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DSCR Investor *Guide*

How debt service coverage ratio loans work, what lenders commonly review, and how to run the math on a deal yourself.

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01 What DSCR Is, in Plain English

A DSCR (debt service coverage ratio) loan is a business-purpose mortgage on a rental property. The lender qualifies the loan mainly on the property's rental income instead of your personal income. It's for investment properties only, not a home you live in. DSCR loans aren't FHA, VA, USDA, Fannie Mae, or Freddie Mac products. Each lender or investor writes its own rules, so terms vary widely.

The ratio

DSCR = monthly rent ÷ monthly debt service (principal, interest, taxes, insurance, and HOA dues, known as PITIA).
At 1.00 the rent exactly covers the payment. At 1.25 the rent is 125% of the payment. Some lenders count only part of the rent, or add other expenses.

02 What Lenders Commonly Review

Every item below varies by lender. Treat the ranges as general market patterns, not requirements.

Rent	An existing lease, or the appraiser's market-rent estimate. Short-term-rental income is handled differently from lender to lender.

Debt service	Principal + interest + taxes + insurance + HOA dues (PITIA)
Minimum DSCR	Often around 1.0 to 1.25. Some lenders accept lower ratios, usually with trade-offs elsewhere in the loan.
Credit	Lenders set their own minimum scores. Credit is still pulled.
Down payment	Commonly 20–25% or more for a purchase
Reserves	Often several months of PITIA in liquid funds, sometimes for each financed property
Prepayment penalty	Common on DSCR loans, often stepping down over several years. Ask before you commit.
Borrower and property	Often closed in an LLC. Single-family, 2–4 unit, condo, and sometimes short-term rentals.

03 What You Typically Don't Provide

- W-2s or pay stubs
- Personal or business tax returns
- An employment verification letter
- A debt-to-income calculation based on your personal income

You'll still need a credit report, asset and reserve statements, the lease or rent appraisal, insurance, and (for an LLC) entity documents.

04 Run the Math: Deal Worksheet

Use your own numbers and assumptions. It's a planning tool, not a quote.

Field	Your numbers
Purchase price	$_____
Down payment	$_____
Loan amount	$_____
Monthly principal + interest (from your own calculator or a Loan Estimate)	$_____
Monthly property taxes	$_____
Monthly insurance	$_____
Monthly HOA (if any)	$_____
Total monthly PITIA	$_____
Monthly rent (lease or market)	$_____
DSCR = rent ÷ PITIA	= _____
Break-even rent for a target ratio = PITIA × target (e.g., 1.25)	$_____

Compare your result with the minimum each lender states. Then rerun it with higher taxes, higher insurance, and a month or two of vacancy to see how much cushion you have.

05 Renovate, Rent, Refinance: Doing It the Right Way

> **FHA 203(k) is for owner-occupants**
>
> An FHA 203(k) loan requires you to live in the home as your principal residence. Pure investor purchases aren't eligible. Don't use one to buy a property you plan to rent out right away.

Path	How it generally works
Owner-occupant ("house hack")	Buy a 1–4 unit home with an FHA 203(k) and live in one unit. 203(k) follows FHA's credit and down payment rules (3.5% down at 580+), though lenders may require more. The Limited 203(k) covers non-structural work up to $75,000. After you've met the occupancy requirement, you may rent the property and later refinance, possibly into a DSCR loan.
Investor purchase	Use financing that allows investment property, such as Fannie Mae HomeStyle Renovation (1-unit investment properties are eligible) or a lender's rehab or bridge loan. Renovate, place a tenant, and refinance into a DSCR loan if the numbers work.
The refinance	Lenders set "seasoning" rules (how long you must own the property) and loan-to-value limits for cash-out. The new appraisal sets the value. The new value could come in lower than you expect.

Run the post-renovation math

A deal that doesn't work at today's rent may work after the renovation, or it may not. Run the worksheet twice: once as-is, and once with realistic post-renovation rent, taxes, and insurance.

06 Questions to Ask Any DSCR Lender

- ☐ What's your minimum DSCR, and how do you calculate rent (full lease, market rent, or a percentage)?
- ☐ Do you lend on short-term rentals? How do you count that income?
- ☐ What's the prepayment penalty structure, and how long does it last?
- ☐ Do you offer fixed and adjustable options? What fees should I expect?
- ☐ What reserves do you require, and is that per property?
- ☐ Do you lend on 2–4 unit properties, and to LLCs?
- ☐ What seasoning do you require before a cash-out refinance?

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Sources (checked October 2026): HUD 203(k) Program Comparison Fact Sheet and Mortgagee Letter 2024-13 (Limited 203(k) $75,000; owner-occupancy); HUD Handbook 4000.1 (FHA credit score/LTV); Fannie Mae Selling Guide B5-3.2-02 (HomeStyle Renovation eligibility). DSCR loans are non-agency products; their terms are set by individual lenders. Program rules change; confirm current requirements with the official source. OfferPrep publishes free educational content. We are not a lender or mortgage broker, do not make loans, quote rates, or refer you to lenders, and are not a government agency. Contact: info@offerprep.com. Information here is general and may not apply to your situation.

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