DSCR & AIRBNB · 18 MIN READ · UPDATED 2025

The Ultimate Airbnb *Financing Guide*

A complete walkthrough of qualifying, structuring, and closing on your first — or fifth — short-term rental in today's rate environment.

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1. Why Traditional Mortgages Fail STR Investors

If you've tried to finance a short-term rental with a conventional loan, you've already hit the wall. Banks want two years of tax returns. They don't count Airbnb income until it shows up on Schedule C or Schedule E. And they treat vacation rentals as risky speculation rather than cash-flowing assets.

That's where DSCR loans change everything. Debt Service Coverage Ratio lending evaluates the property's income — not your personal W-2. If the rental covers the debt (typically a 1.25x ratio or higher), you qualify.

2. DSCR Loans Explained

DSCR = Gross Monthly Rent ÷ PITIA (Principal, Interest, Taxes, Insurance, Association dues). A DSCR of 1.25 means the property generates 25% more income than the monthly loan payment. No tax returns. No employment verification. No debt-to-income calculations.

Typical DSCR loan terms in today's market:

- Loan amounts from $150K to $3.5M
- 20–25% down payment
- 30-year fixed, ARM, or interest-only options
- Credit score minimum 660 (best pricing at 740+)
- Close in an LLC — protects your personal assets

3. Proving STR Income

For new acquisitions, lenders use one of three methods:

- **AirDNA Rentalizer** — third-party rental projection based on comparable STRs in the market.
- **Form 1007 (Rent Schedule)** — appraiser's opinion of market rent.
- **Trailing 12-month P&L** — for properties already operating as STRs (Airbnb/VRBO exports work).

4. Down Payment & Reserves

Plan for 20–25% down plus 6 months of PITIA in reserves. Reserves can be in checking, savings, brokerage accounts, or retirement accounts (typically counted at 70% of vested balance). Gift funds are generally not permitted on DSCR loans — the down payment must be your own capital.

5. Interest Rates & Terms

DSCR rates typically run 0.75%–1.5% above conventional owner-occupied rates. Pricing improves with: higher credit scores, lower LTV, higher DSCR, and prepayment penalty acceptance (3-5-7 year step-downs are common and can shave up to 0.5% off the rate).

6. The 18-Day Close Process

A typical timeline once you're under contract:

- **Days 1–2:** Application, credit pull, term sheet issued.
- **Days 3–5:** Appraisal ordered, insurance quoted, title opened.
- **Days 6–12:** Appraisal returned, underwriting review, conditions cleared.
- **Days 13–16:** Clear to close, final CD issued.
- **Days 17–18:** Sign and fund.

7. Smoky Mountain Market Notes

Sevier County (Gatlinburg, Pigeon Forge, Sevierville) is one of the strongest STR markets in the country — 14M+ annual visitors, no state income tax, and STR-friendly zoning across most cabin corridors. Average cabin ADR runs $285–$450 depending on view, hot tub, and game room amenities. Occupancy averages 55–65% year-round with peaks in October and June.

8. Common Mistakes That Kill Deals

- Buying in an HOA that restricts short-term rentals — always verify.
- Underestimating insurance — STR policies run 2–3x conventional.
- Skipping the AirDNA report before making an offer.
- Not budgeting for furnishing ($30K–$80K for a turnkey cabin).
- Closing in your personal name instead of an LLC.

9. Next Steps

Book a strategy call with Lisa to review your specific deal, run the DSCR math, and get pre-qualified before you write your next offer. Education first. Financing second.

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