INVESTOR LOAN GUIDE

DSCR Loan Guide

How debt service coverage ratio (DSCR) loans work for buying and refinancing rental properties, how lenders figure rent, how short-term rentals and prepayment penalties are handled, and what to gather.

Reviewed November 18, 2026 against the sources listed at the end of this guide.

Who might consider a DSCR loan

A DSCR loan lets you qualify for a rental property mortgage based on the **property's rental income** instead of your personal income and tax returns. It is often a fit for:

- Real estate investors who own several properties
- Self-employed investors whose tax returns show low income after write-offs
- Investors who want to buy or hold property in an LLC
- Owners of short-term rentals, with lenders that accept them

DSCR loans are for **investment properties only**. You cannot use one for a home you will live in.

How it works

DSCR stands for **debt service coverage ratio**. Lenders compare the property's monthly rent with its full monthly payment:

DSCR = monthly rent ÷ monthly PITIA

PITIA is principal, interest, property taxes, insurance and association (HOA) dues. A ratio of 1.00 means the rent exactly covers the payment. Above 1.00, the rent covers the payment with room to spare.

There is no government rulebook for DSCR loans. They are **non-QM, business-purpose loans**, and each lender sets its own minimum ratio, credit score, down payment, reserves and loan size. Many lenders look for a ratio of 1.00 or higher; some allow lower ratios with a larger down payment or a higher rate. Because the loan is for business purposes, some consumer-mortgage rules, such as the federal ability-to-repay rule, generally don't apply, which is part of why the lender can qualify you on the property instead of your income.

How lenders figure the rent

Situation	Common practice
Property already leased	The lease amount, often compared with market rent; many lenders use the lower of the two
Vacant or being purchased	Market rent from the appraiser's rent schedule (Fannie Mae Form 1007 for a single-family home, or a small residential income report for two to four units)
Rent above market	Some lenders will use the higher lease rent with proof it has been paid, such as bank deposits
Short-term rental	Varies widely; see below

Short-term rentals

Lenders treat short-term rentals (Airbnb, VRBO and similar) differently from one another. Common approaches include using 12 months of booking or deposit history, using a third-party short-term rental income estimate, or using long-term market rent only. Many apply a reduction to account for vacancy and expenses. Fannie Mae has noted that the standard rent schedule (Form 1007) is not designed to estimate nightly short-term rental income, so ask early how a lender will calculate it. Also check local short-term rental rules; a property that can't legally be rented short-term won't be underwritten that way.

Purchase and refinance

Purpose	What it does	What to know
Purchase	Buys a new rental	Down payments commonly start around 20% to 25%, varying by lender, credit and ratio
Rate-and-term refinance	Replaces an existing loan to change the rate or term	Useful for moving off a short-term or private-money loan after a renovation
Cash-out refinance	Replaces an existing loan with a larger one and pays you the difference	Lenders limit the loan-to-value and may require you to have owned the property for a minimum time ("seasoning")

> **Hypothetical example: cash-out refinance.** Luis owns a duplex in Altadena worth $1,000,000 with a $400,000 loan. The units rent for $2,600 and $2,500, or $5,100 a month. He wants cash to buy another property.
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> - A lender with a hypothetical 75% cash-out limit would allow a new loan of up to $750,000.
> - At that loan size, his estimated PITIA is $4,600 a month.
> - DSCR = $5,100 ÷ $4,600 = **1.11**, which meets a 1.00 minimum.
> - Before closing costs, the new loan pays off the $400,000 loan and leaves about $350,000.
>
> If the payment were $5,400 instead, the ratio would be 0.94. Luis could take less cash out, choose a different lender or accept different terms. All figures, including the loan-to-value limit, are illustrations only.

Prepayment penalties

Many DSCR loans include a **prepayment penalty**: a fee if you pay off all or a large part of the loan early, for example by selling or refinancing in the first few years. Common structures include a fixed percentage for a set number of years or a "step-down" schedule, such as 5% in year one, 4% in year two and so on. A shorter or no-penalty option is often available in exchange for a higher rate.

Penalty rules are set in the loan documents, and some states limit them. Ask for the exact terms in writing, and think about how long you really plan to hold the property before you choose.

Ownership and closing

- **LLCs.** Many DSCR lenders allow you to close in an LLC. You will usually sign a personal guarantee.
- **Reserves.** Lenders commonly want several months of PITIA in reserve, sometimes more if you own many properties.
- **Where.** We help investors finance rental properties in California and select other states. Tell us where the property is located and we'll confirm the options for that state.
- **Credit still matters.** Even though income isn't verified, your credit score affects your rate and eligibility.

What to gather

- [ ] Current leases for each unit, and proof rent is being paid if a lender will use above-market rent
- [ ] For short-term rentals: 12 months of booking platform statements and bank deposits
- [ ] Property tax bill, insurance declarations and HOA statement
- [ ] Your current mortgage statement, if refinancing
- [ ] Two months of bank or brokerage statements for down payment and reserves
- [ ] LLC documents: articles, operating agreement and EIN letter, if closing in an LLC
- [ ] A schedule of other properties you own, with loans and rents

Questions to ask

- What minimum DSCR does this lender use, and how will it calculate my rent?
- Will it use the lease, market rent or the lower of the two?
- How will short-term rental income be counted, if at all?
- What are the prepayment penalty options, and what does each one cost in rate?
- How much cash out can I take, and is there a seasoning requirement?

Your next step

Tell us what you are trying to do and we will tell you, plainly, which options fit and what to gather. There is no cost to talk it through.

Start a free loan evaluation: journeymac.com/evaluation

Call: (626) 716-0585 **Email:** info@journeymac.com

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This guide is general education, not a loan offer, a rate quote or legal, tax or financial advice. Program rules change and lenders add their own requirements; confirm details for your situation before you act. Examples marked “hypothetical” are illustrations only.

Sources

Reviewed November 18, 2026. Program rules change; check the current version of each source.

1. CFPB: Ability-to-Repay/Qualified Mortgage Rule
   consumerfinance.gov/rules-policy/final-rules/ability-to-pay-qualified-mortgage-rule
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   www.consumerfinance.gov/ask-cfpb/what-is-a-contingency-en-204/
4. Fannie Mae: Single-Family Comparable Rent Schedule (Form 1007) instructions
   singlefamily.fanniemae.com/media/12351/display
5. Freddie Mac / Fannie Mae: Form 1000 / 1007 Single-Family Comparable Rent Schedule
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