No-doc Rental Property Loans eBook

Investment Property Loan Solution

Table of Contents

Part 1: What are No-doc Rental Loans, and Who are They for?

Traditional mortgage loans usually aren't a great fit for real estate investors — especially those whose earnings stem wholly from rental properties.

For one, these loans require income and employment documentation — something typically hard to come by for most rental property investors. On top of this? They also call for tax returns, which, in many cases, don't reflect an investor's true financial situation.

Since most investors take plenty of business-related deductions and write-offs, they minimize their reported income, making it significantly harder to qualify for a loan — particularly the sizable ones needed to purchase a property in today's red-hot housing market.

Fortunately, these traditional loans aren't the only option anymore, and investors now have access to "no-doc" rental loans — mortgages that don't require income or employment documentation and are instead asset-based loans. They're specifically meant for non-traditional earners like real estate investors.

Why are no-doc investment property loans great?

No-doc loans are a good option for investors because they don't base your qualifications on tax returns, pay stubs, W-2s, or any other documentation. Instead, the focus is on the property's cash flow — meaning the difference between the property's income and its expenses.

This is referred to as a debt service coverage ratio, or DSCR. We'll go more into DSCR later, but just know this: Qualifying using DSCR is much easier for an investor than qualifying with stated income. It can mean lower interest rates, too.

What can no-doc rental property loans be used for?

Investors can use no-doc mortgage loans both when purchasing a new property or refinancing an existing one.

You might consider refinancing using one of these loans if:

- **You need additional monthly cash flow.** By refinancing, you could lower your interest rate and reduce your monthly payment, thereby freeing up cash flow.
- **You need a sizable chunk of cash to cover an expense**. You can also use no-doc loans for cash-out refinancing, which allows you to tap the equity in one of your properties and turn it into cash. This can help you cover a big repair on the property or just go toward marketing and maintenance costs.
- **You want to buy a new property**. You can also use cash-out refinancing to generate funds (i.e., down payment and closing costs) for your next investment.

Keep in mind: If you end up using the loan to fund repairs or home improvements at the property, you might be able to write off the interest on your annual tax returns. Talk to your tax advisor if this is something you're interested in pursuing (you have to itemize your returns).

No-doc investment property loans: The details

No-doc rental property loans are surprisingly flexible. There are several rate types, terms, and eligible property types you can choose from.

Here's what you need to know about these mortgages:

- **Terms**: 30-year fixed -ate, 40-year fixed-rate/interest-only (10-year interest-only period), 7/6 and 10/6 adjustable-rate mortgages.
- **Property types**: Single-family homes, townhomes, condominiums, and multifamily properties with one to four units.
- **Loan amounts**: $250,000 to $5 million

You will also need cash reserves on hand. While the exact amount you'll need varies, the minimum is at least two months. Reserve requirements are typically higher on cash-out refinance loans.

Part 2: How to Qualify for a No-doc Rental Property Loan

Your DSCR, or debt service coverage ratio, is the key to qualifying for a do-doc rental property loan. It essentially allows you to qualify based on the cash flow of your property and its market rent (as determined by an appraisal).

Here's how DSCR works: The debt service coverage ratio is the ratio of income derived from a property (i.e., rental income) to debt servicing, which includes your principal and interest payments, property taxes, and insurance (also known as PITI). HOA dues are also included when appropriate. The exact equation for DSCR is:

Rents / PITI + HOA dues = DSCR

To qualify for a no-doc rental loan, you'll want your DSCR to be 1.1. or greater — in other words, your rental income can sufficiently cover the new monthly PITI.

Here's an example: Say your rental income is $5,000 per month, and your new payment, taxes, insurance, and HOA dues total up to $4,000. In this case, your DSCR would look like this:

$5,000 (rents) / $4,000 (PITI) = 1.25 DSCR

In this scenario, you'd have a DSCR well above 1.1, thereby qualifying you for your no-doc loan.

What is a no-DSCR loan?

If your DSCR is low, meaning your rents won't cover your payments, don't fret. With the current hot real estate market, many times, rents have not yet caught up to property values. If this is the case in your scenario, your DSCR may be lower than 1.

Fortunately, you can still qualify for a no-doc loan without a DSCR — or your rental income. To do so, you will just need a minimum credit score of 700 and a 25% down payment. You will also be limited to a 75% loan-to-value ratio. If your credit score is at least 680, then you can still qualify for a No DSCR loan; however, you'll need at least 30% down and will be limited to a 70% loan-to-value ratio.

What are rates like on no-doc rental loans?

Interest rates on these loans depend on a number of factors, including the type of transaction (purchase vs. refinance), the loan-to-value ratio, and your credit score.

Generally speaking, the highest interest rates go to cash-out refinances and borrowers with small down payments and low credit scores. If you have a low DSCR, you'll also get a higher interest rate — usually about 25 points higher (the difference between a 4% rate and a 4.25% one).

The best rates are reserved for borrowers with high credit scores (720 and above), large down payments, or low loan-to-value ratios.

Part 3: Buying a Home with a No-doc Rental Property Loan

No-doc loans can be a great way to purchase new rental properties. The biggest advantage of buying a new rental property with this type of financing is that no tax returns or income documentation are necessary to qualify.

Additionally, no lease is required either. Instead, the lender will order an appraisal to determine the home's market rent, which will then be used to calculate the property's DSCR. You'll then be able to qualify for the loan on that basis, rather than a signed lease — something often required of traditional rental property loans.

If rents in your area have not caught up to the property's value — a common occurrence in hot housing markets, then you can use a no-DSCR, no-doc rental loan to buy the home. This requires at least a 700 credit score and a 25% down payment. You may be able to use a no-doc, no-DSCR loan with a score as low as 680, but a 30% down payment will be required.

Don't forget: In addition to your down payment, you will also need upfront cash for closing costs. Your mortgage professional will advise you on the amount of money you'll need to cover these, as well as how much you'll need in reserves for your loan. The exact amount of reserves varies from lender to lender, but in most cases, it's at least six months of principal, interest, and tax payments. Some lenders may require more if you have other financed properties to your name.

Three steps toward approval

The no-doc rental property loan is meant to offer a hassle-free, efficient mortgage process for investors. After you fill out your application, it requires just three simple steps.

These include:

1. **Credit check:** This is when the lender pulls your credit and verifies your score and history. The minimum score you'll need depends on your down payment and other factors.
2. **Liquid asset verification:** Your lender will need proof of your cash reserves (bank statements, IRA statements, etc.) The loan officer will tell you the exact documents needed when you apply.
3. **Appraisal:** Your lender will order an appraisal to calculate market rent, which will then be used to find your DSCR. This is what your qualification will be based on.

Choosing a great property can help increase your chances of getting a no-doc rental loan, so make sure you're buying a home in an in-demand market, where rents and property values are rising. If you need help, reach out to a real estate agent in your area — ideally one with deep investment experience.

Where to get a no-doc rental property loan

If you're considering a no-doc rental or your new investment purchase, you'll want to seek out a mortgage professional that specializes in this type of financing. For one, these programs are not available through every lender or bank. Additionally, specialized lenders will have access to the widest variety of investment-focused loans — not to mention the best rates and most flexibility.

They can also help you pinpoint the best financing route for your unique scenario. They'll analyze your personal needs, factor in your budget, calculate rental income and debt-service-coverage ratios, and use their experience to ensure the highest chance of success with your property purchase. They can even review your rental strategy to ensure you're making the right move for your business (like traditional rentals versus vacation rentals, for example).

Part 4: Why Refinance with a No-doc Rental Property Loan?

If you already own a rental property, then you can use a no-doc loan to refinance it. This can be a smart move in several situations — particularly in today's low-rate environment.

You might want to consider a no-doc refinance when:

1. You want a lower rate, monthly payment, or both.
2. You want to change your loan term to reduce your monthly payment or pay off the loan faster.
3. You need more cash flow to support your business.
4. You need cash to put toward a new investment property.
5. You need money to repair or improve your rental.

In the last two scenarios, you'd opt for a no-doc, cash-out refinance. These allow you to tap your current rental property's equity for a lump sum, which you can then use however you'd like. Many investors use the funds to improve their rental property (and potentially increase the rent it can command) or as a down payment for additional properties.

With the current no-doc loan program, *you can do a cash-out refinance as early as three months after acquiring the property.* The big advantage here is a no-doc rental loan will allow the use of the new appraised value over the original purchase price for value of the property. This is a great feature when real estate investors buy property under market value and/or have rehabbed the property, increasing its value. By using the new appraised property value investors can take advantage of leveraging the maximum cash-out for future investments.

How a no-doc refinance works

No-doc refinances work similarly to no-doc purchase loans. Your lender will order an appraisal to determine the property's value and fair market rent. This is then used to calculate your DSCR and qualify you for the loan. With a rate-and-term refinance, you're limited to 80% of your property's value.

With a cash-out refinance, you'll simply need to qualify for a loan larger than your current loan balance. If your current loan has a $150,000 balance, for example, you'd want to refinance into a larger one — maybe $175,000, and then take the difference ($25,000) to use how you need.

Keep in mind that the exact amount you can qualify for will depend on the equity you have in the property, your market rents, and your DSCR. Your loan officer can help you calculate how much you might be eligible to tap. The maximum loan-to-value ratio for a cash-out refinance is 75% of the property's current appraised value.

No-doc refinances — both rate-and-term and cash-out — come with quick and easy application processes. With our fast close program, 30-day closings (or faster) are guaranteed.

What if the appraised rents come in low?

Sometimes, the appraisal may determine that your property’s market rent is lower than what it’s currently commanding. If this is the case, it’s an easy fix. You’ll simply need to provide evidence that you received those higher rents for the last three months consistently. This can come in the form of bank deposit receipts, copies of cashed checks, bank statements, etc.

Once you can show the lender the higher rents your property brings in, they can then use those numbers when determining your DSCR and evaluating your application. Generally speaking, the higher your rents are, the easier it will be to qualify for a no-doc rental property loan — particularly a cash-out refinance.

Part 5: Tips for Success

No-doc rental property loans are meant to be simple, efficient tools for real estate investors — but that doesn’t mean everyone will qualify.

Want to make sure you have the best shot at success at purchasing or refinancing your rental? Then heed these four strategies:

1. Choose your property wisely.

Thorough research is critical before you buy a property — both to ensure you’re making a wise investment decision and to improve your chances at getting a loan. In that research, you should include a rental market analysis (RMA), which will help you assess whether or not a specific area would be good for rental property investment. You should also look at average rents and sale prices in the neighborhood. Are they trending upward? This can indicate an in-demand market and a smart investment.

If you need assistance, your best bet is to work with an investment-focused real estate agent in your area. They can help you pinpoint properties with the most potential and give you guidance on market rents in the region.

2. Prep your credit.

A great credit score is one of the best ways to improve your shot at a loan — no-doc or otherwise. It can also qualify you for lower interest rates, which means both a smaller monthly payment and fewer expenses in the long haul.

As you gear up to apply for your rental property loan, take time to prep your credit. Reduce debts as much as possible, keep paying your bills on time, and settle any overdue accounts or balances. You can also pull your credit report and alert the bureau of any errors you find. This can often improve your score considerably.

3. Gather proof of assets early.

You won't need W-2s, income taxes, or other common documentation for these loans, but you will need to prove your liquid assets. This can come by way of bank statements, retirement account statements, or other paperwork and varies depending on your situation and source of funds.

Make sure to talk to your loan officer about what type of documents you'll need to verify your assets and cash reserves. The earlier you can pull them together, the faster and more efficient your loan process will be.

4. Have proof of rents ready.

If you're refinancing a rental property using a no-doc loan, make sure you have proof of your recent paid rents ready. In the event the home appraises for a market rent lower than what you're currently charging, you'll need documentation proving otherwise.

If you can show your lender your property commands higher rents, it will make qualifying for the loan easier and, potentially, even allow you to borrow more. This can be particularly helpful in cash-out scenarios.

Be prepared for prepayment penalties

Before you sign on the dotted line for your no-doc loan, make sure to read the fine print. Most rental property loans are designed for long-term financing, so many come with prepayment penalties. This means you'll owe a fee should you pay off the loan before a certain period of time — typically about three years after closing.

The bottom line

Rental properties can be a great investment strategy, offering both passive and income streams depending on how you can approach it. Now, with no-doc loans like those at HomeLife, the process isn't daunting, riddled with red tape, or costly, either.

Want to learn more about purchasing or refinancing a rental property without tedious documentation or tax returns? Get in touch with HomeLife Mortgage today.