DSCR Loan

Investment-property financing based on rental income, not your paycheck

A DSCR (Debt-Service-Coverage-Ratio) loan is a non-QM investor loan that qualifies you using the rental property's own cash flow — instead of your personal income, tax returns, or employment history — making it a common tool for investors scaling a rental portfolio beyond what conventional financing allows.

KEY BENEFITS

- **No Personal Income Verification**
  No W-2s, pay stubs, or tax returns — qualification is based on the property's rental cash flow.
- **Close in an LLC or Entity**
  Frequently vested in a business entity rather than your personal name.
- **Not Capped by Personal DTI**
  Useful once conventional debt-to-income limits or Fannie Mae's financed-property cap become a bottleneck.
- **Faster, Lighter Underwriting**
  Less income documentation generally means a quicker path to closing.
- **Flexible Property Types**
  Available for 1–4 unit rentals and, with many lenders, documented short-term rentals.

WHO'S ELIGIBLE

- **DSCR Ratio**
  Rental income divided by the property's own PITIA; most lenders want 1.0–1.25+, some allow below 1.0 with a larger down payment.
- **Down Payment**
  Typically 20–25%, higher than a conventional investor loan.
- **Credit Score**
  Commonly 660–680 minimum, though this varies significantly by lender.
- **Occupancy**
  Non-owner-occupied only — DSCR loans cannot be used for a primary residence.
- **Reserves**
  Many lenders require 3–6 months of PITIA held in reserve at closing.

DSCR Ratio Tiers — Typical Industry Norms

DSCR 1.25+	DSCR 1.00-1.24	DSCR Below 1.00	No-Ratio / No-DSCR
Strongest cash flow; typically the best available pricing	Standard tier; property roughly breaks even to covers debt	Property cash flow falls short; larger down payment / higher rate	Rare; underwritten on other factors, priced highest

Key Features & Rules

Feature	How It Works
Qualification Basis	The property's rental income vs. its own PITIA — not the borrower's personal income or DTI
Regulatory Status	Business-purpose loans generally fall outside the CFPB's Ability-to-Repay/Qualified Mortgage rule for consumer mortgages
Prepayment Penalties	Common, often a stepped penalty over 3-5 years; some lenders let you buy this down for a fee
Entity Vesting	Frequently closed in an LLC or other business entity rather than the borrower's personal name
Owner-Occupancy	Not allowed — strictly for non-owner-occupied investment property

DSCR loans are not defined or standardized by any government agency — minimum ratios, down payments, reserves, and pricing shown above are common industry norms as of 2026, not fixed rules; they vary by lender.

What to Know Before You Borrow

- **No limit tied to personal DTI.** Because each loan is underwritten on its own property cash flow, DSCR financing can scale beyond Fannie Mae's 10-financed-property cap on conventional loans.
- **Rates run higher than conventional/conforming loans** to offset the lighter documentation and added lender risk.
- **Not backed by Fannie Mae, Freddie Mac, FHA, or VA.** These are portfolio or private-investor products — terms vary widely by lender.
- **Fewer built-in consumer protections.** As a business-purpose loan, the strong federal safeguards that apply to owner-occupied mortgages generally don't apply here.

SOURCE: Consumer Financial Protection Bureau (consumerfinance.gov) — Ability-to-Repay/Qualified Mortgage Rule summary and Regulation Z, 12 CFR Part 1026 (business-purpose credit exclusion, §1026.3); the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203).

EFFECTIVE DATE OF DATA: Regulatory framework current as of August 2026. DSCR loans are not a government-defined program — specific ratios, down payments, and pricing are lender- and investor-set industry norms and change frequently; confirm current terms with individual lenders.

DISCLAIMER: This fact sheet is for general information only and is not exhaustive. The author is not a licensed mortgage lender or financial advisor. Consult a mortgage lender or licensed mortgage professional for guidance specific to your situation.