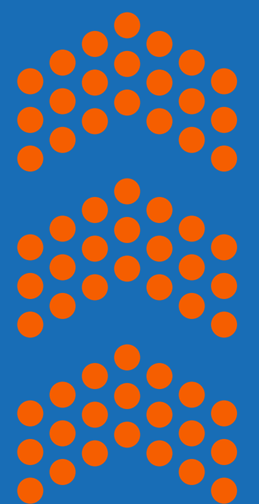
Guide To DSCR Loans



What is DSCR?

DSCR is an acronym for Debt Service Coverage Ratio. It is a metric used by investors to measure the ability of a company to repay its debt. By understanding this ratio, investors can make more informed investment decisions.

DSCR Qualifiers

This program is ideal for any type of non-owner-occupied property, from short-term Airbnb and condo rentals to long-term lease agreements. The DSCR program couples competitive rates with minimal qualification requirements. Limited requirements are used to determine the ability to repay a DSCR loan.

FICO Score

Limited Qualification Requirments

Property Types 1-4 units

Condominium

Townhouse

Duplex

Key Takeaways

- The debt-service coverage ratio (DSCR) is a measure of the cash flow available to pay current debt obligations.
- DSCR is used to analyze firms, projects, or individual borrowers.
- The minimum DSCR that a lender demands depends on macroeconomic conditions. If the economy is growing, lenders may be more forgiving of lower ratios.

DSCR Formula and Calculation

The formula for the debt-service coverage ratio requires net operating income and the total debt servicing for the entity. Net operating income is a company's revenue minus certain operating expenses (COE), not including taxes and interest payments. It is often considered the equivalent of earnings before interest and tax (EBIT).

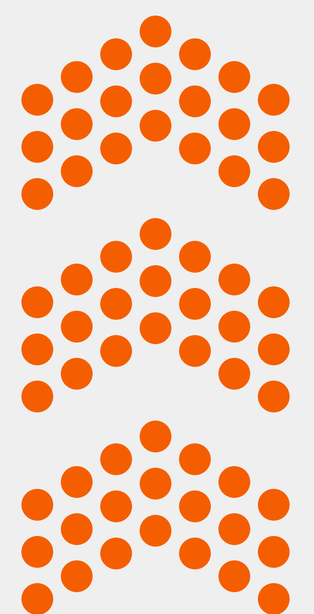
DSCR = Net Operating Income ÷ Total Debt Service

Where:

Net Operation Income = Revenue -Certain Operating Expenses

Total Debt Service = Current debt obligations

What is a Good DSCR?



A "good" DSCR depends on the company's industry, competitors, and stage of growth. For instance, a smaller company that is just beginning to generate cash flow might face lower DSCR expectations compared to a mature company that is already well established. As a general rule, however, a DSCR above 1.25 is often considered "strong," whereas ratios below 1.00 could indicate that the company is facing financial difficulties.

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