Buying an Investment Property? What DSCR Loans Are and Why Real Estate Investors Use Them

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REAL ESTATE INVESTING

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Coltrain Mortgage Team · September 11, 2026 · 6 min read

A traditional mortgage qualifies *you*- your income, your tax returns, your personal debt-to-income ratio. A DSCR loan qualifies the *property*. If you're building a rental portfolio, that difference changes everything about how fast you can scale.

What DSCR actually means

DSCR stands for Debt Service Coverage Ratio. It's a simple comparison: how much rental income the property generates, divided by how much the property's total monthly payment (principal, interest, taxes, insurance, and HOA if applicable) actually costs. Your personal income never enters the equation.

How to calculate it

Say a property has a market rent of **$3,000 a month**, and its total monthly payment comes to **$2,500**. Divide the two: $3,000 ÷ $2,500 = **1.20 DSCR**. A ratio above 1.0 means the property's rent covers its own payment with room to spare; below 1.0 means the rent alone doesn't fully cover it.

🚫 **No Personal Income Docs**	🚫 **No Tax Returns**	🏠 **Qualifies the Property**	📈 **Scales With Your Portfolio**

DSCR of 1.0

The breakeven point: rental income exactly covers the property's payment. Most lenders want to see comfortably above that.

Why investors like this structure

BUY IN AN LLC

DSCR loans are commonly used for properties held in an entity, not just your personal name.

SKIP THE INCOME DOCS

No pay stubs, no tax returns, no W-2s - the property's numbers do the talking.

SCALE PAST DTI LIMITS

Since your personal debt-to-income isn't part of the equation, your own DTI doesn't cap how many properties you can finance.

FASTER, SIMPLER CLOSINGS

Fewer personal documents to gather generally means a more streamlined path to closing.

> **The honest trade-off:** DSCR loans typically come with a higher rate and a larger down payment requirement than an owner-occupied conventional loan - the lender is pricing for investment-property risk. For active investors, the speed and flexibility of qualifying property-by-property usually outweighs that cost.

Who this is for

DSCR loans make the most sense for real estate investors who already have their eye on the next property, or the one after that - where personal income documentation would otherwise become the bottleneck to growing a portfolio.

Have a property in mind? Let's run the DSCR math.

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READY WHEN YOU ARE

Find out what your next property qualifies for.

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