Understanding DSCR Loans (Debt-Service Coverage Ratio)

This guide explains what a DSCR loan is, when it's used, and why it's a powerful option for property investors.

Understanding DSCR Loans (Debt-Service Coverage Ratio)

A Guide by The Housing Assistant

Introduction

DSCR loans (Debt-Service Coverage Ratio loans) are a type of non-QM (Non-Qualified Mortgage) financing designed for real estate investors. These loans evaluate a property's income rather than a borrower's personal income to determine eligibility. This guide explains what a DSCR loan is, when it's used, and why it's a powerful option for property investors.

What is a DSCR Loan?

A DSCR loan measures the cash flow generated by a rental property to determine if it can cover the loan's debt obligations. The DSCR is calculated by dividing the property's gross rental income by its total debt service (principal, interest, taxes, insurance, and HOA fees). Lenders typically require a DSCR of 1.0 or greater, meaning the property generates enough income to fully cover the mortgage.

DSCR Formula

DSCR = Gross Rental Income / Debt Obligations

- A DSCR of 1.0 means the property breaks even.
- A DSCR > 1.0 means the property generates more than it costs.
- A DSCR < 1.0 means negative cash flow, which may be acceptable with strong reserves or other compensating factors.

When Are DSCR Loans Used?

- When an investor is purchasing or refinancing an income-producing property.
- When a borrower's personal income doesn't qualify for a traditional loan.
- For portfolio investors seeking quick, scalable financing.

- To avoid complex tax return and employment documentation.
- When the property cash flow itself is the key qualifying factor.

Why Choose a DSCR Loan?
- No personal income verification required
- Faster closing timelines than full-documentation loans
- Great for self-employed or gig-economy investors
- Allows investors to qualify based on property cash flow
- Available for 1–4 unit residential investment properties