HOW DSCR LOANS WORK

And Why Real Estate Investors Love Them for Portfolio Growth

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Welcome from Aaron Bath

As a top-producing mortgage loan officer serving South Florida, I've helped hundreds of families and investors navigate the home financing process. These guides are designed to give you clear, actionable information so you can make confident decisions. My goal is to be your trusted resource — today and for years to come.

What is a DSCR Loan?

DSCR stands for **Debt Service Coverage Ratio**. These are investment property loans that qualify based on the rental income the property generates (or is projected to generate) rather than the borrower's personal tax returns, W-2s, or employment income. This is a game-changer for real estate investors and self-employed individuals.

- **How Qualification Works:** The lender calculates the property's net operating income (NOI) or gross rental income and divides it by the proposed mortgage payment (PITI — principal, interest, taxes, insurance). A DSCR of 1.0 means the property breaks even; 1.25 means it covers 125% of the debt service.
- **Typical DSCR Requirements:** Most lenders require a minimum 1.0x or 1.25x DSCR. Higher DSCRs may qualify for better rates or terms. We use market rents or actual leases (whichever is more conservative) to underwrite.
- **No Personal Income Documentation:** This is the biggest advantage. You don't need to provide tax returns, paystubs, or employment verification for qualification purposes. The property stands on its own cash flow.

Why Investors Love DSCR Loans

DSCR financing removes the traditional barriers that slow down portfolio growth:

- **Scale Your Portfolio Faster:** Qualify based on the property's performance, not your W-2 income. This allows investors to acquire more properties without their personal income becoming a bottleneck.
- **Self-Employed & Real Estate Professionals:** If your tax returns show business deductions, losses, or complex income, DSCR loans bypass those issues entirely. The rental income on the subject property is what matters.
- **Multiple Properties:** DSCR loans are ideal for investors with several rental properties. Each property is underwritten on its own merits, making it easier to add to your portfolio.
- **Interest-Only Options:** Many DSCR programs offer interest-only periods (e.g., 5-10 years), which can improve cash flow and returns during the early years of ownership.
- **Higher LTVs Possible:** Some DSCR programs allow up to 80% LTV on investment properties, giving you more leverage than traditional investment loans.

■ Real-World Example

An investor wants to purchase a $450,000 rental property in West Palm Beach. Projected market rent is $2,800/month. Annual taxes + insurance ~$6,000. Proposed loan: $360,000 at 7.5% interest-only for 5 years. The DSCR calculation shows the property comfortably covers the debt service at 1.35x. With DSCR, the investor qualifies based on this cash flow — even if their personal tax returns show Schedule C losses from their business. This is the power of DSCR financing.

Key Terms, Pros & Cons

- **Interest Rates:** DSCR loans are Non-QM products, so rates are typically 1-2% higher than conventional investment property loans. However, the ability to close deals that wouldn't otherwise qualify often outweighs the rate premium.
- **Loan Terms:** Common terms are 30-year amortizing or 5/10-year interest-only with balloon. We match the structure to your investment strategy and exit plan.
- **Property Requirements:** The property must be in reasonable condition with good rental demand in the area. Weaker properties or those in declining markets may not qualify or may require lower LTV.
- **Experience:** Some DSCR programs have minimum experience requirements (e.g., 1-2 prior investment properties). Newer investors may still qualify with stronger DSCRs or larger reserves.
- **Personal Guarantee:** Most DSCR loans require a personal guarantee from the borrower(s), so your credit still matters for pricing and approval, even though income docs are not required.

Is a DSCR Loan Right for Your Investment Strategy?

DSCR loans are powerful tools, but they're not for every situation. They work best when:

- You are purchasing investment properties (not primary residences).
- The property has strong rental demand and positive or break-even cash flow.
- Your personal income situation is complex (self-employed, real estate professional, multiple businesses, etc.).
- You want to grow your portfolio without being limited by your W-2 or tax return income.
- You have good credit (typically 620-680+ minimum, though some programs are more flexible) and adequate reserves.

■ Let's Analyze Your Deal

If you have a specific property or market in mind (South Florida, Jacksonville, Tampa, etc.), send me the details — purchase price, projected rent, taxes, insurance estimate — and I'll run the DSCR numbers and show you exactly what your options look like. We have multiple DSCR investors and programs available and can often find creative structures to make deals work.

Ready to discuss your specific situation?

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I'm here to help you achieve your homeownership or investment goals with personalized solutions and white-glove service. Whether you're a first-time buyer, self-employed professional, or real estate investor, let's build your financial future together.