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Free Educational Resources for Homebuyers

DSCR Investor Loan Booklet

Qualify on rental income, not personal W-2s -- built for investors.

DSCR (Investor) Loans

A DSCR loan -- Debt-Service Coverage Ratio loan -- is a non-QM (non-qualified mortgage) designed for real estate investors. Instead of qualifying based on personal W-2 or tax-return income, the loan is underwritten primarily on the rental income the property generates. This makes DSCR loans popular with investors who have complex tax returns, multiple properties, or self-employment income that traditional underwriting penalizes.

How the DSCR is calculated

DSCR = Monthly gross rental income ÷ Monthly PITIA (principal, interest, taxes, insurance, and association fees).

A DSCR of 1.0 means the rent exactly covers the full payment. Lenders typically look for a minimum of 1.0-1.25. Some allow a DSCR below 1.0 -- meaning the property doesn't fully cover its own costs -- but with a higher down payment or interest rate. Rent is often based on a market rent analysis even if the property is not yet leased.

Example: a rental bringing in $2,400/month against a full monthly payment (PITIA) of $2,000 has a DSCR of $2,400 ÷ $2,000 = 1.20 -- comfortably above most lenders' minimums.

Who qualifies?

DSCR loans are for residential real estate investors, not owner-occupants. There is no traditional income verification -- the property's income is the qualification driver. Credit score requirements typically start around 620-680. Down payments commonly range from 20-25%. Lenders usually also require several months of liquid reserves.

Common use cases

Investors use DSCR loans to acquire or refinance:

- Single-family rentals and small multi-unit properties (2-4 units).
- Short-term rentals (vacation / Airbnb) -- lender policies vary.
- Portfolio expansion when traditional income docs limit borrowing capacity.

Key considerations

DSCR loans are non-QM products that fall outside the standard qualified-mortgage framework. Rates and fees are typically higher than conventional loans. Because your home is not the collateral (an investment property is), the risk profile is different -- but defaulting on an investment mortgage still has serious financial consequences. Compare lenders carefully and consult a tax professional about how investment property debt affects your overall picture.

How DSCR Loans Work

A Debt-Service Coverage Ratio (DSCR) loan is designed for real estate investors. Instead of qualifying on your personal income, it looks primarily at whether the property's rental income covers its loan payment.

- DSCR is the property's rental income divided by its total debt payment.
- A ratio of 1.0 means income exactly covers the payment; higher is stronger.

This focus on the property rather than personal W-2s is what makes DSCR loans popular with investors who have complex or self-employed income.

Calculating and Improving Your DSCR

Understanding the math helps you evaluate a deal before you ever talk to a lender.

- Estimate realistic monthly rent, sometimes supported by a rent schedule from the appraisal.
- Add up the monthly principal, interest, taxes, insurance, and any association dues.
- Divide income by that payment to find the ratio.

A larger down payment or a property with stronger rent relative to price can raise the ratio and broaden your options.

Typical Terms and Requirements

Because qualification leans on the property, terms differ from owner-occupied loans.