

TRUE ALLIANCE CAPITAL

DSCR Loans for Long / Short-Term Rentals

A DSCR loan is an investment property mortgage that uses rental income to help determine eligibility, instead of the borrower's personal income. DSCR stands for debt service coverage ratio, which compares qualifying rental income with the property's required mortgage-related payments.

Real Estate Investors use DSCR Loans to purchase or refinance eligible rental properties, including long-term and short-term rentals. These programs generally do not require W-2s or personal tax returns to verify income, but lenders still evaluate credit, property value, down payment or equity, and available reserves

This guide explains how DSCR loans work, how to calculate your ratio, what lenders review, and how to compare rates, fees, and loan terms. You'll also learn how DSCR financing can support rental purchases, cash-out refinances, and the BRRRR investment strategy.

Explore the requirements below or compare our current DSCR Loan Options.

Required Documentation

- **Application** – a loan application with basic details on the borrower and property. It's typically a few pages and takes around 15 minutes.
- **Credit Authorization** – a quick authorization form for the lender to run a credit report and background check.
- **Bank Statements** – two months of bank statements showing that 3-6 months of liquid assets for “reserves” are available to cover any debt payments in case of vacancy, turnover, etc.
- **Leases** – if the property is a long-term rental and is occupied, the lease or leases are to be provided.
- **Short Term Rental History** – if the property is utilized as a short-term rental (Airbnb, etc.) and there are 12 months of operating history available (via the booking platform or property manager) it will need to be presented.
- **Insurance** – property insurance is required to be provided, with the lender's information included. If the property is in a federally designated “Flood Zone,” flood insurance is required as well. Note that liability insurance is typically recommended, but not required to be provided by most DSCR Lenders
- **Entity Documents** – not applicable if you are borrowing as an individual, but required if, like many investors, choose to set up an LLC. For borrowers that go this route, a few documents are typically required. It is often going to depend on the state of incorporation. Typical entity documents required by DSCR lenders include:
 - Certificates of Good Standing
 - Certificate of Formation
 - Articles of Organization and Operating Agreement
 - Renovation Documentation – for borrowers that follow the BRRRR method and use DSCR Loans for a quick cash-out refinance, documentation of all the renovation work is often required. These will typically include receipts, invoices and work orders from the rehab work on the property.

The above list covers the fairly short list of documentation requirements for DSCR Loans. The absence of burdensome items like employment verification and tax returns show why investors love DSCR Loans. The underwriting and document-gathering process is typically much less strenuous and headache-inducing than qualifying for a conventional mortgage!

In addition to the documents provided by the borrower included above, the lender gathers a few other documents as part of the qualification process. Typically, while the lender will order them and manage the process, they pass the costs through to the borrower. Fortunately, these costs are typically low, generally no more than \$2,000, which is often less than 1% of the loan amount.

Lender-gathered documents include:

- **Credit Report and Background Check** – the DSCR lender will run a credit report and background check fairly early in the process to help determine eligibility and rate and terms. Generally, the higher the credit score, the lower rate you will get. Flagged items on the background and credit reports typically would include a history of late payments on other mortgages, foreclosures or bankruptcies, large liens, judgments outstanding or any criminal record. It's important to note that any of these things may not disqualify you from a DSCR Loan. Although, it's extremely important to be upfront and honest with your lender about any flaggable items.
- **Appraisal Report** – One of the most important documents in the DSCR Loan process is the Appraisal Report. This is a report done by a third-party appraiser to determine the value of the property. For DSCR Loans, the appraiser will also fill out a “1007 Form” that determines the market rent of the property. The methodology for both will primarily come from “comps” of similar properties for both their values and rents. It is important that the borrower pays for the report, retains ownership, and the lender must initiate the order in a process that ensures independence and safeguards against fraud.
- **Appraisal Review** – In addition to the Appraisal, DSCR Lenders will typically also order an “Appraisal Review.” This is sometimes also called a “Collateral Desktop Analysis” or “Appraisal Desktop Review.” Unlike a full appraisal, in which a licensed appraiser physically visits the property and does a full report, this is a quicker, more streamlined analysis of the appraisal to confirm the value is reasonable and the methodology used by the appraiser was sound. It will also give an opinion of the value of the property as well. Typically, DSCR Lenders

require the value opinion of the Appraisal Review to be no more than 10% different than appraised value.

- **Title Insurance** – As part of closing a DSCR Loan, title insurance is typically required to close the transaction. Title companies are responsible for checking and verifying the ownership of the properties either for a borrower trying to refinance or a seller attempting to sell a property. In addition, they will check for any liens or claims on the property that might interfere with a lender's rights of foreclosure. Title Insurance refers to the title company insuring that none of these liens or ownership issues exist and if missed, they will provide compensation against any losses. The borrower typically pays these costs at closing, and they only incur upon successfully completing a transaction.

How to get the Best Rate and Terms for a DSCR Loan

Real Estate Investors are often most concerned with getting the best rates and terms on their investment properties and for good reasons. A big part of the equation of maximizing returns on real estate investing is maximizing revenues and minimizing costs, and financing costs (debt payments) are typically the biggest and most important cost for real estate investors. Interest rates paid on loans are obviously the biggest driver of debt costs for DSCR Loans. The lower the interest rate, the lower the interest payment, so it's important to get the best rates on these loans.

So, how does an investor using a DSCR Loan get the best rate? There are typically three metrics that lenders use that determine the majority of the interest rate received.

These are:

- **DSCR (Debt-Service-Coverage-Ratio)**
- **LTV (Loan-to-Value Ratio)**
- **FICO (Credit Score)**

Debt Service Coverage Ratio (DSCR) measures the income from the property versus the operating expenses, i.e., how profitable the investment is. Lenders of course like to see higher DSCRs because rents are greater than costs. They should have no problem making debt payments!

Loan to Value Ratio (LTV) compares the loan amount to the value of the property. For DSCR Lenders, a lower LTV is much preferred. This is because the main recourse a lender has in the case a borrower fails to pay back the loan is to foreclose on the

property. The lender wants to make sure if it comes to that, they can protect their risk by obtaining property worth more than the loan amount extended.

FICO (Credit Score) measures the borrower's personal creditworthiness and history. While DSCR Loans are primarily based on the property, not the individual, this is the one exception. Lenders reward individuals with a higher credit score and a history of payments on other mortgages by offering lower rates.

DSCR Loans: What Are They And How To Get The Best Terms

However, when conducting your investment analysis, it is essential to consider factors other than just interest rates. For example, many DSCR Lenders will allow you to "buy down the interest rate" by paying points. Points refer to closing fees paid one-time and upfront at closing. If you are planning on holding a property for the long haul, like most investors utilizing DSCR Loans, it's often a smart call to do this.

A typical example of options includes choosing between a 30-year fixed-rate loan at an interest rate of 7.500% with no "points" or a 30-year fixed-rate loan at an interest rate of 6.500% with 2 "points" paid upfront. The math thus says that you will essentially save 1% of the loan amount per year with lower interest costs. So, if you hold the loan for longer than 2 years, then you will end up saving more than the 2% you paid upfront and come out ahead!

Do all DSCR Lenders have the same qualification rules and underwriting guidelines?

No, a great thing about DSCR Loans is that there are different lenders to choose from, and many have slightly different guidelines and qualification rules. "Conventional" lenders have to 100% strictly follow the guidelines from Fannie Mae and other agencies. DSCR lenders, on the other hand, have customized guidelines and can even grant exceptions in certain cases!

Typically, DSCR lenders will have interest rates, loan terms, and guidelines that are more or less ~90% equivalent. But the differences can be meaningful, especially when DSCR Lenders commit to specializing in serving specific investor niches, such as those that specialize in short term rentals or the BRRRR Method! DSCR Lenders also have the flexibility to make exceptions on a case-by-case basis. Not having to stick to the guidelines 100% like conventional lenders is a huge plus. This tends to be incredibly helpful for savvy real estate investors that make their money finding ways to make deals work!

To apply for a DSCR Loan, investors can “Book A Consultation” on our website, where we can fully discuss your loan options and next steps to qualify for a loan with True Alliance Capital. [Click here](#) to “Book A Consultation or feel free to contact us at (704) 529-9925.