RENTAL PROPERTY FINANCING 101

Investor Academy Quick Reference

Leverage • DSCR • Cash Flow • Underwriting • Documentation • Deal Preparation

1. Core Concepts

Term	What it means	Why it matters
LTV	Loan amount ÷ current/appraised value	Measures leverage against the property.
DSCR	Qualifying rent ÷ PITIA	Measures how well property income supports housing debt.
PITIA	Principal + interest + taxes + insurance + association dues	Common monthly housing expense used for rental-property underwriting.
Cash Flow	Income remaining after debt service and operating costs	Shows how much cushion the investment may produce.
Reserves	Liquid assets remaining after closing	Helps demonstrate ability to absorb vacancy, repairs, or payment stress.
Seasoning	How long the investor has owned the property	Can affect cash-out eligibility and maximum leverage.

2. DSCR Formula

DSCR = Qualifying Monthly Rent ÷ PITIA

Example: $3,000 qualifying monthly rent ÷ $2,500 PITIA = **1.20 DSCR**. A 1.00 DSCR means rent equals the monthly housing expense. Above 1.00 indicates a cushion; below 1.00 indicates a shortfall.

DSCR	How to read it
1.25+	Strong coverage; meaningful income cushion.
1.10-1.24	Healthy range, subject to lender, leverage, property, and borrower requirements.
1.00-1.09	Near break-even; may still fit programs designed for lower DSCR.
Below 1.00	Rent does not fully cover PITIA; options may require lower leverage or a different program.

3. Karpata Screening Snapshot

Category	Illustrative Karpata screening guidance*
1-4 Units	Rental Property Advantage: up to 85% LTV; minimum DSCR can be 1.00 depending on program and file.
5-8 Units	Up to roughly 75% LTV; qualifying programs can use property income without personal-income qualification.
9+ Units / Apartments	Typically up to roughly 75% LTV, with more commercial-style analysis of property performance.
Rental Equity	A second mortgage can provide equity access while preserving an attractive first lien.
Prepayment	Investor financing may include prepayment structures; evaluate the cost against the planned hold period.

*Screening guidance only. Actual eligibility, leverage, pricing, reserves, seasoning, appraisal, prepayment structure, and terms vary by lender and file.

4. What Lenders Evaluate

Area	Key underwriting focus
Borrower	Credit profile, experience, liquidity, reserves, entity structure, guarantor strength and background.
Property	Type, condition, location, marketability, occupancy, rent support and value.
Income	Lease/rent schedule, market-rent support where permitted, vacancy assumptions and DSCR.
Leverage	Requested LTV and whether the leverage fits the risk profile.
Transaction	Purchase vs. refinance, cash-out purpose, seasoning, source of funds and timeline.
Exit	For transitional deals: sale, stabilization, refinance, or permanent rental financing.

5. Quick Scenario Checklist

• **Property:** address, property type, units, occupancy, current condition.

• **Transaction:** purchase, rate/term refinance, or cash-out refinance.

• **Numbers:** purchase price, current value, existing debt, requested loan, rehab budget if applicable.

• **Income:** current rent, market rent where relevant, lease status, taxes, insurance and HOA.

• **Borrower:** approximate FICO, experience, entity and liquidity/reserves.

• **Timing:** target closing date and whether the property is under contract.

• **Strategy:** long-term hold, BRRRR, portfolio growth, cash-out, or other exit.

6. Common Documentation

Usually requested early	May be requested during underwriting
Purchase contract / payoff statement	Entity documents / operating agreement
Government-issued ID	Lease(s) / rent roll
Insurance information	Bank / reserve statements
Current mortgage statement for refinance	Explanation letters, if needed
Entity / vesting information	Appraisal / valuation documents
Basic borrower and experience information	Additional property-specific items

7. Red Flags That Can Change the Deal

• Low DSCR or weak rent support.

• High leverage combined with weak credit or limited liquidity.

• Recent purchase followed by aggressive cash-out.

• Unpermitted work, major deferred maintenance, or unusual property condition.

• Special-purpose or hard-to-market property type.

• Short-term-rental income without acceptable support.

• Ownership, title, lien, bankruptcy, foreclosure, or entity issues.

• Very short closing timeline with incomplete documentation.

8. Deal-Improvement Levers

Problem	Possible response
DSCR too low	Reduce loan amount, improve rent support, consider interest-only if appropriate/available, or evaluate another lender program.
Cash required too high	Review leverage options, credits, seller structure, or a different capital source.
Attractive existing first lien	Consider rental-equity financing rather than replacing the first mortgage.
Property not stabilized	Use bridge/rehab financing, then refinance into long-term rental financing after stabilization.

Problem	Possible response
One lender says no	Re-screen the file across Karpata's wider capital network rather than assuming the transaction is dead.

9. Worked Example

Scenario: Investor purchases a single-family rental for $300,000. Qualifying rent is $2,650/month. Proposed loan is $240,000. Estimated PITIA is $2,250/month.

Metric	Calculation	Result
LTV	$240,000 ÷ $300,000	80.0%
DSCR	$2,650 ÷ $2,250	1.18
Rent cushion	$2,650 - $2,250	$400/mo
Equity at closing*	$300,000 - $240,000	$60,000

*Before closing costs and required reserves.

10. Questions to Ask Before Choosing a Loan

• What leverage do I actually need, rather than simply taking the maximum available?

• What DSCR does the proposed structure produce today?

• Does the property still work if taxes, insurance, HOA or vacancy increase?

• Is there a prepayment penalty, and does it match my planned hold period?

• What are the points, broker fees, third-party fees and total cash to close?

• Is the rate fixed, adjustable or interest-only?

• What reserve requirement applies?

• Would lower leverage produce a materially better rate or structure?

• If I plan to refinance or sell quickly, what structure gives me the best flexibility?

• If the property needs work, should I use bridge/rehab financing first?

11. Fast Formula Box

Formula	Equation
LTV	Loan Amount ÷ Property Value
DSCR	Qualifying Rent ÷ PITIA
Simple Monthly Cash Flow	Gross Rent - PITIA - operating expenses
Equity	Property Value - Total Debt
Simplified Cash-Out	New Loan - Existing Debt - Closing Costs

READY TO REVIEW A DEAL?

Karpata Finance Group | 480-846-1001 | www.karpatafinance.com

Send the property, transaction type, value/purchase price, rent, requested loan amount, credit range and closing timeline for an initial financing review.

Educational material only. This guide is not a commitment to lend, approval, rate quote, or guarantee of terms. Program requirements vary by lender, borrower, property, transaction and market.