A GUIDE FOR REAL ESTATE INVESTORS

DSCR

QUALIFY ON THE PROPERTY'S RENT, NOT YOUR PAYCHECK

Let the property pay its own way.

How DSCR loans work, how the ratio is calculated, where the rent number comes from, and how to set up a deal an underwriter can approve.



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START HERE

GROWING A RENTAL PORTFOLIO? READ THIS FIRST.

Most investors hit the same wall. Your **debt-to-income ratio** fills up after a few properties, your tax returns show depreciation instead of cash flow, and the next deal stalls even though the rents are strong.

A DSCR loan looks at the deal differently. Instead of asking what **you** earn, it asks whether **the property's rent covers its own payment**. No tax returns, no pay stubs, no employment verification.

I've been helping families into homes since 1993, first as a Realtor and now as a mortgage lender, and I've sat on both sides of an investment deal. Read this, then call me before you write the offer. The numbers are easier to fix before you're under contract.

Brian

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WHAT DSCR MEANS

Debt service coverage ratio. Does the rent cover the payment?

DSCR compares the property's **monthly rent** to its **full monthly housing payment**, which lenders call PITIA: principal, interest, taxes, insurance and association dues. The answer is one number, and that number is what the loan is built on.

÷	**MONTHLY RENT**	From the lease or the appraiser's market rent estimate
P	**PRINCIPAL**	The part of the payment that pays down the loan
I	**INTEREST**	Based on your rate, loan amount and term
T	**TAXES**	Property and school taxes, figured monthly
I	**INSURANCE**	Landlord or hazard policy, plus flood if required
A	**ASSOCIATION DUES**	HOA or condo fees, if the property has them
=	**DSCR**	Rent ÷ PITIA. Above 1.00 means the rent covers the payment.

GOOD TO KNOW: Your personal income isn't part of the math at all. That's the whole point, and it's why DSCR loans are only for investment properties, never a home you'll live in.

WHO DSCR LOANS FIT

Built for investors, not for buying the house you'll live in.

DSCR loans are part of a category called **Non-QM**: loans that follow their own guidelines instead of the standard Fannie Mae, Freddie Mac or FHA rules. That flexibility comes with tradeoffs, so it's worth knowing both sides before you choose one.

USUALLY A GOOD FIT

- Your debt-to-income ratio is maxed out
- Your tax returns show write-offs, not cash flow
- You're self-employed, retired or between jobs
- You own several financed properties already
- You want to close in an LLC
- The rent clearly covers the payment

KNOW GOING IN

- **Investment properties only.** No primary homes or second homes.
- Rates are usually **higher** than conventional loans
- Down payment requirements are often **larger**
- Many programs carry a **prepayment penalty**
- Expect to show **reserves** in the bank
- Guidelines vary a lot from lender to lender

REAL TALK: If you have W-2 income and room in your debt-to-income ratio, a conventional investor loan may get you a better rate. I'll run it both ways before we pick a direction.

DSCR VS. A CONVENTIONAL INVESTOR LOAN

Same property, two very different ways to qualify.

Both loans can buy or refinance a rental. The difference is **what the lender looks at** to decide whether you qualify, and what you give up in exchange for flexibility.

	DSCR LOAN	CONVENTIONAL INVESTOR LOAN
HOW YOU QUALIFY	The property's rent compared to its payment	Your personal income and debt-to-income ratio
TAX RETURNS & PAY STUBS	Generally not required	Required, often two years
NUMBER OF PROPERTIES	Portfolio size is less of a limit	Capped by agency limits on financed properties
CLOSING IN AN LLC	Commonly allowed	Generally must close in your personal name
RATE & DOWN PAYMENT	Usually higher rate and larger down payment	Usually better pricing for strong borrowers
PREPAYMENT PENALTY	Common, often negotiable	Generally none

THE RIGHT ANSWER DEPENDS ON YOUR NEXT DEAL

Many investors use both. Conventional loans for the first few properties while debt-to-income allows, then DSCR once that room runs out. Planning the order ahead can save you money over the whole portfolio.

HOW THE RATIO IS CALCULATED

One division problem decides the loan.

Here's how a DSCR works on a single-family rental. Your rent, taxes and rate will be different. This just shows how the steps work.

Monthly rent	**$2,400**
Principal & interest	**$1,520**
Property & school taxes	**$350**
Landlord insurance	**$110**
Association dues	**$0**
Total monthly payment (PITIA)	**$1,980**
DSCR ($2,400 ÷ $1,980)	**1.21**

EXAMPLE ONLY. NOT AN OFFER, RATE QUOTE OR GUARANTEE OF APPROVAL.

ABOVE 1.00

The rent covers the full payment with room to spare. The higher the ratio, the more options you have.

ABOUT 1.00

Rent and payment are about even. Many programs work here, sometimes with tighter terms.

BELOW 1.00

Some programs still allow it, usually with a larger down payment, more reserves or stronger credit.

WHERE THE RENT NUMBER COMES FROM

It's not what you hope to charge. It's what the file can support.

The rent in the ratio has to be documented. Underwriters use the appraisal, a lease, or both, and many programs use **the lower of the two** unless you can prove the higher rent is actually being paid.

APPRAISER'S MARKET RENT

The appraiser completes a **rent schedule** comparing your property to similar rentals nearby. It's ordered with the appraisal and usually costs extra.

AN EXISTING LEASE

A signed lease shows what a tenant is paying now. If it's above market rent, expect to show **proof of payment**, like deposits or canceled checks.

VACANT OR NEW PURCHASE

No tenant yet? Most programs use the appraiser's **market rent** estimate. Some limit the ratio or LTV on vacant units.

SHORT-TERM RENTALS

Some programs accept Airbnb or VRBO income, based on **booking history** or third-party market data. Rules vary widely.

REAL TALK: Run your numbers on realistic market rent, not your best-case listing price. If the deal only works at the top of the market, the appraisal will usually tell you.

WAYS TO IMPROVE YOUR RATIO

When the numbers are close, a few levers can move them.

You can raise a DSCR two ways: **increase the rent** or **lower the payment**. Rent is mostly set by the market, so most of the work happens on the payment side.

1 PUT MORE DOWN
A smaller loan means a smaller payment, and often better pricing too.

2 BUY DOWN THE RATE
Paying points up front lowers the monthly interest.

3 SHOP THE INSURANCE
Landlord policies vary a lot. A better quote goes straight into the ratio.

4 LOOK AT INTEREST-ONLY
Some programs offer an interest-only period, which lowers the qualifying payment.

5 CHECK THE TAX BILL
Make sure the taxes used are accurate, including any exemptions that carry over.

6 DOCUMENT THE LEASE
If the tenant pays above market, proof of payment may let the higher rent count.

7 PICK THE RIGHT PROPERTY
Multi-family and strong rental areas often produce better ratios.

8 RUN IT BEFORE THE OFFER
Knowing your ratio ahead of time tells you what price actually works.

TERMS TO KNOW BEFORE YOU SIGN

The rate matters. So does everything around it.

PREPAYMENT PENALTY

Many DSCR loans charge a fee if you pay the loan off, or refinance, within the first few years. A common setup is a **step-down**, where the penalty shrinks each year until it's gone.



A shorter penalty, or none, is often available in exchange for a higher rate. If you plan to sell or refinance soon, that trade can be worth it.

FIXED RATE

Same rate and payment for the life of the loan. Predictable for long-term holds.

ADJUSTABLE RATE

A lower start rate that can change after a set period. Fits shorter hold plans.

INTEREST-ONLY

Lower payments for a period, but you aren't paying down the balance during it.

REAL TALK: Tell me your plan for the property, whether that's hold, refinance or sell, before we lock. The right structure depends on how long you'll keep it.

YOUR SCORE, RATIO AND DOWN PAYMENT WORK TOGETHER

A strong rental still has to fit the program's credit rules.

Every DSCR program sets limits based on your **credit score**, your **loan-to-value (LTV)**, meaning how much you borrow compared to the property's value, and the **ratio itself**. When one is weaker, the others usually have to be stronger.

STRONG CREDIT, STRONG RATIO	The most program choices, the best pricing and the lowest down payment options.
MIDDLE OF THE RANGE	Still plenty of options. Rate, down payment and reserves vary more from program to program.
LOW SCORE OR THIN RATIO	Fewer programs fit, and the down payment carries more weight. This is where shopping the file matters most.

RESERVES: MONTHS OF PAYMENTS IN THE BANK

Most DSCR programs want to see several months of the property's payment set aside after closing, and more if you own several properties. Retirement and brokerage accounts can often count. When a file is close, I send it to our **scenario desk** to find the program that fits.

GOOD TO KNOW: Minimum scores, ratios and maximum LTVs change often and vary by program, so they aren't listed here. Ask me for current guidelines on your scenario.

CLOSING IN AN LLC

Hold the property in your business's name.

Many investors prefer to own rentals through an LLC. Most DSCR programs allow it, which conventional loans generally don't. Talk to your attorney or CPA about whether an LLC is right for you. I'll make sure the paperwork lines up with the loan.

WHAT THE LENDER WILL ASK FOR

- Articles of organization
- Operating agreement listing all members
- EIN letter from the IRS
- Certificate of good standing
- Authorization for who can sign

KNOW GOING IN

- Members usually **sign a personal guarantee**
- Credit is pulled on the guarantors
- The LLC should be **formed before closing**, not during
- Names must match across every document

COMMON MISTAKES THAT SLOW INVESTORS DOWN

1 OVERESTIMATING RENT
The appraisal sets the number, not the listing.

2 FORGETTING RESERVES
Down payment alone isn't enough cash to close.

3 IGNORING THE PENALTY
A quick refinance can cost more than you saved.

4 LOW INSURANCE ESTIMATES
A real quote can change the ratio late in the process.

DOCUMENT CHECKLIST

Have these ready, and the process moves a lot faster.

- [ ] Purchase contract, or current mortgage statement for a refinance
- [ ] Signed lease(s), if the property is rented
- [ ] Proof of rent payments, if the lease is above market
- [ ] Bank statements for down payment and reserves
- [ ] Landlord insurance quote
- [ ] Property tax bill
- [ ] HOA or condo dues, if any
- [ ] LLC documents, if closing in an entity
- [ ] Short-term rental history, if applicable
- [ ] Government-issued photo ID

Every program is a little different. I'll give you the exact list for your scenario before you gather anything.



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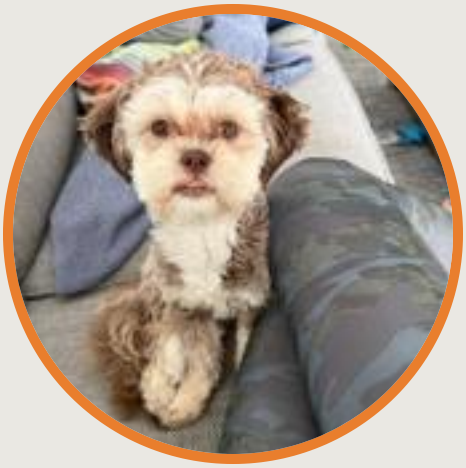
BOOK 15 MINUTES

EQUAL HOUSING OPPORTUNITY

This guide is for educational purposes only and is not a loan commitment or guarantee of approval. DSCR loans are business-purpose loans for non-owner-occupied investment properties only and are not available for a primary residence or second home. All loans are subject to credit, asset, property and appraisal approval; not all applicants will qualify. Debt service coverage requirements, rent calculation methods, credit score minimums, loan-to-value limits, reserve requirements and prepayment penalty terms vary by program and are determined at underwriting. Examples are illustrations only. DSCR and other Non-QM loans may carry higher interest rates, larger down payment requirements and different terms than agency or QM financing. Prepayment penalties apply where permitted by law. Program availability and guidelines are subject to change without notice. Brian Marchand and New American Funding do not provide tax or legal advice; consult your CPA or attorney, including about entity structure. © 2026 New American Funding, LLC. NMLS #6606 (nmlsconsumeraccess.org). 1 MacArthur Place, Suite 800, Santa Ana, CA 92707 · newamericanfunding.com · (800) 450-2010. Licensed Mortgage Banker, NYS Department of Financial Services. Equal Housing Lender. October 2026.

PENNY'S CORNER

A few words from our Chief Belly-Rub Officer.



PENNY SAYS

CHIEF BELLY-RUB OFFICER

I'm told this one is about the house paying for itself with rent. I've tried paying rent in kisses. Dad says it doesn't count, but he keeps letting me stay.

If you're building a rental portfolio, send Dad the address before you make an offer. He'll run the ratio while I run laps.

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Tips, updates and plenty of Penny.

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