



COURSE 02 / Beginner / 15-20 min

Understanding DSCR

Branded cheat sheet: the calculations and decisions to keep beside your next scenario.

Core decision checklist

1. Divide qualifying rent by the correct payment.
2. Verify rent and every PITIA input.
3. Separate lender qualification from investor cash flow.
4. Stress-test the deal before requesting terms.

Worked examples at a glance

01 What DSCR Measures

A rental has \$2,400 qualifying monthly rent and \$2,000 PITIA. Its residential DSCR is $2,400 / 2,000 = 1.20$. Annualizing both figures gives $\$28,800 / \$24,000 = 1.20$. The \$400 difference excludes vacancy, repairs and management, so it is not yet spendable profit.

02 Choose the Right Qualifying Rent

A lease lists \$2,500 monthly rent; the appraiser supports \$2,300. Under a hypothetical lower-of rule, qualifying rent is \$2,300. With \$2,000 PITIA, DSCR is 1.15, not 1.25. If the program instead permits another documented rent basis, recalculate using that approved basis.

03 Build the Full PITIA Payment

Proposed principal and interest are \$1,600 monthly, annual taxes \$3,000, annual insurance \$1,200 and association dues \$50 monthly. PITIA is $1,600 + 250 + 100 + 50 = \$2,000$. With \$2,400 accepted rent, DSCR is 1.20; using only \$1,600 would incorrectly show 1.50.

04 Interpret Coverage and Lender Limits

For \$2,400 rent and an illustrative 1.25 target, maximum PITIA is $2,400 / 1.25 = \$1,920$. If PITIA is \$2,000, required rent is $2,000 \times 1.25 = \$2,500$. The property needs \$80 less payment or \$100 more accepted rent, subject to program rules.

05 Lender DSCR Is Not Investor Cash Flow

Rent is \$2,400 and PITIA \$2,000, giving 1.20 DSCR. Subtract vacancy \$120, management \$192, maintenance \$120 and replacement savings \$100: planned monthly cash after these allowances is $2,400 - 2,000 - 120 - 192 - 120 - 100 = -\$132$. Qualification does not equal profitability.

06 Stress-Test and Submit a Clear Scenario

Base rent \$2,400 and PITIA \$2,000 yield 1.20. A 10% rent reduction gives \$2,160 and 1.08. Adding \$150 monthly insurance cost gives \$2,150 PITIA and $2,160 / 2,150$ approx. 1.005. Coverage is almost at 1.00 before management, repairs or replacement savings.



Apply it to your deal

Use documented inputs. Keep lender qualification, investment economics and cash timing visible as separate calculations.

Practice before submitting

What DSCR Measures

Write both formulas on paper. For a property you know, identify whether the financing is residential investor lending or commercial lending. Ask the lender to identify its numerator, denominator, time period and rounding policy; do not assume the product name answers those questions.

Stress-Test and Submit a Clear Scenario

Run base, lower-rent and combined-downside cases. Write a one-page scenario with sources for every input and a realistic reserve plan. Identify one condition that would cause you to decline the investment. Then use the cheat sheet and take the review without relying on optimistic estimates.

Quick glossary

DSCR: Income divided by a defined debt payment.

PITIA: Principal, interest, taxes, insurance and association dues.

DTI: Personal debt payments divided by personal income.

Market rent: Supported rent for comparable properties.

Rent roll: Unit-by-unit lease and occupancy summary.

Concession: A rent discount or incentive affecting effective income.

Amortization: Scheduled repayment of principal over time.

Escrow: Funds collected for bills such as taxes and insurance.

Primary-source reading

Visio: rental-loan cost inputs

Fannie Mae: multifamily underwritten DSCR

These sources provide context, not universal program requirements. Formulas, eligible costs, qualifying income, seasoning and fees depend on the transaction. Examples are illustrative and are not actual loan offers.