



Debt Service Coverage Ratio - (DSCR) & Debt to Income - (DTI) Calculation Guide

$$DSCR = \frac{\text{Net Operating Income (NOI)*}}{\text{Yearly P \& I Payment for Subject}}$$

Debt-Service Coverage Ratio = DSCR

The percentage of cash remaining after you pay or service your debt on a property is considered the DSCR. It is a ratio used by banks and lenders in determining maximum income property loans. This ratio should ideally be over 1. That would mean the property is generating enough income to pay all of its debt obligations and still have some cash reserves remaining. A DSCR of less than 1 would mean a negative cash flow. A DSCR of less than 1, say .95%, would mean that there is only enough net operating income to cover 95% of annual debt payments (P&I). For example, this would mean that the borrower would have to use his personal funds, every month, to pay the 5% deficit to make the mortgage payments. Generally, we frown on a negative cash flow, but sometimes will allow it if the borrower has strong outside income.

$$DTI = \frac{\begin{array}{c} \text{Monthly Debt Obligations} \\ + \\ \text{Monthly P \& I on Subject Property} \\ \hline \text{Monthly Income of Guarantor} \\ + \\ \text{Net Rental Income of Subject Property} \\ + \\ \text{Net Income of all other Rental Properties} \end{array}}{\quad}$$

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* How to calculate NOI

Subject Gross Income (100%)

less 5% for Vacancy

. = Effective Gross Income

less Operating Expenses

. = Net Operating income

**Operating Expenses include property insurance, taxes, utilities and repairs & maintenance, all expenses not including the P&I*

Income
- Vacancy
EGI
- Expenses
NOI