Take The Rate
HOME TO LOWER RATES

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Prepayment Penalties on Non-QM Loans

Mostly a DSCR and investor loan feature. Here is how they work, and how to size one to your plan.



01 WHERE YOU WILL SEE ONE

Loans on your primary home, including bank statement and 1099 loans, almost never carry one; federal rules keep them off most owner occupied loans. DSCR and other investment property loans are business purpose, and a prepayment penalty is standard there. It is the trade that buys the lower rate.

02 HOW THEY ARE STRUCTURED

Most are step downs, 5/4/3/2/1 or 3/2/1: a payoff in year one costs that percent of the balance, dropping each year, then zero. Some are a flat percent or six months of interest. Paying down up to 20% a year is usually free; only a full payoff, by sale or refinance, triggers it.

PICK THE TERM THAT MATCHES YOUR PLAN

PREPAY TERM	RATE IMPACT	BEST WHEN
5 yr 5/4/3/2/1	**Lowest rate**	Rentals you plan to hold. Biggest rate discount.
3 yr 3/2/1	**Middle**	The sweet spot for most investors.
1 year	**Higher rate**	You expect to sell or refi within two years.
No prepay	**Highest, or points**	Flips and fast exits. Often 0.5% to 1% in rate.

A QUICK EXAMPLE

A $400,000 DSCR loan with a 3/2/1 penalty, paid off in year two: 2% of the balance, about $8,000. Hold it one more year and that cost is zero.

QUICK FACTS

- Common on DSCR, rare on a primary home
- Count the years from the funding date
- Sale and refinance both trigger it
- Up to 20% extra per year is usually free
- Some states limit or ban them
- Get the prepay term in writing before you lock





Let's run your real numbers.

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Scan and Travis will price every prepay option for you

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