

DSCR LOANS

What is a DSCR Loan?

A DSCR (Debt Service Coverage Ratio) loan is a loan for real estate investors where the underwriting is primarily based on the cash flow of the subject property and not on personal income, employment and DTI ratios. These loans are great for investors who want to grow their portfolios, but can't qualify for conventional "full-doc" loans or those who prefer a streamlined process with far less paperwork.



Benefits of DSCR Loans

- Easier to qualify for those who are self-employed, unemployed or not earning sufficient income to qualify for conventional loans
- Only the mortgage payment, taxes, insurance and HOA fees are considered (vacancy, repairs or property management expenses are not typically included in the cash flow calculations)
- Projected rental income from vacant units can be included in the cash flow analysis at market rents.
- Stronger cash flow and lower LTVs can result in better terms.
- Far less paperwork compared to traditional underwriting, which facilitates faster closings
- Available for properties up to 20 units

Drawbacks of DSCR Loans

- Slightly higher rates compared to "full-doc" loans
- Pre-payment penalties and points are common
- Only available for investment properties
- Some programs require prior investment property experience

What factors can get you better terms?

- DSCR of 1.25 or higher
- Low LTV (75% or less)
- FICO score of 740+
- 6-12 months of post-closing reserves
- Longer pre-payment penalties
- Prior investor experience

Sample DSCR Calculation

Projected Monthly Rents: \$10,000

Monthly Expenses:

Mortgage Payment	\$7,000
Real Estate Taxes	\$500
Insurance Premium	\$200
HOA Fees	\$300

Total Monthly Expenses: \$8,000

Income (\$10,000) / Expenses (\$8,000)
= 1.25 DSCR Ratio

Contact us at mmteam@luminate.bank to learn more and apply!