Agency Silver 10/6 ARM - DSCR	360 months	N/A	DSCR106ARMS

<sup>1</sup>Permitted when the ratio is either 1.0 or .75

Refer to the PHH Seller Guide for questions not addressed in this product description.

## Loan-To-Value Grid

FICO & LTV Grids		DSCR $\geq$ 1.00			DSCR $\geq$ .75			No Ratio DSCR		
FICO	Loan Amt	Purchase	Rate/Term	Cash-Out	Purchase	Rate/Term	Cash-Out	Purchase	Rate/Term	Cash-Out
740	$\leq$ \$1.0 mm	80	80	75	75	75	70	75	75	65
	$\leq$ \$1.5 mm	75	75	70	70	60	65	70	70	60
	$\leq$ \$2.0 mm	75	75	60	65	65	60	65	65	60
720	$\leq$ \$1.0 mm	80	80	75	75	75	70	70	70	60
	$\leq$ \$1.5 mm	75	75	70	70	70	65	65	65	60
	$\leq$ \$2.0 mm	75	75	60	65	65	N/A	N/A	N/A	N/A
700	$\leq$ \$1.0 mm	75	75	70	75	75	65	65	65	60
	$\leq$ \$1.5 mm	75	75	70	70	70	65	65	65	60
	$\leq$ \$2.0 mm	70	70	60	65	65	N/A	N/A	N/A	N/A
680	$\leq$ \$1.0 mm	75	75	65	70	70	60	65	60	60
	$\leq$ \$1.5 mm	70	70	60	N/A	N/A	N/A	N/A	N/A	N/A
	$\leq$ \$2.0 mm	65	65	N/A	N/A	N/A	N/A	N/A	N/A	N/A
660	$\leq$ \$1.0 mm	70	70	65	60	60	60	60	60	60
	$\leq$ \$1.5 mm	65	65	60	N/A	N/A	N/A	N/A	N/A	N/A
	$\leq$ \$2.0 mm	60	60	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Refer to the PHH Seller Guide for questions not addressed in this product description.

## Table of Contents

1. [Appraisal](#)
2. [ARM Data](#)
3. [Assumability](#)
4. [Borrower Eligibility](#)
5. [Buydowns](#)
6. [Ineligible](#)
7. [Cash Out](#)
8. [Construction to Permanent Financing](#)
9. [Credit Considerations](#)
10. [Declining Market Considerations](#)
11. [Down Payment / Source of Funds](#)
12. [DCSR Ratio](#)
13. [Employment and Income](#)
14. [Escrow Waiver](#)
15. [Geographic Restrictions](#)
16. [Hazard Insurance](#)
17. [Ineligible Transactions](#)
18. [Interested Party Contributions](#)
19. [Limited Partnership, General Partnership, Corporations, and Limited Liability Companies](#)
20. [Loan to Value Calculation and Seasoning](#)
21. [Mortgage Insurance](#)
22. [Power of Attorney](#)
23. [Prepayment Penalties](#)
24. [Professional Investors](#)
25. [Property Types & Features](#)
26. [Reserves](#)
27. [Rural Properties](#)
28. [Subordinate Financing](#)
29. [Underwriting and Closing](#)

Refer to the PHH Seller Guide for questions not addressed in this product description.

## Appraisal

- Appraisals are good for 120 days and may be recertified for up to 180 days.
- Two appraisals are required when the loan amount exceeds \$2,000,000 or the loan is a HPML (Higher Priced Mortgage Loans) Flip transaction as defined by the CFPB.
- Appraisals with condition or quality rating of C5 or C6 will not be accepted
- Form 1007 Schedule of Rents is required for all Non-Owner-Occupied loans on Single Family residences
- For 2-4 Unit Properties a FNMA 1025 Small Residential Income Property Appraisal Report is required
  - Collateral Underwriter (CU) may be utilized as a secondary valuation if the score is  $\leq 2.5$
  - Value must be within 10% of the appraisal or sales price – LTVs > 85% must be within 5%
  - Desk review is not required for loans with 2 appraisals

## ARM Data

<b>Index</b>	30 Day Average SOFR Index as published by the NY Federal Reserve
<b>Margin</b>	5.0%
<b>Floor</b>	The floor is equal to the loan's initial margin (5%)
<b>Periodic and Life Cap</b>	5/6 - 2/1/5 7/6 and 10/6 - 5/1/5
<b>Payment Adjustment Date</b>	6 months
<b>ARM Qualifying Rate</b>	Note Rate

## Assumability

- Loans are not assumable.

## Borrower Eligibility

### Allowed

- U.S. Citizens
- Permanent Resident Aliens
- Non- Permanent Resident Aliens – Purchase/Rate Term Refinances Only, Max 80% LTV/CLTV
- Inter Vivos Revocable Trust (must meet FNMA requirements)
- Limited Partnership, General Partnerships, Corporations, Limited Liability Companies (LLC's)

### Not Allowed

- Irrevocable or Blind Trusts
- Foreign Nationals
- Land Trusts
- Borrowers with diplomatic immunity
- DACA & asylum applicants
- Self-employed Borrower deriving their income from any Cannabis related business
- Borrower(s) with residence of any country not permitted to conduct business with U.S. Companies as determined by U.S. Government authority

Refer to the PHH Seller Guide for questions not addressed in this product description.

**Multiple Financed Properties**

- The maximum number of financed properties to any one borrower is limited to 20 residential properties
- Maximum exposure is limited to \$7.5 Million in unpaid principal balance, or 10 properties

Eligible Borrowers	Required Documents	Notes
Permanent Resident Aliens	Alien Registration Card I-151 "Green Card" OR	Front/Back
	Alien Registration Card I-551 with no expiration OR	Front/Back
	Alien Registration Card I-551 with expiration and accompanied by INS Form I-751 (petition to remove conditions)	Front/Back
Non-Permanent Aliens	Unexpired Foreign Passport with an unexpired stamp (Valid for 3 years) <sup>1</sup> AND	
	Evidence of Employment in the U.S. included an EAD document <sup>2</sup> OR	
	Non-Immigrant VISA - Following are acceptable: E-Series (E-1, E-2, E-3, EB-5), G-Series (G-1 through G-5), H-1B, L-1, NATO, O-1, R-1, TN (NAFTA)R-1 <sup>3</sup>	
<ol style="list-style-type: none"> <li>1. Stamp must state the following: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence, Valid until MM/DD/YYYY Employment Authorized."</li> <li>2. Employment Authorization Document must be issued by the U.S. Citizenship &amp; Immigration Service providing authorization to work in the U.S. without restrictions.</li> <li>3. An unexpired (at time of closing) Non-immigrant Visa with an Entry Stamp issued by the U.S. Department of State which will evidence legal entry into the U.S. for temporary residence. Visa must not expire for 3 years following the close date. Please see FNMA Guides for acceptable VISAs.</li> </ol>		

**Buydowns**

Ineligible

**Cash Out**

Allowed on refinance loans if the borrower has owned the subject property 12+ months and the cash out is for business purposes only.

- LTV > 60%      \$500,000 (Maximum Cash Out)
- LTV <= 60%      Unlimited Cash Out

Cash out proceeds on a refinance loan are allowed with the following requirements:

- Borrower must have owned the subject property 12+ months using date of original acquisition and subject loan note date for timing
- Cash out is for business purposes only and the borrower must provide an LOE detailing the purpose and the use of the proceeds
- Net proceeds from the cash-out transaction may be used to meet the reserve requirements.
- Borrower must sign both the *Business Purpose and Occupancy Affidavit and Occupancy Certification*

Refer to the PHH Seller Guide for questions not addressed in this product description.

## Construction to Permanent Financing

- Refer to guidelines on requirements in determining transaction eligibility.
- Delayed Financing is available

## Credit Considerations

For DSCR, a credit report or VOM/VOR is required on the subject property (if a refinance) and the borrower’s primary residence only.

- All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify the account is current.
  - This includes loans qualifying through DSCR even if the account showing the delinquency is not the subject or primary residence.

Credit scores – A minimum of 2 credit scores are required to be provided and used to determine the qualifying credit score for loan approval. Methodology of which FICO score to use is as follows:

# of Borrowers	# of Scores per Borrower	Methodology
1	2 or 3	Lower of 2 or the Middle of 3 FICO scores
2 or more	2 or 3	When 2 scores are obtained, choose the lower score. When 3 scores are obtained, choose the middle score. (the lowest score of that result is the representative score)

- In cases of equal ownership percentage, use the lower of the two scores.
- Use highest percentage of ownership score for qualifying – even if lower.
- Highest percentage ownership must have a valid score from at least 2 of the credit bureaus.
- If ownership percentage is unknown, the lower score must be used for qualifying.

### Other credit requirements:

- The maximum age of the credit report is 120 days. The age of the document is measured from the date of the document to the date of the Note.
- Must document that all mortgages are current within 15 calendar days prior to the Note date.
- Minimum 12 months of housing payments required, with maximum delinquency of 1x30. A VOM/VOR is required for all the borrower’s outstanding mortgages or rent paid. (Housing history verified on subject property and borrower primary only)
- Tradelines
  - 3 open and active for  $\geq 12$  months **OR**
  - 2 open and active for  $\geq 24$  months **OR**
  - Authorized User accounts will not be counted toward the tradeline requirement when another borrower on the subject transaction is the owner of the tradeline, the borrower is an authorized user on a spouse’s tradeline, or when the borrower can provide proof, they are the actual and sole payer on the tradeline for the most recent 12 months.
- Bankruptcy, Foreclosure, Short Sale, or Deed-in Lieu significant derogatory credit events must be seasoned 36 months.
- Forbearance, deferred payments, or modifications – Not Allowed
- Open Judgements, Garnishments, or Liens – must be paid off prior to closing
- Credit Counseling – allowed with restrictions. Must have a minimum of 12 months elapsed on the plan. See PHH Selling Guide for additional requirements.
- Collection accounts and charge offs must be paid in some circumstances. Refer to the PHH Selling Guide.
- Past due accounts must be brought current
- A written explanation for credit inquiries is not required

Refer to the PHH Seller Guide for questions not addressed in this product description.

## Declining Market Considerations

If the property is in a declining market - 5% LTV reduction.

## Down Payment / Source of Funds

- Borrower's own funds of at least 10% must be verified
- See PHH Selling Guide for list of eligible assets
- Gift funds – Purchase transactions only
  - Must be from a family member
  - Can be used to pay off debt
  - May not be counted towards reserves.
- Gift of Equity – not allowed
- Trade Equity – not allowed
- Down Payment Assistance, Employer Assistance and/or grant programs are not allowed

## DSCR Ratio

Calculated as: Gross Rent/PITIA

- Allowable Ratios on amortizing Loans:
  - 1.0
  - .75
  - No Ratio
- DSCR Loans will be qualified at original Note Rate, regardless of ARM or Fixed Rate
- $DSCR = \text{Gross Rental Income} / \text{PITIA}$
- Gross Income will be calculated using the lower of the executed lease agreement or market rent from applicable appraisal
- If executed lease agreement reflects a higher monthly rent than appraisal it may be used in the calculation with sufficient evidence of receipt. Three most recent, consecutive months should be provided.
- Vacant properties are not eligible for refinance.
- Any loan where Cash Out proceeds would be used for personal use will not be eligible.
- Short term rental income /Airbnb income will be eligible for the DSCR Plus Program
  - Max 70% CLTV & Minimum 1.00x DSCR
  - Permitted for both purchase and refinance transactions
  - Gross rent to be determined by the lower of the market rent disclosed on the appraisal or 12-month short term rental history
  - Short term rental history to be verified from a third-party property management provider. Information must contain property address/ID specific to the subject

## Employment and Income

- Salaried/wage earners can provide an employment letter on company letterhead signed by an authorized representative of the company. This letter should contain the date, company address, position, and amount of time the borrower has been employed. An FNMA for 1005 could also be utilized.
- Self-employed Borrowers/Guarantors can provide a letter from their Tax Professional certifying a minimum of two years business experience. This letter should contain the Accountant or Tax Preparer's name, address, phone number, and license

Refer to the PHH Seller Guide for questions not addressed in this product description.

information.

## Escrow Waiver

Mandatory escrows for all HPMLs (Higher Priced Mortgage Loans)

## Geographic Restrictions

All 50 States, including District of Columbia are eligible.

Ineligible US commonwealth and territories include Puerto Rico, Guam, American Samoa, Northern Marina Islands, and the U.S. Virgin Islands.

## Hazard Insurance

### Deductibles:

1-4 Unit residences. The higher of:

- \$1,000; or
- 5% of the face amount of the policy.
- If there is a separate wind-loss endorsement, then the deductible will increase to \$2,000 or 2% of the face amount of the policy.
- Condo and PUDs – The maximum deductible amount for policies covering the common elements must be no greater than 5% of the face amount of the policy
- For losses related to an individual unit in a PUD that is covered by a blanket policy; the maximum deductible is no greater than 5% of the face amount of the policy.
- For Condos with blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

### Other Requirements:

- Property Insurance Minimum Rating standards – Must meet Agency requirements
- A Loss Payable Endorsement is required on all loan transactions
- Rent loss insurance for the subject property is required and must equal at least 6 months of local average monthly rents

## Ineligible Transactions

- High-Cost loans
- Assumable
- Construction to Perm
- Temporary Buydowns
- Builder Bailout
- Conversion Loans
- Lease Options/Rent to Own
- Non-Arm's Length Transactions
- Land Contracts
- Assignments of the contract to another buyer
- Properties that have been listed for sale within the past 6 months from the loan application date are not eligible for a rate/term refinance or cash-out transaction.
- No Graduated Payment Mortgage Loan
- Work escrows are not permitted

Refer to the PHH Seller Guide for questions not addressed in this product description.



- No mortgage Loans financing builder inventory is permitted
- No Ground leases, No Buydown Mortgage Loans, No Pledged Asset Loan
- No Convertible Mortgage Loan- allows ARM to convert to a Fixed Rate Mortgage
- Periodic Payment- Loans must have periodic payments due and loans can't have more than 3 monthly payments paid in advance from the proceeds of the mortgage.

## Interested Party Contributions

LTV	Max Percentage
LTV/CLTV >= 80%	3%
LTV/CLTV < 80%	6%

## Limited Partnership, General Partnership, Corporations, and Limited Liability Companies

- Properties vested in any of the these are limited to Investment and Business Purpose.
- Additional Requirements:
  - LLC – purpose is for ownership and management of real estate
  - Maximum of 4 borrowers
  - Guarantor must be a manager or majority owner (25% or greater) and is subject to the same underwriting requirements as an individual borrower
  - Personal Guaranty required if the note is not being signed individually and all disclosures must be signed
  - Mortgage/Deed of Trust, Security instrument should be signed by all members of the LLC

## Loan to Value Calculation and Seasoning

- On a purchase transaction the seller must have owned the property for at least 6 months to not be considered a flip transaction
- Regarding Cash out transactions, anything seasoned less than 12 months will be considered a cash-out regardless of whether cash is received in the subsequent refinancing

## Mortgage Insurance

Not Applicable

## Power of Attorney

- Limited Power of Attorney is eligible but must be specific to the transaction, contains an expiration date, and the initial 1003 is signed by the borrower executing the POA
- Power of Attorney is not eligible for cash out transactions

## Prepayment Penalties

Permitted on investment property loans only. PHH will not purchase loans with prepayment penalties in the following states. All other loans with a prepayment penalty must comply with applicable federal and state laws.

- Alaska, Kansas, Maryland, Minnesota, New Mexico, North Dakota
- Illinois prohibits individual borrowers. Permitted to legal entities when APR is =<8%
- New Jersey prohibits individual borrowers. Permitted to legal entities
- Ohio loan amounts ≤\$110,223 (for 2024) are not eligible, loan amounts > \$110,223 allow a flat prepayment penalty up to 5

Refer to the PHH Seller Guide for questions not addressed in this product description.

- years and equal to 1% or less of the original principal amount
- Pennsylvania loan amounts >\$312,159 (for 2024)
  - Loan amounts =<\$312,159 permitted only on 3- or 4-unit properties
- Washington ARM loans. Permitted on Fixed rate loans
- Oregon – requires state specific disclosure in addition to the Note and SI Rider
- Michigan – 3-year prepayment penalty 1/1/1 % of amount of the prepayment
- Mississippi – 5-year maximum declining prepayment penalty structure is allowed
- Rhode Island – 1 year Prepayment Penalty, 2% of the balance due

Prepayment Structure – allowable 1-to-5-year prepayment types as permitted by applicable state and federal laws.

- 6 months interest allowed on amount of prepayment above 20% of the origination loan amount in any 12-month period
- Step Down Prepay Structure or Flat Prepay Structure

## Professional Investors

- This product is for eligible Professional Investors only
- Professional Investors must have at least twelve months of experience managing or owning income-producing real estate over the last 5 years
  - First Time Investors are allowed provided that the DSCR is >1.0 and the FICO is >700 with no allowed exceptions
  - First Time Investors may not also be First Time Homebuyers
- A Letter of Explanation by the Borrower/Guarantor is required to detail relevant real estate experience

## Property Types & Features

### Allowed

- One Unit Single Family Residences (Attached, Detached and Modular)
- Single Family properties with an Accessory Unit Dwelling (must meet FNMA requirements)
- 2-4 Unit Properties – Max 75% LTV
- PUDs – Attached and Detached
- Townhouses
- Leasehold Properties
- Warrantable Condominium - Max 75% LTV
- Non-Warrantable Condominiums – Max 75% LTV; Must be submitted to the investor for review
- Maximum of 20 acres
- Short Term Rental Income/Air BnB – Max 70 LTV/CLTV & Min 1.00 DSCR

### Not Allowed (list is not all-inclusive)

- Vacant Properties for refinance (exception is permissible if the property has undergone recent renovation or rehab and will be rented out soon). Must provide via the appraiser confirmation of the recent work completed and visual evidence.
- Manufactured Homes
- Cooperatives
- Log Homes
- Condotels
- Condominium projects with registration services or restrictions on owner's ability to occupy
- Unique Properties (Geodesic Homes, Houseboats, Live

Refer to the PHH Seller Guide for questions not addressed in this product description.

- Mixed Use Properties
- Properties under Construction
- Builder Model Leaseback
- Rural Investment Properties
- Group Homes
- Multiple dwellings on a single lot
- Working Farms
- Live/Work Condos
- Houseboats
- Geodesic Domes
- Earth Berm Homes
- Homes on Native American Land
- Properties used for the cultivation, distribution, manufacture, or sale of Marijuana

## Reserves

- Reserves are calculated off actual P&I (Principal & Interest) payment plus taxes, insurance, and HOA fees (PITIA)

<u>Loan amounts</u>	<u>Required Reserves</u>
\$125,000 - \$500,000	3 months
\$500,001 - \$2,000,000	6 months
Additional Financed Properties	None
Cash out used as reserves	Allowable

## Rural Properties

Not permitted

## Subordinate Financing

Not permitted.

## Underwriting and Closing

All loans must be manually underwritten

The origination file must contain a 1-4 Family Rider/Assignment of Rents (FNMA Form 3170)

### Chain of Title

- Title policy must include a minimum of six months' history of property ownership from the effective date of the policy or preliminary report. All transfers of title within the last six-month period must be disclosed and fully investigated. Property flips are subject to additional restrictions.

### Documents

- The following forms are required and can be found in the PHH Selling Guide.
  - Borrower Ability to Repay Attestation
  - Business Purpose & Occupancy Affidavit
  - Condo questionnaire (full)
  - Condo questionnaire (limited review)

Refer to the PHH Seller Guide for questions not addressed in this product description.

- DSCR calculation worksheet or other evidence to support the DSCR calculation
- Personal Guaranty Agreement (personal recourse required for all entity members, no additional borrowers are allowed to join an entity on title or on the subject loan)

**Refer to the PHH Seller Guide for questions not addressed in this product description.**