INVESTOR FIELD GUIDES / BOOK 03

DSCR Without the Guesswork

Understand lender qualification, true expenses, and the coverage that protects your investment

Real Estate Nate

Free Investor Academy

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All examples in this guide are hypothetical and are not Nate's transaction history. Lender programs, calculations, terms, and requirements vary. Confirm the current terms for the property and loan you are considering.

The question behind the number

When an investor tells me a rental has a 1.30 DSCR, my first question is simple: What went into the calculation? A ratio can be mathematically correct and still leave out costs that matter to your ownership decision.

A lender may compare rent with a payment that includes principal, interest, taxes, insurance, and applicable association dues. That is useful information about the lender's underwriting method. I also want to know what happens after the expenses of operating and maintaining the property. Those are separate questions, and I want the answers to both before I decide whether to buy.

My own standard is at least 1.30 expense-adjusted coverage, along with positive cash flow, using realistic allowances. I do not assume a lender applies that same definition. Nor do I assume my calculation guarantees a loan or a return.

1. What a coverage ratio tells you

A coverage ratio compares money available to a payment obligation. A ratio of 1.00 means the numerator and denominator are equal. A ratio above 1.00 means the numerator is larger; below 1.00 means it is smaller. The meaning depends on exactly which income, costs, and payments were included.

Use the same time period on both sides. Divide monthly amounts by monthly amounts, or annual amounts by annual amounts. Do not compare annual rent with one monthly

payment. And do not compare a lender's ratio directly with another calculation until you know how each is defined.

2. A lender-style illustration

Assume monthly rent is $1,600 and the lender's relevant monthly PITIA payment is $1,200. PITIA here means principal, interest, property taxes, insurance, and applicable association dues. Rent divided by PITIA is approximately 1.33.

That 1.33 does not mean $400 is spendable cash flow. Vacancy, management, maintenance, replacement reserves, utilities paid by the owner, and other property costs may still need to be paid. Whether the loan qualifies depends on the lender's actual rules, documentation, and approval-not on this example.

Ask whether the lender uses lease rent, market rent, a lower supported amount, or another measure; what payment components are included; and what happens when an association fee or insurance quote changes. Different lenders and products may answer differently.

3. My expense-adjusted test

Now give the same hypothetical property a separate owner-focused analysis. Assume $1,600 scheduled rent, $80 vacancy, $128 management, $110 maintenance, $110 replacement reserves, $250 taxes and insurance, and no other owner expenses in this simplified illustration.

After those allowances, $922 remains for principal and interest: $1,600 - $80 - $128 - $110 - $110 - $250. If principal and interest are $950, the expense-adjusted coverage is about 0.97, and estimated monthly cash flow is negative $28 before income taxes and omitted expenses.

Compare the two results carefully. The lender-style example used a $1,200 PITIA payment, made up here of $950 principal and interest plus $250 taxes and insurance. It produced 1.33. My expense-adjusted calculation uses the same $950 principal and interest, but first deducts the additional operating allowances. It produces approximately 0.97. Neither result changes the arithmetic of the other; they answer different questions.

Nate's perspective: In this illustration, I would pass at these assumptions even if a lender were willing to approve the loan. I want the property to support its ownership costs, cash flow, and my expense-adjusted coverage target. Before deciding, I would verify the rent, expenses, payment, and property condition.

4. Do not count the same cost twice

If you start with $1,600 rent, subtract vacancy, management, maintenance, replacement reserves, taxes, and insurance, then compare what remains with principal and interest only. If you instead subtract a PITIA payment containing taxes and insurance from rent, do not also subtract those same taxes and insurance as a separate line.

The two layouts can produce the same cash-flow estimate when every item is included exactly once. The resulting ratios are not automatically interchangeable: changing the numerator or denominator changes the question. Write the formula next to every ratio you use.

Keep an eye on other overlaps. A management agreement may calculate fees on collected rent rather than scheduled rent. A repair budget may already include a replacement item for which you are separately setting aside reserves. A monthly allowance is a planning tool; it is not proof that a particular

bill will arrive monthly or that the property has enough cash on hand today.

5. Work backward to a payment

At a 1.30 expense-adjusted target, divide the amount available for principal and interest by 1.30. In the example, $922 divided by 1.30 is approximately $709. That is the approximate maximum monthly principal and interest supported by that test under those assumptions-not a loan approval and not a purchase price.

Ask a lender what loan amount corresponds to that payment at the actual proposed rate and amortization. Then account for the down payment, lender limits, closing costs, repairs, and remaining reserves. Check whether the purchase price supported by the cash available is lower. Recalculate taxes, insurance, interest, and other costs if a change in price or financing changes them.

For example, if a proposed structure required $950 of principal and interest, reducing that payment to $709 might require a lower purchase price, a larger down payment, different terms, or some combination. Do not assume the seller will accept the necessary price or that putting more cash down is the right decision. Extra cash invested should be evaluated alongside the reserves that remain.

6. Stress the assumptions

A ratio is a snapshot, not a shield against an unexpected bill. Test the rent and expense assumptions with numbers supported by the market and the property's condition.

Suppose the $1,600 rent in our example turns out to be $1,500. If vacancy remains 5% and management remains 8% of scheduled rent, those allowances become $75 and $120.

Keeping the other assumptions unchanged leaves $835 for principal and interest: $1,500 - $75 - $120 - $110 - $110 - $250. With the original $950 principal and interest, coverage is approximately 0.88 and monthly cash flow is negative $115.

That result is not a forecast. It shows how sensitive this particular model is to the rent assumption. An insurance increase, higher repair needs, or a change in financing can produce a different result. Test one change at a time to understand its effect, then test a realistic combination. Avoid counting a cost twice when you build the combined case.

7. Questions for the lender

1. What income amount will you use, and how will it be documented?

2. What exactly is included in the payment denominator?

3. How do you treat association dues, insurance, and property taxes?

4. What loan amount, rate, amortization, points, and closing costs are proposed?

5. Are there prepayment charges, a balloon, an adjustable rate, or other terms I should model?

6. What reserves, property condition, appraisal, and borrower documentation are required?

7. What happens if the appraisal or supported rent is lower than expected?

Get the answers for the actual loan. A lender's general advertisement or another investor's terms are not a commitment to finance your property.

8. Make the decision with the whole picture

I use coverage to discipline the purchase, but I do not stop there. A property can meet a ratio and still require more cash than I can safely commit. It can have positive projected cash flow but need a roof before the reserve is built. It can qualify at today's payment and become difficult to refinance later. My decision must account for the condition, cash required, liquidity, loan terms, and credible downside as well as the ratio.

If the numbers do not meet the standard, investigate whether a supported lower offer or different structure solves the issue without undermining reserves. If not, pass. The purpose is to find an investment that can support itself, not to adjust assumptions until a calculator displays the answer I wanted.

Use the academy's DSCR course, DSCR worksheet, and deal tools to work through your own figures. Review the underlying lender documents and property-specific costs before taking action.

A closer look: the approval that is not the finish line

Imagine you are considering a house listed for $135,000. A lender's preliminary worksheet uses $1,500 of monthly rent and a $1,100 PITIA payment. Under that particular illustration, the ratio is about 1.36. You might hear that the loan appears to meet the lender's coverage test. Before you celebrate, read what the worksheet actually says: an initial calculation may depend on appraisal, lease or market-rent documentation, insurance, borrower qualifications, final terms and other conditions. It is not necessarily a final approval.

Now work through the ownership decision. Suppose the $1,100 payment includes $800 of principal and interest and $300 of taxes and insurance. For illustration, you budget $75 for vacancy, $120 for management, $100 for maintenance and $100 for replacements. Assume no other owner costs for this simplified example. Subtracting those four allowances and the $300 tax-and-insurance amount from $1,500 leaves $805 for principal and interest. At an $800 payment, the expense-adjusted coverage is approximately 1.01 and cash flow is about $5 per month before income taxes and any omitted costs.

The two answers are not a contradiction. The lender-style calculation compares $1,500 with $1,100. My ownership calculation first accounts for operating allowances and then compares what remains with principal and interest. I would not buy this property under these assumptions just because a lender-style ratio looks favorable. Five dollars a month leaves almost no room for an omitted expense, and the expense-adjusted ratio is below my 1.30 target.

What might change the conclusion? A supportable lower price and loan amount could reduce the payment. Actual tax or insurance quotes might differ. Verified rent or a property-specific cost may be different from the estimate. Each change must be supported by evidence. I would not lower a maintenance allowance simply because the revised number makes the ratio reach 1.30.

Work backward without spending the reserve

With $805 available before principal and interest, the payment supported by a 1.30 expense-adjusted target is about $619 a month. Ask the lender what principal balance corresponds to that payment at the actual rate and amortization. Then calculate the down payment and closing cash that structure requires. Do not treat the payment ceiling as a quoted loan or assume the lender will offer it.

There is an easy trap here. Suppose you could reach the $619 payment by putting an extra $30,000 down. If that leaves you with no property reserve, you have traded one problem for another. Compare the cash remaining after closing, repairs and reserves, and consider whether the return on the additional invested cash still meets your goals. If the only way the deal meets coverage is to use money you need for safety, the right response may be a lower offer or a pass.

The same discipline applies when someone proposes interest-only payments. Ask when the interest-only period ends and model the later payment under the contract terms. A favorable initial ratio does not establish that the property can support a higher payment later. If a loan resets, balloons or matures, model that event and maintain a plan that does not depend on an unapproved refinance.

A second scenario: a good ratio with a cash problem

Assume a different property has $1,040 remaining each month after supported operating allowances, taxes and insurance. The proposed principal and interest are $700. The expense-adjusted ratio is about 1.49 and the estimated monthly cash flow is $340 before omitted expenses and income taxes. Those results exceed my simplified ratio and cash-flow tests.

But suppose the purchase, closing and initial repairs require $68,000, and the buyer has only $70,000 available after household reserves. If the buyer's plan calls for a separate $10,000 property reserve, the cash plan is short by $8,000 before any additional costs. A strong monthly ratio does not create that missing cash. The buyer needs verified additional funds, lower total costs or a different deal; the ratio alone does not make the purchase safe.

This is why I review coverage, cash flow and liquidity together. Coverage helps evaluate the relationship between modeled operating income and the payment. Cash flow shows the estimated monthly dollars left after the modeled costs and debt service. Reserves address whether you have accessible money when costs arrive. None tells the whole story by itself.

Practice: find the missing piece

Property A has $1,200 scheduled rent. Monthly allowances are $60 vacancy, $96 management, $90 maintenance, $90 replacements and $180 taxes and insurance. There are no other owner expenses in this simplified exercise. Principal and interest are $500. What is the expense-adjusted coverage, and what is monthly cash flow?

The amount available for principal and interest is $684. Divide $684 by $500 and coverage is approximately 1.37. Subtract the payment and estimated cash flow is $184. It passes my two simplified tests. It is still not an automatic purchase: verify the assumptions, condition, loan, closing cash and reserve.

Now suppose a new insurance quote adds $50 a month to the tax-and-insurance figure. The available amount falls to $634, coverage to about 1.27, and cash flow to $134. The same property remains cash-flow positive but no longer reaches the 1.30 target. An investor who looks only at the first result could miss a decision-changing fact.

Keep the evidence with the answer

For each number in your analysis, record the amount, its period, its source and when you obtained it. Keep the lender's written estimate separate from the final loan documents. Mark rent as supported by actual leases, comparable evidence or an unverified estimate, as appropriate. Record whether management is based on scheduled or collected rent and what the quoted service includes. Note which repair items are already accounted for in the renovation budget and which belong in ongoing maintenance or replacement planning.

When a new quote arrives, change the input and recalculate the whole picture. Ask whether it affects cash at closing, monthly costs, the reserve or all three. A clear record makes it easier to explain an offer, spot double-counting and revisit the deal later without relying on memory.

Compare the ratios line by line

Take a monthly rent assumption of $1,600, a hypothetical PITIA of $1,130 and a principal-and-interest component of $875. A rent-to-PITIA screen would read about 1.42. For an owner’s expense-adjusted screen, deduct the $255 of taxes and insurance embedded in PITIA, plus $80 vacancy, $128 management, $110 routine maintenance and $100 replacements. Assume no HOA or other owner costs in this exercise. The resulting $927 divided by $875 is about 1.06. Estimated cash flow is $52 before omitted costs and income taxes. The property could look strong under the first screen and fall short of my 1.30 benchmark under the second.

Ask a lender to mark up the numerator and denominator of its own test. Write your ownership assumptions beside it. If the loan officer quotes another coverage result, find the specific input that accounts for the difference before assuming anyone made a mistake.

Field exercise: Underwrite the payment after the reset

The facts you have

Assume a rental produces $1,170 a month after realistic operating costs and before principal and interest. The original principal-and-interest payment is $825. A later payment under a plausible renewal scenario is $980. No lender approval or rate is assumed in this exercise.

How I would work it

Coverage at the original payment is about 1.42 and projected cash flow is $345. At $980, coverage falls to about 1.19 and cash flow to $190. The higher payment leaves positive dollars but fails my 1.30 screen. At the unchanged income assumption, $900 is the supported payment at 1.30. Ask the lender what terms could produce that payment and what the costs would be; do not assume the existing loan will renew on the terms you want.

Work the next decision

Now model a $90 monthly increase in owner-paid costs as well. Available income becomes $1,080 and the supported payment falls to about $831. Explain why an old underwriting decision cannot carry forward unchanged.

The rent roll that sounds stronger than it is

Imagine that you are reviewing a duplex advertised as bringing in $2,400 a month. One unit has a lease at $1,150 and a payment history that supports it. The other is advertised at $1,250 but has been empty for six weeks. The owner says the vacant unit will lease immediately once you take over. There is no pending application in the material you have seen, and your manager estimates $1,100 after some minor work.

I would put three separate lines in the file: documented current collections, supported stabilized rent, and the seller's claim. In this case the current contract for the occupied unit is $1,150, assuming it is still being collected. The supportable preliminary stabilized figure is $2,250, not $2,400. Whether you eventually collect more is a question for the market, not something I would pay for on day one. The vacant unit also

needs a calendar: the work, the marketing period, move-in, and when the first payment is likely to be available.

Suppose property taxes and insurance are $380 a month, owner-paid water and other costs $120, vacancy allowance 5%, management 8% of scheduled rent for this planning model, routine maintenance $125 and replacement reserves $125. At the supported $2,250 scheduled figure, vacancy is $112.50 and management is $180. Subtract all six cost lines and you have $1,207.50 available for monthly principal and interest. At a proposed $950 payment, coverage is approximately 1.27 and monthly cash flow is $257.50. Positive cash flow does not make the coverage pass.

Now look at what the advertised rent would have done. At $2,400, with the same fixed costs and percentages, income available for debt is $1,338, and coverage is approximately 1.41. That is enough difference to make a buyer put the deal in the wrong pile. The problem was not bad division. The problem was putting $150 into the rent line before there was evidence for it. I would ask the manager for the units that support the lower estimate, verify the existing lease and recent collections, and update both the payment ceiling and the lease-up cash budget.

An occupied unit still deserves an audit

A lease tells you what somebody agreed to pay. It does not establish what the owner has received. Ask for a ledger and compare it against the lease, dates and any written concessions or amendments. An owner can have a tenant paying $1,150 regularly, a tenant with a temporary concession, or a balance that is overdue. The same lease headline can describe all three. Work with the parties handling the transaction to obtain records appropriately; the point is verifying income, not collecting personal information you do not need.

For underwriting, reconcile the most recent payments rather than assuming that a single late payment means the tenant will never pay or that a single deposit proves a trend. Make notes about collections you could not verify. If you choose to use stabilized income for the long-term screen, budget the period until stabilization separately. Do not use a full stabilized month as proof that the first month after closing is funded.

Two break-even numbers to put on the same page

When a property is close, I like to know the rent that covers the bills and the rent that reaches my coverage threshold. They are different answers. Suppose fixed monthly operating costs, including reserves, total $460. Management and vacancy together are modeled at 13% of scheduled rent. Principal and interest are $720. These are assumptions for this example, not a recommended universal expense budget.

The cash-flow break-even equation is 0.87 times rent, minus $460, minus $720, equals zero. The answer is about $1,356.33. That is the rent needed to cover the modeled outlays, rounded up to the cent. For 1.30 coverage, the property must generate $936 before principal and interest, which means 0.87 times rent must equal $1,396. That rent is about $1,604.60 when rounded up.

If the well-supported rent is $1,500, the property clears one test and fails the other. Its projected cash flow is $125, and $845 divided by $720 gives about 1.17 coverage. A buyer who asks only whether the property makes money can call it a pass. I would see a useful opportunity to ask whether price or structure can move enough to reach my target without spending the reserve. I would not raise the rent on the worksheet just to turn the result green.

You can work the same model backward from a price. At $1,500, the payment ceiling is $845 divided by 1.30, or $650. The gap between the proposed payment and the target is $70 a month. That does not tell you what price to offer until you know how the loan amount, rate, amortization and other costs change. Ask for two written loan illustrations. Use the same expense assumptions for the comparison unless there is a reason that one of the expense lines also changes.

What the cushion actually means

If a property has $1,040 available before $800 of principal and interest, coverage is 1.30 and the dollar spread is $240. The thirty-hundredths above 1.00 represent thirty cents of modeled cushion for each dollar of that debt payment. It does not mean you can lose 30% of scheduled rent and still break even. Rent is larger than the amount remaining after expenses, and fixed expenses do not fall just because rent falls.

Suppose a storm expense is $1,500 above the modeled budget and is paid at once. An average $240 monthly spread can be useful over the year, but the invoice is still due on its own schedule. If you have a separate reserve, the owner can deal with the expense while figuring out what the long-term numbers now look like. If you planned to build that reserve out of future rent, the property might be exposed on day one. I want the year to work and the week when a bill shows up to work.

Read the management quote before you set the percentage

A manager quotes 8% of rent collected. That tells you something about the regular fee and its basis, but it does not tell you what a turnover or a renewal will cost. Ask for the fee schedule and the agreement. Write down minimum charges, fees during vacancy if any, renewal fees, lease-up costs, and how repairs are approved. If the manager includes a service in the regular fee, do not add it again. If the work is extra, give it a home in the model.

Take a hypothetical unit that rents at $1,500 for eleven months of the year. At 8% of rent actually collected, the recurring management fee would be $1,320 for that year. A separate $750 placement fee, if applicable in that year and not included anywhere else, brings the combined annual cost to $2,070. That is $172.50 a month on an annual-average basis. A worksheet that sets aside $120 every month based on 8% of scheduled rent creates only $1,440 for management, $630 less than the combined example. The two models also have different timing: the placement fee occurs in a particular month and the regular fee follows collections.

I am comfortable screening leads with reasonable assumptions because I do not have every quote on day one. When I get close to offering or committing, I want the actual contract and costs. I also model the management expense if I plan to self-manage. My time has a cost, and I want to see whether the property can still work if I need help later. For an actual model, say whether the management charge is a real upcoming cash outlay or an ownership allowance you are reserving room for. The cash forecast and the underwriting screen can differ, but the difference should be on purpose.

Case file: the water bill takes a different route

A listing says the tenant pays utilities. The current water bill shows the owner is billed, and the lease language you were given is not clear about reimbursement. Your draft numbers used $1,650 in scheduled rent and $220 in taxes and insurance, $82.50 vacancy, $132 management, $115 maintenance, $105 replacements, and $25 other operating costs. That left $970.50 for principal and interest. At a $735 payment, coverage was approximately 1.32.

Ask for the bills and the applicable lease terms, and have the relevant professionals verify what the owner can recover and when. Suppose the verified owner burden is $70 a month and the $25 already in the model covers unrelated costs. Income before principal and interest becomes $900.50, coverage drops to about 1.23, and monthly cash flow is $165.50. The 1.30 payment ceiling falls to about $692.69. If the current estimate includes water already, the adjustment is wrong. Reconcile by line rather than guessing which figure is hidden in another.

There are a few reasonable next decisions. You could reprice the offer using the verified bills. You could ask the lender what the lower payment requires, compare the cash cost of the change, and see whether it leaves a usable reserve. Or you could pass. An unsupported assumption that the next tenant will pay the bill is not another financing strategy. If reimbursement is already lawful, clearly documented and consistently received, then evaluate that evidence and build it in with realistic timing. If it remains unclear, document why you have not given it credit.

A two-unit stress test that respects the calendar

Suppose two units rent for $1,050 each and all projected monthly ownership costs, including debt service, are $1,740 when fully occupied. Under that simplified occupied-month forecast you would have $360 left. Now model a two-month vacancy in one unit and an additional $900 turnover bill. If recurring outlays stay unchanged, the remaining $1,050 collected each month leaves a $690 cash gap in each vacant month. Over two months, plus the turnover bill, the cash gap is $2,280. The difference from the original occupied plan over those months is $3,000: the two missing rent payments plus the bill.

The cash gap and the change against plan are both useful, but they answer different questions. The $2,280 tells you the amount you would need to cover the modeled months, subject to the order that checks clear. The $3,000 tells you how much worse the outcome is than the original plan, which had $720 of cash surplus over those months. Do not add both together. And if the original monthly forecast included vacancy or a turnover allowance, separate those modeled reserves from the checks being paid so you do not represent the same loss twice.

Put the bills on the calendar. Is the debt payment due before the occupied tenant pays? Does the vendor require a deposit? Would the management fee fall when collections fall, and does a minimum fee apply? An annual average can tell you how an investment tends to perform; a monthly cash schedule tells you when an actual amount is needed. This is why I want an opening reserve and an operating forecast. I do not expect the first two weeks of ownership to pay for the first surprise.

Compare payment offers without buying the lowest payment

Suppose a supported model leaves $1,025 a month before principal and interest. Loan illustration A shows $810 of principal and interest and requires $40,000 in total acquisition cash before reserves. Loan illustration B shows $760 and requires $49,000 on the same basis. There is $57,000 available and the investor wants $12,000 untouched as an opening property reserve. Assume the same property condition and operating costs in both illustrations.

A has about 1.27 coverage and $215 projected monthly cash flow, but it leaves $17,000 in cash and thus clears the reserve requirement. B has about 1.35 coverage and $265 monthly cash flow, but it leaves only $8,000. Neither illustration clears both gates. The $50 monthly payment improvement under B does not buy back the $4,000 reserve shortfall at closing. It is possible the options change after a revised price or a documented quote; it is also possible the right decision is to walk away.

What would I ask for next? For A, determine what changes could bring principal and interest to $1,025 divided by 1.30, about $788.46, without pushing cash required above $45,000. For B, figure out what is driving the extra upfront requirement and whether a different price or structure can lower it while preserving coverage. If the lower payment comes from a feature that can change later, model that later payment too. Show the two offers on one page, with their evidence and dates, so the decision is not just the most attractive number in each column pulled out of context.

Practice lab: three problems and the answer key

Problem one: repair estimate or recurring allowance?

A quote shows $9,000 of necessary work before rent begins. You also planned $95 a month for routine maintenance and $100 a month for replacements after stabilization. A partner proposes to remove both monthly allowances because you are already spending $9,000. What would you do?

I would read the scope. If the $9,000 covers specific work to get the property ready, it belongs in the upfront cash schedule. It may change some expected future expenses, but it does not establish that the house will need no maintenance or replacement funding. If the scope replaces a component whose future replacement allowance was based on a short remaining life, revise that allowance using documented expectations instead of zeroing the entire category. Recheck the reserve and cash schedule separately. A repair you pay at closing is not automatically a recurring expense, and recurring expenses do not disappear because you repaired something else.

Problem two: an error in the payment column

A property has $1,550 scheduled rent. Vacancy and management total $201.50 in this simplified screen; maintenance and replacements total $210. Taxes and insurance are $220. The lender worksheet shows $1,020 monthly PITIA, including those same taxes and insurance and no association dues. Another buyer subtracts $220 and $1,020, along with the other allowances, from rent. Reconcile their answer.

The principal-and-interest portion is $800. Subtract the $201.50, $210 and $220 once from rent: $918.50 remains for debt. Coverage is $918.50 divided by $800, approximately

1.15. Estimated cash flow is $118.50. Alternatively, subtract $201.50 and $210 and then the full $1,020; that gives the same $118.50. The other buyer understated cash flow by $220. Fixing the mistake still does not make the property pass a 1.30 coverage gate.

Problem three: ask what changed between two versions

You originally used $1,450 scheduled rent, $610 in all modeled operating costs and $625 principal and interest. The property passed your coverage screen. A week later, new rent support suggests $1,400 and a written quote raises modeled monthly operating costs to $625. Hold principal and interest unchanged. What changed, and how would you explain the decision to a partner?

The first version left $840 before debt, or about 1.34 coverage, and $215 estimated cash flow. The updated version leaves $775, or 1.24 coverage, and $150 cash flow. The evidence changed two lines in the model, so the decision changes even though the seller's price and your quoted payment are the same. The new maximum principal and interest at 1.30 is about $596.15. Tell the partner what supports the new rent, which cost moved, and what payment or price change you would investigate. Do not describe the $65 drop in projected cash flow as temporary unless you have evidence that it is.

The page I want before making an offer

Put the property's supportable income and the source beside it. Put recurring costs on separate lines, with actual quotes distinguished from assumptions. Put principal and interest on its own line, and keep taxes, insurance and association charges from being counted a second time. Mark the lender's coverage calculation separately, with the lender's own definitions. Then write the owner-focused ratio, the dollar cash flow, the property reserve and the change you would make if a new quote comes in higher.

I want a second person to be able to follow the worksheet without asking me to remember what I meant by a number. That is the best test of whether I know what I am buying. If I cannot defend the inputs, it does not matter that the spreadsheet can calculate to four decimal places. A straightforward offer based on supportable numbers gives me room to make a good decision. Sometimes the result is an offer. Sometimes it is a polite pass and a better understanding of the next property.

Optional case: When a promising deal stops working

The rental earns a modeled $1,650 per month. After $132 for management, $165 for vacancy and repairs, $250 for taxes and insurance, and $70 for replacements, it has $1,033 before principal and interest. A $740 payment gives expense-adjusted coverage of about 1.40. A written insurance quote adds $90. The revised income is $943, so the ratio falls to about 1.27 despite $203 in estimated monthly cash flow.

Work it: What payment meets my 1.30 screen now? Divide $943 by 1.30: about $725 per month. I would ask for actual terms at that payment, then check upfront cash and reserves. That figure is my ownership screen, not a lender approval or its DSCR calculation.

Where I’d draw the line

I’d draw the line at the verified payment. If the new insurance quote leaves $943 available, I’m looking for principal and interest at about $725 or less, then checking what that structure does to my cash at closing. I won’t raise estimated rent just to get back to 1.30. On your next deal, write down the payment ceiling before you shop the terms.

See how the full deal played out in the optional case in Is This Really a Good Real Estate Deal?.