

DSCR QUICK REFERENCE

Debt Service Coverage Ratio, the residential investor way.

A DSCR loan is a business-purpose loan for investment property. Instead of centering your personal income, qualification can rely heavily on the income the property itself generates.

THE CALCULATION

$$\text{QUALIFYING RENTAL INCOME} \div \text{PITIA} = \text{DSCR}$$

$$\text{PITIA} = \text{PRINCIPAL} \cdot \text{INTEREST} \cdot \text{TAXES} \cdot \text{INSURANCE} \cdot \text{ASSOCIATION DUES}$$

Association dues apply when the property carries them.

AN ILLUSTRATIVE EXAMPLE

$$\begin{array}{ccccc} \$2,500 & \div & \$2,000 & = & 1.25 \\ \text{QUALIFYING RENT} & & \text{PITIA} & & \text{DSCR} \end{array}$$

Illustrative only. Calculation methods vary by lender — some use gross rent, some use market rent from a Form 1007, and some apply a vacancy factor.

READING THE RATIO

- ABOVE 1.00** Qualifying rent is greater than the monthly housing payment.
- EXACTLY 1.00** Qualifying rent and the monthly housing payment are equal.
- BELOW 1.00** The monthly housing payment is greater than qualifying rent.

What ratio actually qualifies depends on the lender and the loan program.

WHAT A LENDER TYPICALLY REVIEWS

Qualifying rent	Property value	Monthly payment	Credit profile
Equity position	Cash reserves	Property type	Transaction risk

DSCR does not mean no qualification. The lender still evaluates the property and the overall risk of the transaction. Exact standards and documentation requirements vary by lender.

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WHO IT TENDS TO FIT

- **Self-employed investors** Whose tax returns do not tell the full story of the strategy.
- **Portfolio builders** Adding rentals where personal income is no longer the constraint.
- **Entity ownership** Some programs allow eligible properties to be held in a business entity.
- **Stabilized rentals** Where the property has, or can support, a documented rent.

WHERE DSCR FITS A BRRRR STRATEGY

BUY

REHAB

RENT

REFINANCE

REPEAT

An investor may use cash or short-term financing to acquire and renovate a property. Once it is stabilized and rented, a DSCR loan may provide a path into longer-term financing — subject to the lender's refinance and seasoning rules.

DSCR IS NOT AUTOMATICALLY THE BEST ANSWER.

The right financing depends on the property, the cash flow, the costs, the equity, and your overall strategy.

HAVE THESE READY BEFORE WE RUN THE NUMBERS

- | | |
|---|--|
| ☐ Property address and type | ☐ Purchase price or estimated value |
| ☐ Projected or in-place monthly rent | ☐ Estimated taxes and insurance |
| ☐ Association dues, if any | ☐ Entity details, if applicable |
| ☐ Your timeline | ☐ Your exit plan for the property |

TERMS WORTH KNOWING

PITIA

Principal, interest, taxes, insurance, and association dues when applicable.

FORM 1007

A single-family comparable rent schedule an appraiser may complete.

BUSINESS-PURPOSE LOAN

A loan for investment property — not for a primary residence.

QUALIFYING RENT

The rent figure the lender uses. Sources and adjustments vary by lender.

SEASONING

How long a property has been owned or held before a transaction. Requirements vary.

STABILIZED

Renovation complete and the property rented or rent-ready.

DOES YOUR DEAL MAKE SENSE FOR DSCR?

Bring the property, the rent, and your goals — we will run the numbers together.

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