The DSCR Investor Guide

How DSCR loans work, how the math is done, and how investors use them to grow a portfolio.



Ritwik Rudra, CFA
MORTGAGE STRATEGIST & BROKER

What is it?

A DSCR loan is a mortgage for investment properties that qualifies you on the property's rent instead of your personal income, with no pay stubs or tax returns. If the rent covers the payment, you can usually qualify.

DSCR stands for debt service coverage ratio. It's the monthly rent divided by the full monthly payment, including taxes, insurance and any HOA dues. Most programs want 20% down or more, but 15% is possible if the deal is strong enough.

Usually a good fit if
You're buying a long-term or short-term rental, your tax returns don't show all of your income, or you want to keep adding properties.

Maybe not the best fit if
You're buying a home to live in, since DSCR is only for investment properties. And if your income is easy to document, a conventional investment loan may cost less.

What documents do I need?

This is one of the shortest lists in lending:

- A photo ID
- The lease, or the appraiser's rent estimate if it's vacant
- An insurance quote for the property
- Bank statements showing your down payment and reserves
- LLC documents, if you're buying in an LLC
- Permission to pull your credit

Let's run the numbers

Here's how the ratio works on a rental that brings in $3,000 a month with a $2,500 payment.

MONTHLY RENT		MONTHLY PAYMENT		DSCR
$3,000	÷	$2,500	=	1.20

The payment includes principal, interest, taxes, insurance and any HOA dues.

A DSCR of 1.00 means the rent covers the payment, and that's a common minimum. At 1.25 or higher you'll usually get better pricing. Some programs still work below 1.00 with a bigger down payment.

Cash and DTI

On a $400,000 rental, 20% down is $80,000, plus closing costs and a few months of payments in reserve. There's no personal DTI on a DSCR loan. The property's ratio takes its place.

Things most investors don't know

1. **A prepayment penalty isn't a bad thing if you plan for it.** Most DSCR loans charge a fee if you pay them off early, often stepping down each year, like 3%, then 2%, then 1%. Match the penalty period to how long you plan to hold the property, or pick a shorter one, and you'll likely never pay it. A longer one can even get you a better rate.
2. **Short-term rentals can qualify.** Many lenders will use a property's booking history or a market rent report for short-term rentals.
3. **You can buy your first rental this way.** Many programs work for first-time investors, sometimes with a little more down.
4. **You can usually close in an LLC.** Conventional loans generally don't allow that.

Lesser-known strategies

1. **Use cash-out to buy the next one.** Once a rental builds equity, a DSCR cash-out refinance can pull that money out for your next down payment, still without tax returns.

2. **Look at interest-only.** Some DSCR loans let you pay only interest for the first several years. That lowers the payment, which can raise your DSCR and help your cash flow.

A real example

An investor I worked with wanted to buy rentals, but the mortgage on his own home pushed his personal DTI too high for a regular loan. A DSCR loan didn't need his personal income at all. With 20% down and a 720 credit score, we qualified him using just the market rent on the property. We went with interest-only payments, which brought his DSCR above 1.25 and got him better pricing. He planned to hold it for about 5 years, so we added a 3-year prepayment penalty to get a better rate and a better return. We closed in 10 days.

30-second recap

- You qualify on the rent, not your personal income
- DSCR is the rent divided by the full monthly payment
- 1.00 is a common minimum, and 1.25 or higher prices better
- 20% down is typical, and 15% is possible on a strong deal
- There's no personal DTI
- Match any prepayment penalty to how long you'll hold the property



Have a property in mind?

A quote takes about 2 minutes and doesn't touch your credit. Once I see your situation, I'll walk you through your options and what each one would actually cost you.

Get a Quote →

(516) 974-2990 · rrudra@gorascal.com · fundedbyrudra.com

@fundedbyrudra

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