DSCR Prime Loan Product
Information and Answered Questions

What is a DSCR loan?

A debt service coverage (DSCR) loan is one that qualifies borrowers through an investment property's cash flow rather than the borrower's income. DSCR loans — also known as investor cash flow loans — are frequently used by real estate investors to qualify for mortgages and buy investment properties.

How is the DSCR Ratio calculated?

The lower of the current lease or market rent is divided by the full payment of the subject property. Example: Market Rent $2200 / Subject PITIA $2000 = 1.10. A DSCR above 1 means that an investment property has positive cash flow and enough net operating income to cover its debts. A DSCR below 1 means it has a negative cash flow, and not enough income to pay its debts.

Can I use a property bought with a DSCR loan for my Primary Residence?

No. DSCR loans have very strict guidelines regarding occupancy. The DSCR loans are for investment properties only. In fact, the borrowers must sign a legal affidavit attesting that they do not live in or intend to live in the property in the future. This includes 2-4 unit properties.

Can a First Time Investor get a DSCR loan?

Not at this time. Borrowers must have 12 months ownership and management of income-producing residential or commercial real estate within the last 12 months.

Why does a DSCR lender need an operating agreement for my LLC if it's not required by the state?

This question comes up at least half the time in DSCR loans. Often, lenders will not close unless there is an operating agreement in the borrower's file. The reason for this is that the borrower on the loan technically is the LLC. The person behind the LLC is the sponsor, or guarantor. The lender wants to know who legally has right to the property through the LLC. One of the jobs of the operating agreement is to outline who owns the LLC and what percentage they own.

What are the advantages of a DSCR loan?

DSCR loans have many advantages including:

Different eligibility requirements - DSCR loans use the rental income from a property, rather than the borrower's income to qualify. This means that they can buy an investment property even if their income makes them ineligible.

Larger portfolio limits - There is a limit of 10 financed investment properties a borrower can own with Conventional mortgages, but they can have up to 20 financed properties on our DSCR program.

Quicker closing - DSCR loans may have quicker closing times than Conventional mortgages because of simplified documentation.

No employment verification - Because the borrower's income is not used to qualify for a DSCR loan, there is no employment verification required. In fact, no employment or income information is required on the application.