

# **The Lender's Lens**

*A Field Guide to Real Estate Investor  
Financing*

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# How to Use This Book

This is a working book, not a book you read once and shelve. It is built to sit next to you while you analyze a real deal and decide how to finance it.

Each chapter teaches one part of the financing decision, then ends with a short prompt to run your own numbers. The worksheets near the back let you score a deal by hand in a few minutes. Nothing here asks you to take anything on faith. Every rule of thumb is explained so you can see why it holds and when it breaks.

A note on what is fixed and what moves. The principles in this book do not change much from year to year. A debt service coverage ratio is calculated the same way it always has been. A prepayment penalty costs you the same way it always has. What does change, sometimes month to month, is the actual price of money: the rate a lender quotes, the points, the leverage they will extend. For those moving numbers, this book teaches you how to read them rather than freezing a figure that will be stale by the time you hold the book.

When you want current numbers, the companion site keeps the live versions. The free calculators at [investorloancompass.com/book](http://investorloancompass.com/book) run the same math taught here, and the independent Rate and Terms Survey on that site tracks where investor loan pricing actually sits right now. Use the book to learn the decision. Use the site to run today's numbers against it. Neither one sells you a loan, and that is the point.

One more thing. This book is written for an investor who already owns at least one property or is actively trying to buy the next one. It assumes you understand rent, a mortgage payment, and the basic idea of a rental. It does not assume you have ever read a term sheet or spoken to a lender who underwrites the property instead of you. By the end, both of those will feel routine.

## CHAPTER 1

# Where Deals Die

Most investors believe a deal is won or lost on the purchase. Find the right property at the right price, the thinking goes, and the rest is paperwork. So they pour their energy into the search, the offer, the negotiation over a few thousand dollars of price. Then they get to financing, treat it as a formality, and watch the deal slip through their hands at the last step.

Financing is not the formality. It is the second negotiation, and it is the one more deals die on. A property that pencils at one rate is a loss at a rate three quarters of a point higher. A deal that closes with a portfolio lender is declined by a conventional one looking at the same file. The difference between an investor who scales and one who stalls is rarely the ability to find properties. It is almost always the ability to finance them, again and again, on terms that leave the deal standing.

### **The five ways a deal dies at financing**

There are only a handful of ways financing kills a deal, and they repeat. Learn to see them coming and you will avoid most of the damage.

The first is the wrong loan type. An investor takes a property that was perfect for a rental loan to a conventional lender, gets buried in personal income documentation, and loses the property to a cash buyer while waiting. The product did not match the deal. Chapter four is about never making that mistake.

The second is the wrong lender. Two lenders offering the same product are not the same lender. One closes in eighteen days and one takes forty-five. One counts the full market rent and one haircuts it. The deal that survives with the first one dies with the second. Chapter eight is about telling them apart.

The third is a number the investor never ran. The rent did not cover the payment by the margin the lender required. The rehab came in over the figure the loan was sized against. The cash needed to close was higher than expected once the reserves requirement appeared. None of these are surprises to the lender. They are only surprises to the borrower who did not run them first.

The fourth is a clause buried in the term sheet. A prepayment penalty that turns a quick refinance into an expensive one. A rate that adjusts sooner than the investor planned to hold. The headline rate looked fine. The cost that was not the rate is what did the damage. Chapter seven teaches you to read for it.

The fifth is timing. The investor started thinking about financing after the property was under contract, lost a week finding a lender, lost another week in underwriting surprises, and ran out of road before closing. Financing that begins the day you go under contract is already late.

## **Why this keeps happening**

None of these failures require bad luck. They require only that the investor treated financing as something that happens to them rather than something they direct. The lender is not the enemy here. The lender is a counterparty with its own rules, and those rules are knowable. The investor who knows them walks in already

screened, already sized, already holding the numbers the lender is about to ask for. The investor who does not know them walks in hoping.

Hope is not a financing strategy. The whole purpose of this book is to replace it with a method.

## **The method, named**

That method has a name in these pages: the Lender's Lens. It is a way of looking at any deal the way the person approving your loan looks at it, before you ever call them. Run a property through the Lens and you will know, in a few minutes, whether it will finance, what it will likely cost, and where it is weak. You will know which of the five deaths above is the real risk on this particular deal, and you will know what to do about it.

The next chapter lays the Lens out in full. For now, hold on to the single idea behind it. The lender is going to look at your deal through a specific set of filters and reach a yes or a no. You can look through those same filters first. When you do, financing stops being the step where deals die and becomes the step where you separate the deals worth chasing from the ones that were never going to close.

## CHAPTER 2

# The Lender's Lens

A lender approving an investment loan is not really asking whether you are a good person or even, mostly, whether you are a good borrower. They are asking a narrower question: if everything goes wrong, does this loan still get paid back? Every rule they apply is a way of answering that one question. Once you see that, the whole process stops feeling arbitrary. You can ask the same question yourself, in the same order, and reach the answer before they do.

The Lender's Lens is five lines of sight onto a deal. Each one is a question the lender will ask. Score a property on all five and you have a picture of how the loan will go, sharp enough to act on.

### **The five lines**

The first line is cash flow. Does the property's income cover its debt, and by how much? This is the line that matters most on an investment loan, because the property, not your salary, is expected to pay the loan. A lender measures it with the debt service coverage ratio, which the next chapter takes apart in full. For now, hold the plain version: rent in, full payment out, and the gap between them is your margin of safety. The wider the gap, the easier the loan.

The second line is leverage. How much of the property's value are you borrowing? A lender thinks in loan to value, the loan divided by the property's worth.

Borrow less and the lender is protected by your equity if values fall or the loan goes bad. Borrow to the ceiling and the lender carries more risk, charges more for it, and scrutinizes everything else more closely. Leverage is the lever you most often control, because it moves with your down payment.

The third line is the borrower. This is you: your credit, your experience, your reserves, the cash you keep after closing. On an investment loan this line matters less than it would on a home loan, but it never disappears. A thin file with no cushion makes a lender nervous even on a strong property. A clean file with real reserves earns you better pricing and more forgiveness when another line is weak.

The fourth line is the property itself. Not just what it is worth, but what kind of asset it is. A standard single family rental in a liquid market is the easiest thing a lender can underwrite, because if they ever have to take it back they can sell it. A rural property, an unusual build, a heavy rehab, or a short term rental in a market with thin comparable sales all make the property harder to value and harder to exit, and the loan reflects that.

The fifth line is the exit. How does this loan end? Every loan has an ending, planned or not. A thirty year rental loan ends slowly, paid down by rent over decades. A twelve month bridge loan ends fast, when you sell or refinance, and if that exit is not real the loan becomes a problem the moment it matures. Lenders care enormously about the exit, because the exit is how they get paid back. You should care about it before they raise it.

## **Scoring the Lens**

You do not need a spreadsheet to use the Lens, though there is a worksheet for it near the back of this book and a free version on the companion site. You need a simple scale. For each of the five lines, mark the deal green, yellow, or red.

Green means this line is strong and will help the loan. Cash flow well above the lender's floor. Leverage at or below what the product wants. A clean borrower file. A standard property. A clear, real exit.

Yellow means this line is workable but tight, and the lender will notice. Cash flow that just clears. Leverage at the edge of the program. A borrower file with one blemish. A property with one quirk. An exit that depends on something going right.

Red means this line is a problem the deal cannot ignore. Cash flow below the floor. Leverage above what any reasonable lender will extend. A borrower issue that disqualifies the program. A property too unusual to value. An exit that does not actually exist.

The pattern of colors tells you what to do. All greens, and you have a financing layup; your only job is not to overpay for the loan. A single yellow among greens is normal and fine. Two or three yellows mean the deal finances but you will pay for the risk and should shop harder. A red means stop. You do not shop a red away. You either fix the underlying problem or you pass, because a red is the line that becomes one of the five deaths from the last chapter.

## **A worked example**

Take a single family house at one hundred eighty thousand dollars. You plan to put twenty five percent down, sixty thousand into the property in equity and the rest borrowed. Market rent is fifteen hundred dollars. Your credit is strong, you have eight months of payments in reserve, the house is an ordinary three bedroom in a city with steady sales, and you intend to hold it long term on a rental loan.

Run the Lens. Leverage: seventy five percent loan to value, comfortable, green. Borrower: strong credit and real reserves, green. Property: standard house in a liquid market, green. Exit: long term hold on a thirty year loan, the slowest and safest exit there is, green. Cash flow is the only line that takes any work. At current rental loan rates the full payment, including taxes and insurance, might land near thirteen hundred dollars, against fifteen hundred in rent. That covers the payment with room to spare, comfortably above the lender's usual floor. Green.

Five greens. This deal finances easily, and the lesson is not that the deal is good, though it is. The lesson is that you knew it would finance before you called anyone, and you knew the one line worth double checking was cash flow, so that is the number you nailed down first.

## **Why deals die, mapped to the Lens**

Look back at the five deaths from the first chapter and you will see they are just red lines on the Lens. The wrong loan type is a product that fights the property line or the exit line. The number never run is the cash flow line, unscored. The buried clause is the exit line, mismanaged. The wrong lender is someone who reads your green as a yellow. The Lens is simply the discipline

of scoring every line on purpose, so none of them surprises you at closing.

You can score the five lines on paper as you read the rest of this book, and you can run the same five lines on the free pre-qualifier at [investorloancompass.com/book](http://investorloancompass.com/book), which walks a deal through them and flags the weak one. Either way, the habit is the asset. Every chapter from here forward deepens one of these five lines.

## CHAPTER 3

# Reading a Deal Like an Underwriter

The cash flow line of the Lens is the one that decides most investment loans, so it deserves a chapter of its own. When a lender underwrites a rental property, the central number they calculate is the debt service coverage ratio. Understand that one ratio, in detail, and you understand most of what a lender is doing when they look at your deal.

### **The debt service coverage ratio**

The ratio is simple division. You take the income the property produces and divide it by the debt the property must pay. The income is the monthly rent. The debt is the full monthly payment the loan will carry. The result is a single number, and that number is the lender's shorthand for safety.

A ratio of 1.0 means the rent exactly covers the payment, with nothing left over. A ratio of 1.25 means the rent is twenty five percent larger than the payment, a comfortable cushion. A ratio of 0.90 means the rent falls ten percent short of the payment, and the property cannot pay its own loan without help from your pocket.

The key to using the ratio correctly is knowing exactly what goes into the bottom of it, because the payment is not just principal and interest. Lenders use a figure often shortened to PITIA, which stands for principal, interest, taxes, insurance, and association dues. All five are part of

the payment the property must cover. Investors who calculate their ratio on principal and interest alone get a number that looks far better than the one the lender will use, and then they are caught off guard when the lender's ratio comes in low.

Walk through the parts. Principal and interest are the loan payment itself, set by the loan amount, the rate, and the term. Taxes are the annual property tax bill divided into monthly pieces. Insurance is the landlord policy, which in some regions, especially coastal ones, is large enough to swing the whole ratio. Association dues apply only if the property sits in a community that charges them, but where they exist they are real money the property must pay every month. Add all five and you have the figure the rent has to beat.

## **Reading the ratio**

Different lenders draw their line in different places, and knowing where the lines sit tells you how a property will be received.

Most rental loan programs want to see a ratio of at least 1.0, meaning the property at least pays for itself. The best pricing, the lowest rates and the lightest scrutiny, usually arrives at 1.25 and above, where the cushion is wide enough that the lender barely worries. Between 1.0 and 1.25 you are financeable but watched, and you will often pay a little more for the loan.

Below 1.0 the picture changes. Some programs will still lend on a property whose rent does not fully cover the payment, sometimes down to a ratio near 0.75, but they extract a price for it. They will charge a higher rate, demand a larger down payment to shrink the loan, or

both. A sub 1.0 ratio is not automatically a dead deal, but it is a yellow or a red on the Lens, and you should treat it as a signal to either restructure the financing or reconsider the purchase.

### **A worked example**

Return to the house from the last chapter. Rent is fifteen hundred dollars. Suppose the loan payment of principal and interest is one thousand fifty dollars. Taxes run two hundred dollars a month, insurance ninety, and there are no association dues. The full PITIA payment is one thousand three hundred forty dollars.

Now the ratio. Fifteen hundred divided by one thousand three hundred forty is 1.12. The property pays for itself with a twelve percent cushion. That clears the common 1.0 floor and finances, but it sits below the 1.25 line where the best pricing lives, so this borrower is in the watched middle. If they wanted to reach 1.25, they would need either more rent, a smaller loan, or a lower rate, and the chapter on marginal deals is about exactly those levers.

Notice what would have happened if the investor had calculated on principal and interest alone. Fifteen hundred divided by one thousand fifty is 1.43, a number that looks like a layup. The taxes and insurance pulled the real ratio down by almost a third. That gap is where unprepared investors get hurt, and it is why you always run the full payment.

### **Which rent counts**

A subtlety that catches many investors: the rent the lender uses is not always the rent you expect to collect.

Lenders generally use the lower of the actual lease rent and the market rent shown on the appraiser's rent estimate. If you are buying a property with a tenant paying under market, the lender may use that lower in place rent and your ratio suffers. If the property is vacant, the lender leans on the appraiser's market rent figure, and if that figure comes in below your assumption, the ratio you counted on evaporates.

This is why the rent estimate inside the appraisal matters so much on an investment loan, and why experienced investors pay attention to it rather than treating the appraisal as only a value check. You can support a strong rent number by giving the appraiser real comparable leases, but you cannot manufacture rent that the market does not show.

## **The supporting criteria**

The ratio is the heart of the underwrite, but it does not stand alone. A handful of supporting criteria travel with it, and together they form the full cash flow and borrower picture.

Reserves are the months of payments you must have in the bank after closing. Six months of PITIA is a common requirement on rental loans, more if the property or the borrower is weaker. Reserves are the lender's evidence that a vacancy or a repair will not immediately sink the loan, and thin reserves can hold up a file that is otherwise strong.

Credit still matters even though the property carries the loan. Rental programs often set a floor somewhere in the high six hundreds, with the best pricing reserved for scores in the low seven forties and above. Your score

does not have to be perfect, but it sets the tier of pricing you qualify for.

Seasoning is the time you must own a property, or hold funds, before a lender will act on a number. It appears most often in refinancing, where a lender wants you to have owned the property for a set period before they will lend against its new, higher value. The BRRRR chapter returns to this in detail because seasoning is where that strategy lives or dies.

Put the ratio and these supporting criteria together and you can reconstruct, on your own, the answer a lender will reach. Run the full PITIA, divide it into the rent the lender will actually use, check it against the floor, and confirm your reserves and credit clear the program. You can do that arithmetic by hand with the worksheet at the back of this book, or run it on the free DSCR calculator at [investorloancompass.com/book](http://investorloancompass.com/book), which uses the full PITIA payment exactly as a lender would. Either way, you will know your ratio before the lender tells you theirs, and that is the whole advantage.

## CHAPTER 4

# Valuation and the Appraisal

Two numbers from an appraisal decide more about your financing than almost anything else you control: the value of the property and the rent it can command. The debt service coverage ratio depends on the rent figure. The loan amount depends on the value figure. A BRRRR refinance depends on both. Yet most investors treat the appraisal as a hurdle to clear rather than a number to influence, and then they are surprised when it comes in low. This chapter explains how value and rent are actually determined, and how to support strong figures honestly.

### **How value is determined**

A residential appraiser establishes value mainly through the sales comparison approach: they find recently sold properties similar to yours, nearby, and adjust for differences to arrive at a supported value. The key word is supported. An appraiser cannot simply agree with your optimism. They have to point to real sales that justify the number, and those sales carry the most weight when they are recent, close, and genuinely comparable in size, condition, and type.

This is why the best two sales in a neighborhood do not set your value. If most comparable houses sold around two hundred ten thousand and two exceptional ones sold at two hundred fifty, the appraiser builds from the cluster, not the outliers, exactly as the failed BRRRR in the case studies learned. Your value is the typical

supported figure, and underwriting to anything higher is underwriting to a number that will not appear.

## **How to support a strong value**

You cannot manufacture value, but you can make sure the appraiser sees everything that legitimately supports it.

Provide a list of genuine comparable sales you believe are most relevant, with addresses, especially ones an out of area appraiser might miss. Document the work you did to the property, with a clear scope and ideally before and after detail, so improvements are visible rather than guessed at. Make the property easy to inspect and present it at its best. None of this is manipulation. It is making the strongest honest case, the same way you would for any valuation, and it routinely moves an appraisal from a lazy low number to the supported real one.

## **How rent is determined**

On an investment loan the appraiser also estimates market rent, usually on a specific form, using rental comparables the same way they use sales comparables. This rent estimate is often the figure the lender drops into the debt service coverage ratio, which means it can matter as much as the value.

Here is the trap. The lender generally uses the lower of your actual lease and the appraiser's market rent. So if your tenant pays under market, the low lease rent may govern, and if the appraiser's market estimate comes in soft, that soft number governs a vacant property. Either

way, a weak rent figure quietly lowers your ratio and can drop a deal below the floor after you were sure it cleared.

## **How to support a strong rent figure**

Support the rent the same way you support the value, with real comparables. Provide the appraiser with current leases or listings for similar nearby properties that show the true market rent. If your own property is leased at a strong, market rate, make the lease available. If you are renovating to a higher standard than the neighborhood norm, document why the property commands more. An appraiser handed solid rental comparables will estimate closer to the real market than one left to a quick guess.

## **Reading an appraisal that comes in low**

Sometimes the number still disappoints. When it does, do not simply accept it or simply argue. Read it. A low appraisal is often built on weak or distant comparables, or it missed a recent sale that supports your number, or it overlooked work you did. In those cases a reconsideration of value, submitted through your lender with specific better comparables and documentation, can correct it. Appraisers are human and working with imperfect information, and a calm, evidence based reconsideration succeeds more often than investors expect.

If the appraisal is simply right and the value or rent is genuinely lower than you assumed, that is information, not an obstacle. It means the deal you thought you had is a different deal, and you reprice or restructure accordingly. The investors who get hurt are the ones who

proceed on the value they wanted rather than the value the market supports. The appraisal is the market telling you the truth about your two most important numbers, and your job is to support them honestly in advance and to listen when they come back. Running a lower value or rent through the free calculators at [investorloancompass.com/book](http://investorloancompass.com/book) before the appraisal is even ordered turns a soft number into a scenario you already planned for rather than a surprise.

## CHAPTER 5

# Choosing the Loan Type

A property can be financed several different ways, and the products are not interchangeable. Each one was built for a particular kind of deal and a particular kind of borrower. Match the product to the deal and financing is smooth. Force the wrong product onto a deal and you create the first of the five deaths, the wrong loan type, no matter how good the property is. This chapter lays the main products side by side so you can choose deliberately.

### **Conventional**

A conventional investment loan is the same kind of loan most people use to buy a home, extended to a rental. It is underwritten primarily on you. The lender verifies your personal income with tax returns and pay stubs, calculates your debt to income ratio across all your obligations, and lends based on your capacity to repay from your own finances.

The advantage is price. Conventional loans usually carry the lowest rates available to an investor, because they are sold into the government backed mortgage market and priced accordingly. The disadvantages are documentation and capacity. You must fully document your income, which is hard for self employed investors and those who write off heavily on their taxes. And there is a ceiling: the conventional market limits how many financed properties one borrower may carry, commonly up to ten, after which these loans simply stop being

available to you. For an investor planning to scale, the conventional lane runs out.

## **DSCR**

A DSCR loan, named for the ratio at its center, is the workhorse of modern rental investing. Instead of underwriting you, the lender underwrites the property. They calculate the debt service coverage ratio from the last chapter, confirm your credit and reserves, and lend based mainly on whether the property pays for itself. Your personal income is often not verified at all.

The advantages are speed, simplicity, and scale. There is no debt to income calculation, no ceiling on the number of properties, and far less paperwork, so these loans close faster and keep working long after the conventional lane has closed. Self employed investors love them because tax returns are beside the point. The cost of that convenience is a rate higher than conventional, typically running in a band that, in the current market, sits somewhere in the sixes to high eights for a strong file on a thirty year term, with the lowest end reserved for high ratios, low leverage, and strong credit. The exact number moves with the market, which is why the companion site tracks it rather than this book quoting a figure that will age.

## **Hard money and bridge**

Hard money and bridge loans are short term, property first loans built for transition rather than holding. A hard money loan funds a purchase and rehab, runs roughly twelve to eighteen months, carries a rate well into the double digits in most markets, and charges points up

front. A bridge loan does something similar for a property between states, holding it while you reposition, stabilize, or arrange permanent financing.

These products are expensive on purpose, and the expense is not the point to fixate on. The point is what they let you do: buy a property that no thirty year lender would touch in its current condition, fix it, and create value fast. The high rate is survivable because the loan is short and the exit is near. The danger is entirely in the exit. A hard money loan with no real refinance or sale waiting at the end is the most dangerous loan in this book, because when it matures the full balance comes due whether you are ready or not. Use these products only when the exit is concrete.

## **Portfolio and blanket loans**

A portfolio loan is one a lender keeps on its own books rather than selling, which frees it from the standard rulebook and lets the lender use its own judgment. That flexibility is useful for deals that fall just outside ordinary guidelines: an unusual property, a borrower with a complex story, a situation that needs a human decision rather than an automated one.

A blanket loan is a single loan secured by several properties at once. For an investor with a handful of rentals, a blanket loan can consolidate many payments into one and simplify a growing portfolio. The trade is flexibility for entanglement, since the properties are now tied together under one loan, and releasing one of them, to sell it for example, requires the lender's cooperation under terms set in advance. The pipeline chapter returns

to these because they are tools for a portfolio that has reached a certain size, not a starting point.

## **A decision path you can actually use**

You do not need to memorize every product. You need a short path from the deal in front of you to the right lane.

Start with the condition of the property. If it needs significant work before it can be rented or financed conventionally, you are in short term territory: hard money or bridge to acquire and renovate, with a planned refinance into a long term loan once the work is done. The deal will use two loans in sequence, not one.

If the property is already rentable, ask how you document income. If you can fully document strong personal income and you are well under the property count ceiling, conventional will give you the best price. If your income is hard to document, or you write off heavily, or you have passed the ceiling, or you simply want speed and less paperwork, a DSCR loan is the lane, priced on the property rather than on you.

If the deal is unusual in a way that breaks the standard rules, or if you are consolidating several properties, that is when a portfolio or blanket loan earns its place, usually through a relationship with a local or regional lender who keeps loans in house.

## **Products are a sequence, not a marriage**

The most useful idea in this chapter is that you are not choosing one product forever. Many strong deals use two or three in sequence. You buy with hard money because the property needs work. You refinance into a DSCR loan

once it is stabilized and renting. Years later you fold it into a blanket loan with several siblings. Each product does the job it was built for, then hands off to the next.

Seeing financing as a sequence frees you from forcing one loan to do everything. It also changes how you read a deal: you are not asking which single loan fits, you are asking what the financing arc looks like from purchase to long term hold, and which product carries each leg. The free pre-qualifier at [investorloancompass.com/book](http://investorloancompass.com/book) pressure tests the first leg of that arc and points a deal toward the lane that fits it. The chapters ahead take the two most common legs, qualifying a marginal rental loan and running the BRRRR refinance, one at a time.

## CHAPTER 6

# The Borrower File

Investment loans are underwritten on the property first, which leads many investors to assume the borrower no longer matters. That is half true. Your personal income may not be verified on a DSCR loan, but the borrower line of the Lens never disappears entirely, and on the parts that do count, credit and reserves and presentation, a strong file earns better pricing and buys forgiveness when another line is weak. This chapter is about being the borrower a lender wants to approve.

### **Credit, and what it really sets**

Even when the property carries the loan, your credit score sets the pricing tier you qualify for. Rental loan programs commonly draw a floor somewhere in the high six hundreds, with the best rates reserved for scores in the low seven forties and above. The gap between tiers is real money, often a quarter point of rate or more, repeated over the life of the loan.

The useful thing about credit is how quickly part of it moves. A large share of your score is driven by credit utilization, the share of your available revolving credit you are using, and utilization updates every month. Paying down credit card balances before a lender pulls your file can lift your score a tier in a single cycle, with no change to anything else about you. The investor who clears two cards the month before applying can sit a pricing tier above the one who applies first and pays

them down after. Timing the pull, when you can, is one of the cheapest improvements available to you.

What you cannot fix quickly are the structural items: late payments, collections, a recent major derogatory event. Those age out over time and reward patience, not tricks. If one of them sits just inside the window that disqualifies a program, sometimes the right move is to wait a few months for it to season past the threshold rather than to apply into a decline.

### **Reserves, the line that quietly decides files**

Reserves are the months of full PITIA payments you hold in the bank after closing, and they are the borrower line that most often decides a tight file. Six months per property is a common requirement on rental loans, more when the property or the borrower is weaker. Reserves are the lender's proof that a vacancy or a furnace replacement will not immediately threaten the loan, and strong reserves reassure a lender across every other line.

Because reserves are so reassuring, they are also a lever. A deal with a slightly tight ratio or a single blemish elsewhere can sometimes be carried by showing more reserves than the minimum, trading a little of your cash cushion for an approval. The discipline is to keep reserves genuinely strong rather than spending every dollar on the down payment, because the cheapest rescue for a marginal file is often the cash you simply kept in the bank.

### **What counts, and how it is shown**

Lenders have rules about what qualifies as reserves and as funds to close, and knowing them prevents an

avoidable stumble. Seasoned funds, money that has sat in your account for a couple of months, are cleaner than a sudden large deposit, which a lender will question and ask you to source. Retirement accounts often count toward reserves at a discounted value. Funds in a business account may need explanation if the loan is in your personal name or in a different entity.

The practical lesson is to get your money in order before you apply, not during underwriting. Move funds into the account you will use, let them season, and avoid unexplained large deposits in the months before a loan. An organized money trail is part of the file a lender prices, and a tangled one invites questions that slow everything down.

## **Presentation is part of pricing**

None of this is about deceiving a lender. It is about presenting a true picture clearly. A borrower who shows up with an organized file, credit timed sensibly, reserves seasoned and documented, and a clean money trail, is easier to approve and cheaper to approve than one with the same underlying finances presented as a mess. Underwriting is a risk assessment built on what the lender can see, and a clear file simply looks lower risk than a confusing one.

Think of the borrower file as the one part of the Lens you can improve without changing the deal at all. The property is what it is. Your credit, your reserves, and the clarity of your file are yours to strengthen before you ever apply. Do that work in the weeks before you go shopping for a loan, and you will move through underwriting faster and at better pricing, and you will

have the cushion to rescue a marginal deal when one is worth saving.

## CHAPTER 7

# Entities and Ownership

Sooner or later every scaling investor asks whether to hold rentals in a company rather than personally, and how that choice affects financing. The answer shapes which loans you can get, how you are presented to a lender, and how cleanly you can grow. This chapter covers what you actually need to know about ownership structure as it relates to financing, without pretending to be legal or tax advice, which it is not and which you should get from professionals who know your situation.

### **Personal versus a company**

A conventional investment loan is generally made to you personally, because it is underwritten on your personal income and sold into a market built around individual borrowers. Holding the property personally is the simplest path and gives you the cheapest financing, which is part of why the early properties in a portfolio so often sit in the investor's own name.

A DSCR loan, by contrast, is frequently made to a company, most often a single purpose limited liability company that exists only to hold the property. Because the DSCR loan is underwritten on the property rather than on you, lending to the entity that owns the property is natural, and many DSCR lenders prefer or even require it. This is one more reason DSCR loans fit scaling investors: they pair naturally with the entity structure that scaling investors tend to adopt anyway.

## **Why investors use a company**

The reasons investors hold rentals in a company are mostly about liability separation and organization, and those reasons sit outside financing, in the domain of your attorney. What matters for this book is the financing consequence: a clean entity, holding one property, with its own bank account and organized books, presents beautifully to a property first lender. It isolates the deal, makes the money trail obvious, and signals that you operate like a professional rather than a hobbyist. Lenders price clarity, and a single purpose entity is clarity.

There is a trade. Holding property in a company can complicate conventional financing, since the conventional market is built around personal borrowers, and moving a property into an entity after closing can implicate the loan's terms. This is exactly the kind of decision to make with your lender and your attorney in the room, before you act, rather than after.

## **The structure that scales**

As a portfolio grows, a common pattern is a separate single purpose company for each property, or for small groups of them, which keeps each deal isolated and each loan clean. Above those, investors sometimes use a holding structure for organization. The details belong to your attorney and your accountant, but the financing principle is simple: lenders like to see each property in a clean container with readable books, and they like a borrower whose structure is deliberate rather than accidental.

The mistake to avoid is letting the structure grow by accident, with properties scattered across personal names and mismatched entities and commingled accounts, because that tangle is precisely what slows a portfolio lender down when you most need speed. Decide the structure with professionals early, apply it consistently, and keep each entity's records clean.

## **Keep it matched to the financing**

The single practical rule that ties this chapter to the rest of the book is to match your ownership structure to the financing you intend to use, and to decide both together rather than separately. If your early properties will use conventional loans, holding them personally at first may be simplest. If you are building toward DSCR and portfolio financing at scale, the single purpose entity structure those loans prefer is worth adopting deliberately and early, with professional guidance.

Ownership structure is not a financing tactic on its own, and this book will not pretend it is a substitute for the legal and tax advice it genuinely requires. But it is part of how a lender sees you, and an investor who structures ownership cleanly and in step with their financing plan removes one more source of friction from every future deal. Get the advice, set the structure, and keep it clean, so that when you run a deal through the Lens the borrower line is a green you built on purpose.

## CHAPTER 8

# Making a Marginal Deal Qualify

Not every deal scores all greens on the Lens. Most good ones do not. The common case is a property that is genuinely worth buying but sits in the watched middle, a cash flow line that clears the floor by too little or falls just short, leverage at the edge of the program, a borrower file with one soft spot. These are the deals where money is made, because the all green deals are obvious and competed for, while the yellow ones reward the investor who knows how to move them to green.

This chapter is the toolbox for that. The levers fall into three groups: those that lower the payment, those that raise the income the lender counts, and those that strengthen you as the borrower. Most marginal deals are fixed by pulling one or two of them, not all.

### **Levers that lower the payment**

The payment is the bottom of the ratio, so anything that shrinks it lifts the ratio directly.

The largest lever is the down payment. Borrow less and the principal and interest fall, the ratio rises, and a borderline deal clears. Putting an extra five percent down to move a ratio from 0.97 to 1.05 can be the difference between a declined file and an approved one. The cost is capital tied up in the deal, which matters, but it is often the cleanest fix.

Interest only is the next lever, and it is a tool many investors underuse out of caution. An interest only loan removes the principal portion of the payment for an initial period, lowering the monthly figure and raising the ratio. On a property you intend to refinance or sell within a few years, paying down principal slowly is of little benefit anyway, so interest only can be a rational choice rather than a risky one. It is not free, since you build no equity through the loan during that period, but for the right hold it turns a yellow cash flow line green.

A rate buydown is the third. Paying points up front, an amount equal to a percentage of the loan, lowers the rate and therefore the payment. The arithmetic only works if you hold the loan long enough for the lower payments to repay the points, which the term sheet chapter shows you how to check, but on a long hold a buydown can move the ratio and lower the lifetime cost at the same time.

## **Levers that raise the income the lender uses**

The top of the ratio is the rent the lender counts, and there are honest ways to raise it.

The first is supporting the market rent. Because the lender often uses the appraiser's rent estimate, giving the appraiser strong comparable leases for similar nearby properties can lift the rent figure to where the market actually is, rather than leaving it to a low estimate. This is not manipulation; it is making sure the appraiser sees the real rental market. A few hundred dollars of supported monthly rent can move the ratio meaningfully.

The second is a rent strategy that genuinely produces more income. A property rented by the room, or as a furnished mid term rental to traveling professionals, or as a short term rental in a market that supports it, can produce more income than a standard lease, and some programs will underwrite to that higher income if you can document it. This raises real complexity and is not for every property or every investor, but where it fits it changes the income line outright. Be careful that the loan program actually allows the strategy you are underwriting to, since a short term rental income figure on a program that only counts long term leases will not help you.

## **Levers on the borrower side**

When the borrower line is the soft spot, the fixes are about presentation and cushion.

Reserves are the most reliable. Showing more months of payments in the bank reassures a lender across every other line and can earn forgiveness on a tight ratio. Sometimes the cheapest way to rescue a marginal deal is simply to leave more cash in reserve rather than spend it all on the down payment, trading a little leverage for a stronger overall file.

Credit can often be improved faster than investors think, by paying down revolving balances before the file is pulled, since utilization moves scores quickly. A file pulled the month after you clear two credit cards can sit a tier higher than one pulled before, and a tier of credit can be a quarter point of rate.

Finally, the entity and the structure can matter. Holding the property in a clean single purpose company,

with organized books and a clear paper trail, makes a lender more comfortable than a tangled personal financial picture. This is presentation, but presentation is part of what a lender prices.

## **Knowing when to stop**

The hardest skill in this chapter is knowing when a deal cannot be saved. Levers move a yellow to green. They do not move a red to green, and trying to force them is how investors talk themselves into deals that should have died.

If a property needs every lever pulled at once just to reach a 1.0 ratio, the deal has no margin, and the first vacancy or repair will expose it. If reaching the ratio requires a rent strategy you are not actually equipped to run, you are underwriting a fantasy. If the only way to qualify is leverage so low that your cash is buried and your return collapses, the financing technically works but the investment does not.

A marginal deal is worth saving when one or two honest levers carry it comfortably past the floor with room left over. It is worth passing when it needs all of them and still barely clears. The point of knowing the levers is not to force every deal through. It is to rescue the good ones and to recognize, clearly and early, the ones that were never going to work. To see how far a single lever moves a specific deal, change the down payment or the rate on the free DSCR calculator at [investorloancompass.com/book](http://investorloancompass.com/book) and watch the ratio respond before you commit a dollar.

## CHAPTER 9

# Financing Higher-Income Rentals

A standard long term lease is the simplest income a property can produce and the easiest for a lender to underwrite. But some properties earn far more as short term rentals to travelers or as mid term, furnished rentals to professionals on multi month stays. That higher income can turn a marginal deal into a strong one, and it can also confuse the financing, because not every loan program will count the income the way you earn it. This chapter is about financing properties whose income strategy is something other than a plain annual lease.

### **Why the income strategy matters to the loan**

Recall that the debt service coverage ratio uses the rent the lender will actually count. For a standard rental, that is the lease or the appraiser's long term market rent. For a short term or mid term rental, the income you expect can be much higher than the long term market rent for the same property, sometimes dramatically so in the right market. The whole financing question becomes which of those numbers the lender will use, because if they underwrite your short term property to its long term rent, your ratio collapses and a strong income property looks weak on paper.

### **Short term rental financing**

Some DSCR lenders have built programs specifically for short term rentals, and they will underwrite to the property's short term income rather than its long term rent. They typically want evidence of that income, either a history of the property's own bookings or a market data report estimating short term revenue for comparable properties in the area. With that documentation, a short term rental can qualify on its real, higher income, and the ratio reflects the strategy you are actually running.

The cautions are real. Short term income is more variable than a long term lease, so lenders that allow it often price in a cushion, asking for a slightly lower ratio target or stronger reserves. Local regulation is the larger risk: many cities restrict or ban short term rentals, and a program will not underwrite income from a strategy the local rules do not permit. Confirm both that your lender's program counts short term income and that your local rules allow the use, before you underwrite a deal to short term revenue.

## **Mid-term rental financing**

A mid term rental, furnished and leased by the month to traveling professionals, relocating families, or medical staff, sits between the two worlds. The income is usually higher than a standard lease and lower than peak short term, with more stability than nightly bookings and less regulatory exposure, since month long furnished leases avoid many short term rental restrictions. For financing, mid term rentals are often underwritten much like long term rentals, on a lease, which can make them simpler to finance than short term properties while still capturing some of the income premium.

The practical point is that the mid term strategy can raise your real income with less financing complication than the short term strategy, which is why many investors reach for it when a standard lease will not make a deal work but the short term path is blocked by regulation or by a lender that will not count the income.

## **Matching the loan to the strategy**

The rule that ties this chapter together is the one from the loan types chapter, applied to income: underwrite the deal to the income the lender will actually count, never to the income you hope to earn. Before you buy a property whose numbers only work as a short term or mid term rental, confirm three things in order. Confirm the local rules permit the strategy. Confirm your lender's program will count that income with the documentation you can provide. And confirm the ratio clears on the income figure the lender will use, not the figure in your projections.

Do that and a higher income strategy becomes a legitimate way to finance a property that a plain lease could not carry. Skip it, and you are the investor who bought a short term rental on optimistic projections only to have the lender underwrite it to long term rent and decline the loan, or the city ban the use after closing. The income premium is real, but it only helps your financing when the loan program and the local rules both agree the income is real too. Running a deal at both its long term rent and its projected higher income on the free DSCR calculator at [investorloancompass.com/book](http://investorloancompass.com/book) shows exactly how much the strategy depends on the lender counting that income.



## CHAPTER 10

# The BRRRR Cash-Out Engine

The strategy known as BRRRR, for buy, rehab, rent, refinance, repeat, is the most powerful way an investor with limited capital can build a portfolio, and it is also the strategy where financing matters most, because the entire method turns on a single refinance going the way you planned. Get the financing arc right and you recycle the same capital into deal after deal. Get it wrong and your money is trapped in a property that will not give it back. This chapter is about the financing of BRRRR, not the renovation, because the renovation is the part investors already understand and the financing is the part that fails them.

### **The financing arc**

BRRRR uses two loans in sequence, which is why the loan types chapter insisted you think of products as a sequence rather than a marriage.

The first loan acquires and renovates the property. Because the property starts in poor condition, no long term lender will touch it, so this first loan is short term: hard money or a bridge loan, sized against the purchase price and the rehab budget, expensive and brief by design. It carries you through the buy and the rehab.

The second loan is the permanent one. Once the property is renovated and rented, it has become an ordinary, financeable rental, and now a long term lender

will lend against it, most often a DSCR loan underwritten on the stabilized rent. This second loan pays off the first and, if the deal worked, returns most or all of your original cash so you can do it again. The refinance is the whole engine. Everything before it is setup.

## **The two numbers that decide everything**

A BRRRR deal lives or dies on two numbers, and you must underwrite both before you buy, not after.

The first is the after repair value, the property's worth once the rehab is done. The permanent refinance is sized as a percentage of this value, commonly up to seventy five percent. So if the after repair value is two hundred thousand dollars, a seventy five percent refinance gives you a new loan of one hundred fifty thousand. Every dollar you can recover in the refinance comes out of that figure, which means an honest after repair value is the foundation of the whole deal. Investors who inflate it, who assume the renovation will be worth more than the comparable sales support, are setting up the refinance to disappoint.

The second is the all in cost, everything you have sunk into the property: purchase price, rehab, closing costs, and the carrying cost of the expensive first loan while the work was underway. The deal works when the permanent loan is large enough to repay your all in cost, or close to it. If your all in cost is one hundred fifty thousand and the refinance hands you one hundred fifty thousand, you have pulled all your capital back out and you own the property with none of your own money left in it. That is a perfect BRRRR. More often you leave a little in, and that is fine, but the gap between your all in cost and the

refinance amount is the cash that stays trapped, and you should know it before you buy.

### **A worked example**

Buy a distressed house for one hundred ten thousand dollars. Put thirty five thousand into the rehab. Add roughly ten thousand in closing and carrying costs across the short term loan. Your all in cost is one hundred fifty five thousand dollars.

The renovated house appraises at two hundred ten thousand dollars, supported by real comparable sales. A permanent DSCR refinance at seventy five percent of that value is one hundred fifty seven thousand five hundred dollars. That new loan pays off the short term loan and returns essentially all of your cash, leaving you owning a renovated, rented house with almost none of your own money still in it. You confirm the rent covers the new payment by running the ratio from the underwriter chapter, the property clears the floor, and the refinance closes. The capital you started with is now free to buy the next one.

Change one number and watch the engine stall. Suppose the house appraises at only one hundred ninety thousand. The seventy five percent refinance is now one hundred forty two thousand five hundred, thirteen thousand short of your all in cost. That thirteen thousand is now stuck in the property. The deal is not ruined, you still own a cash flowing rental, but you cannot fully repeat, because part of your capital did not come back. This is why the after repair value is the number to underwrite conservatively.

## **The trap inside the refinance**

The seasoning rule is where BRRRR investors get caught, and it deserves a clear warning. Many lenders will not refinance based on the new, higher value until you have owned the property for a set period, often six months, sometimes twelve. Before that seasoning period passes, they will lend only against what you paid, not what the property is now worth, which defeats the entire purpose of the refinance.

If you go into a BRRRR expecting to pull your cash out at month three, and your lender requires twelve months of seasoning before they will use the after repair value, your capital is trapped for nine months you did not plan for, and the expensive short term loan may mature before you can refinance out of it. That timing mismatch has sunk more BRRRR deals than bad renovations have. The fix is simple and entirely within your control: confirm the seasoning rule of your permanent lender before you take the first loan, and size the term of that first loan to outlast the seasoning period with margin to spare.

The lesson of BRRRR financing is the lesson of the whole book in miniature. The deal is not won at the purchase. It is won by knowing, before you buy, exactly how the financing arc ends. Run the after repair value, the all in cost, and the refinance amount before you commit, using the worksheet at the back or the free calculator at [investorloancompass.com/book](http://investorloancompass.com/book), and confirm the seasoning timeline with your permanent lender in the same week you arrange the first loan. Do that and the engine runs. Skip it and the engine stalls with your money inside.



## CHAPTER 11

# Refinancing

Refinancing is how investors reset the terms of a loan they already have, and it is one of the most useful tools in a portfolio. It can lower a payment, pull equity out to fund the next deal, or convert a short term loan into a permanent one. It can also cost you more than it saves if you misjudge the fees or trip a prepayment penalty. This chapter covers the two main kinds of refinance and the arithmetic that tells you whether either one is worth doing.

### **The two kinds of refinance**

A rate and term refinance replaces your existing loan with a new one carrying a better rate, a different term, or both, without taking cash out. You do it when rates have fallen, when an adjustable loan is approaching its reset and you want the certainty of a fixed rate, or when you want to change the loan's length. The loan amount stays roughly the same. The point is better terms, not more money.

A cash out refinance replaces your loan with a larger one and hands you the difference in cash. You do it to pull equity out of a property that has appreciated or that you improved, so that capital can go to work on another deal instead of sitting idle in the walls. The BRRRR refinance is a cash out refinance with a specific purpose: to return the capital you sank into the purchase and rehab. Cash out is the engine of recycling money through a portfolio, and it is also where investors take on more

debt than a property can comfortably carry, so it demands the most discipline.

### **The arithmetic of a rate and term refinance**

The question with a rate and term refinance is whether the savings repay the cost, and it is the same break even logic as buying points. A refinance carries closing costs: a new appraisal, lender fees, title, and possibly points. Add them up. Then find how much the new loan lowers your monthly payment. Divide the total cost by the monthly saving and you get the number of months to break even.

Hold the loan past that break even and the refinance was worth it. Sell or refinance again before it, and you spent money you never recovered. If a refinance costs four thousand dollars and lowers your payment by a hundred and twenty dollars a month, you break even in about thirty three months, so it only makes sense if you will hold this loan well past that. A refinance that looks attractive on the rate alone can be a loss once the costs are counted against a short remaining hold, which is why you never refinance on the rate drop alone.

### **The discipline of a cash out refinance**

A cash out refinance is sized off the property's value, commonly up to seventy five percent loan to value, and the cash you receive is the new loan minus what you still owe and the closing costs. Before you celebrate the cash, run two checks.

First, the new, larger payment still has to clear the debt service coverage ratio. Pulling equity out raises the loan and therefore the payment, and it is entirely

possible to cash out so much that the property no longer covers its own loan by the lender's margin. Run the ratio on the new payment, not the old one, and confirm it still clears with room to spare.

Second, account for any prepayment penalty on the loan you are replacing and any seasoning requirement on the new one. Cash out programs often impose their own seasoning, a period you must own the property before they will lend against its current value, which is the same trap the BRRRR chapter warned about. Confirm it before you count on the cash.

## **When refinancing is the wrong move**

Refinancing is a tool, not a reflex, and there are times to leave a loan alone. If your remaining hold is short, the closing costs will not be recovered. If your existing loan carries a heavy prepayment penalty that has not yet stepped down, the penalty can erase the benefit. If pulling cash out would push the ratio too thin, the equity is better left in place than converted into a payment the property struggles to make. And if rates have not moved enough to clear your break even, patience beats paying for a marginal improvement.

The right way to think about refinancing is as a periodic question you ask of every property: given today's rates and this property's value, would resetting this loan, for better terms or to free trapped capital, leave me better off after all the costs? Run the break even for a rate and term, or the new ratio and the seasoning for a cash out, before you act. The free calculators at [investorloancompass.com/book](http://investorloancompass.com/book) run both of those checks, so you can answer the refinance question with arithmetic

instead of a hunch, on every property, every time the market moves.

## CHAPTER 12

# Reading a Term Sheet

When a lender sends you a term sheet, your eye goes to the rate, and the rate is the one number most likely to mislead you. Two loans at the same rate can cost thousands of dollars apart once you account for everything around it. The buried clause, the fourth of the five deaths, lives in the part of the term sheet investors skim. This chapter teaches you to read the whole document the way the lender wrote it, so the real cost is visible before you sign rather than after.

### **The four numbers you compare together**

A term sheet has four numbers that determine cost, and they only mean something together. Reading one without the others is how you get fooled.

The rate is the interest you pay on the balance, and it sets the bulk of the payment. But a low rate bought with high points is not actually low, and a slightly higher rate with no points is sometimes cheaper, depending on how long you hold. The rate is the headline, not the conclusion.

Points are the fee charged up front, expressed as a percentage of the loan, paid at closing. One point on a two hundred thousand dollar loan is two thousand dollars, due the day you close. Points buy a lower rate, so they trade a cost today against a saving over time, and whether that trade is good depends entirely on your hold period.

Fees are everything else the lender and the process charge: origination, underwriting, processing, the appraisal, title, and the rest. Individually they look small. Together they can equal a point or more, and they are easy to wave away one line at a time until they add up to real money. Read them as a group.

The prepayment penalty is the cost of paying the loan off early, and on investment loans it is common and costly. It is the number investors most often miss, because it does not affect the monthly payment at all. It only appears when you sell or refinance, which on a rental loan you very likely will, and by then it is too late to negotiate.

## **The arithmetic of points**

The decision that confuses investors most is whether to pay points to lower the rate, and it comes down to a single comparison you can do in your head.

Paying a point lowers your monthly payment by some amount. Divide the cost of the point by that monthly saving and you get the number of months it takes for the lower payments to repay the point. That is your break even. Hold the loan past the break even and the points were worth it. Pay off the loan before the break even and you lost money buying them.

Suppose a point costs two thousand dollars and lowers your payment by sixty dollars a month. Two thousand divided by sixty is about thirty three months. If you will hold this loan well past three years, the point pays for itself and then saves you money. If you plan to refinance in eighteen months, paying that point was a waste, because you will have recovered only half of it

before the loan is gone. The hold period decides everything, which is why you never evaluate points without first knowing how long the loan will live.

## **The clauses that quietly cost you**

Beyond the four numbers, a handful of clauses change the real cost of a loan, and they are written in plain enough language once you know to look.

The prepayment penalty structure is the first to find. It usually takes one of two forms. A step down penalty charges a percentage of the balance that shrinks each year, often something like five percent in year one, four in year two, and so on down to zero. A yield maintenance penalty is harsher, designed to make the lender whole on the interest it expected, and it can be very expensive to exit early. Read which one you have, and read how many years it runs, because a five year penalty on a property you plan to refinance in two years is a direct and avoidable cost.

The rate type is the second. A fixed rate holds for the life of the loan. An adjustable rate holds only for an initial period, then resets against an index, and if it resets while you still hold the property, your payment can jump. There is nothing wrong with an adjustable rate loan on a property you will exit before the reset, but there is real danger in one on a property you mean to hold for decades. Match the rate type to the hold.

The recourse terms are the third. A recourse loan lets the lender pursue you personally if the property does not cover the debt. A non recourse loan limits them to the property itself. Investment loans vary on this, and the

difference matters most in a downturn, so it is worth knowing which you are signing.

## **How to actually compare two offers**

When you have two term sheets in front of you, do not compare them rate to rate. Compare them on the total cost over the period you actually intend to hold the loan.

Add up, for each offer, the points and fees paid at closing, plus the total of the payments across your expected hold, plus any prepayment penalty you would owe when you exit on schedule. That single total, for the holding period you actually expect, is the only honest comparison. It will sometimes rank a higher rate ahead of a lower one, because the lower rate carried points and fees that you would never recover in a short hold, or a prepayment penalty that fires exactly when you plan to refinance.

This is arithmetic, not judgment, and it is exactly the comparison the worksheet at the back of this book lays out line by line. Run both offers through it before you choose. The lender that wins on the rate often loses on the total, and the only way to see that is to do the full sum the way this chapter describes.

## CHAPTER 13

# Choosing a Lender and Negotiating

Two lenders can offer the same product on paper and deliver completely different outcomes. One closes on time and counts your rent in full. The other drags, re-trades the terms a week before closing, and haircuts your numbers until the deal no longer works. Choosing the lender is a separate decision from choosing the product, and it is the third of the five deaths when you get it wrong. This chapter is about judging the lender behind the offer, and then negotiating the parts of the offer that are actually movable.

### **The five things that separate lenders**

When you compare lenders, look past the rate to five things that decide whether the loan will actually close on the terms quoted.

Speed is the first. Ask how long, in business days, from application to closing. The honest answer ranges from under three weeks with an efficient rental lender to well over a month with a slow one. On a deal with a closing date, speed is not a convenience, it is whether you keep the property at all.

How they count rent is the second, and it is the one investors forget to ask. Some lenders use the full market rent. Others haircut it, counting only a percentage to build in a vacancy cushion, which lowers your ratio and can drop a deal below the floor. Two lenders looking at

the same property can reach different ratios purely because of this, so ask directly how they treat the rent figure.

Reliability of the quote is the third. Some lenders quote aggressively to win you, then re-trade the terms during underwriting once you are committed and short on time. Ask how often their final terms match the term sheet, and ask other investors about the lender's reputation for honoring quotes. A reliable slightly higher quote beats an aggressive one that changes at the closing table.

Investor focus is the fourth. A lender that does investment loans all day understands rent, entities, and the property first underwrite. A lender that mostly does home loans and dabbles in rentals will treat your file as an exception and stumble on the parts that are routine to a specialist. You want the specialist.

Flexibility is the fifth. When one line of your deal is a yellow, does the lender have room to work with it, through reserves or a structure adjustment, or do they decline the moment anything sits outside the box? Portfolio lenders tend to have the most room, since they keep their loans, and that room is worth a great deal on a deal with one soft line.

## **What you can actually negotiate**

Not everything on a term sheet moves, and knowing what does saves you from spending your effort on the fixed parts.

The base rate is largely set by the market and the program, and you have limited room on it directly,

though you can move it by adjusting leverage or buying it down with points. Points and certain fees, on the other hand, are often negotiable, especially origination, which is the lender's own charge rather than a third party cost. The prepayment penalty can sometimes be shortened or bought out for a fee, and on a property you plan to refinance soon that is one of the most valuable concessions you can win. Leverage has some give, since a lender may extend a little more or ask for a little less depending on the strength of the rest of the file.

The way to find the movable parts is simply to ask, specifically, item by item. A lender will rarely volunteer a concession, but will often grant one to a borrower who asks for it directly and has a competing offer in hand.

## **How to negotiate without bluffing**

The strongest negotiating position is a real alternative, not a bluff. Get term sheets from more than one lender on the same deal, and you are no longer asking for a favor, you are giving each lender the chance to win business they can see is contested. This single habit, always sourcing at least two offers, does more for your terms than any clever tactic.

With two real offers, the negotiation is plain. Take the stronger total cost to the other lender and ask them to match the specific line where they are behind, the points, the origination fee, the prepayment term. You are not haggling in the abstract. You are pointing at a number on a competing sheet and asking for it. Lenders respond to that because it is concrete and because they can see the business is real.

Keep the tone straightforward. You are not trying to extract the last dollar, you are trying to close a fair loan with a lender who will perform. A lender you push too hard may win the deal and then resent it during underwriting, where they have all the power. The goal is a good loan from a reliable counterparty, sourced from at least two real quotes and sharpened on the few terms that actually move. Grounding those quotes in the wider market with the independent Rate and Terms Survey at [investorloancompass.com/book](http://investorloancompass.com/book) lets you walk into the negotiation already knowing whether a quote is fair before you ever counter it.

## CHAPTER 14

# What Investors Are Actually Paying

There is a question every investor asks and almost no one can answer honestly: what is the real rate right now? You will get a different answer from every lender, every forum post, and every advertisement, because each of them has a reason to quote the number that serves them. This chapter is about reading the market for yourself, so that when a lender hands you a quote you already know whether it is fair, generous, or a number designed to win your business and then quietly worsen.

### **Why one quote tells you almost nothing**

When a lender quotes you a rate, that single number is shaped by a dozen things specific to you and your deal: your credit tier, your leverage, your ratio, the property type, whether you took points, whether the rate is fixed or adjustable, and the lender's own appetite that week. Two investors can get quotes a full point apart on the same kind of property and both quotes can be honest, because the inputs behind them differ.

This is why a number you read online, stripped of its context, is close to useless. An advertised rate is almost always the best case: top credit, low leverage, points paid, a perfect property. Quoting it lets the advertiser look cheap. When your real quote comes in higher, you assume you are being treated poorly, when in fact you were comparing against a number no ordinary deal

would ever get. The advertised rate is a marketing artifact, not a benchmark.

## **How to build your own read of the market**

The fix is to gather several real quotes on your actual deal and read the spread, rather than trusting any one of them.

Get term sheets from three or four lenders on the same property, with the same inputs. Now you are comparing like to like, and the pattern in those quotes tells you more than any single number could. The cluster, where most of the quotes sit, is the real market for your deal. An outlier far below the cluster is a flag, not a gift, because a quote well under everyone else is often the one that re-trades later, after you are committed and out of time. An outlier far above the cluster is simply a lender who does not want your deal and priced accordingly.

Reading the spread also teaches you where you sit. If your cluster is higher than you hoped, the lesson is usually not that lenders are unfair, it is that one of your lens lines, leverage or credit or ratio, is pulling your pricing into a higher tier, and you can sometimes move it. The market is giving you information about your deal, not just a price.

## **The value of an independent benchmark**

The trouble with relying only on quotes is that every quote comes from someone who wants to lend to you. There is no neutral party in the room. What is missing from the market is a benchmark gathered by someone with nothing to sell, a regularly updated read of where investor loan pricing and terms actually sit across many

lenders, built from real ranges rather than advertised best cases.

That gap is exactly what the Rate and Terms Survey on the companion site is built to fill. It tracks the going ranges for the main investor loan types, rental loans, hard money, bridge, refreshed as the market moves, gathered independently and presented as ranges rather than a single tidy figure, because a single figure would be the same lie the advertisements tell. The survey will not tell you the one rate you will get, because no honest source can. It will tell you the band a fair quote should fall within, so you can place your own quotes against it and see immediately whether you are inside the market or outside it.

Use it the way a buyer uses recent comparable sales before making an offer. You would never buy a property without knowing what similar ones sold for. You should never accept a loan without knowing what similar ones are priced at. The benchmark does not replace getting your own quotes. It tells you how to read them.

## **What fair looks like**

So what should you conclude when your quote arrives? Place it against two things: the cluster of your own several quotes, and the independent band from the survey. If your quote sits inside both, it is fair, and your energy belongs on the term sheet details from the last chapter rather than on the rate. If your quote sits above both, one of your Lens lines is the reason, and you should find which one before assuming the lender is the problem. If a single quote sits well below both, treat it

with suspicion and confirm the lender's reputation for honoring quotes before you build a closing around it.

Fair is not the lowest number you can find. Fair is a quote inside the real market, from a lender who will actually deliver it, on a deal whose Lens lines justify it. An investor who reads the market this way stops chasing phantom rates and starts closing real loans at honest prices, which over a portfolio is worth far more than winning any single quarter point. Check your own quote against the current independent ranges any time at [investorloancompass.com/book](http://investorloancompass.com/book), where the survey is kept up to date for exactly this purpose.

## CHAPTER 15

# Why Deals Fail at Financing

It is worth looking directly at failure, because the patterns repeat and every one of them is avoidable once you have seen it. The deals in this chapter are composites, drawn from the common ways financing falls apart, with the numbers chosen to make the mechanism clear. Each one is a Lens line that went red and was ignored. Read them as a checklist of what to never let happen to your own deal.

### **Failure one: the ratio that was never run**

An investor finds a rental at a good price, calculates that the rent comfortably beats the mortgage payment, and goes under contract confident the financing is a formality. The payment they used was principal and interest only. When the lender runs the full PITIA, with taxes and a surprisingly high insurance premium for the area, the real ratio comes in at 0.94. The property does not cover its own loan. The lender offers to proceed only at a much larger down payment, which the investor does not have, and the deal collapses two weeks before closing with the earnest money at risk.

The red line was cash flow, and it was red the whole time. The investor simply never ran the number the lender would run. Five minutes with the full payment at the start would have shown the deal needed restructuring before the offer, not after.

## **Failure two: the after repair value that was a wish**

A BRRRR investor buys a distressed house, budgets a renovation, and plans to refinance at seventy five percent of an after repair value they have set at two hundred forty thousand dollars. That figure came from the two nicest sales in the neighborhood, not the typical ones. When the appraisal arrives, the supportable value is two hundred ten thousand. The refinance, sized off the real value, comes back thirty thousand dollars short of the investor's all in cost. That thirty thousand is now trapped in the property, the investor has no capital left to repeat, and the engine that was supposed to fund the next three deals has stalled on the first.

The red line was the exit, mispriced. The after repair value is the single most important number in a BRRRR, and it must be built from typical comparable sales underwritten conservatively, never from the best two sales and optimism.

## **Failure three: the seasoning surprise**

An investor completes a fast, excellent rehab and goes to refinance at month three, expecting to pull their capital straight back out. Their permanent lender requires twelve months of seasoning before they will lend against the new value. Until then, the lender will only refinance against the original purchase price, which leaves most of the investor's cash trapped. Worse, the short term acquisition loan matures at month twelve and carries a steep rate, so the investor spends nine unplanned months paying double digit interest while their capital sits

frozen, waiting for a seasoning clock they never asked about.

The red line was the exit again, this time on timing. The seasoning rule of the permanent lender has to be confirmed before the first loan is taken, and the first loan has to be sized to outlast it.

### **Failure four: the wrong lender for the deal**

An investor with a strong property but a complicated, self-employed income picture takes their deal to a conventional lender because the rate was the lowest advertised. Underwriting demands two years of tax returns, a debt to income calculation across every obligation, and explanations for every deposit. Weeks pass. The file stalls on income documentation that was never going to work for this borrower, and the closing date passes. A DSCR lender, underwriting the property rather than the person, would have closed the same deal in three weeks without a single tax return.

The red line was the loan type, forced onto the wrong borrower. The cheapest advertised rate is worthless if the product cannot actually close on your file.

### **Failure five: the prepayment penalty that fired**

An investor takes an attractive rate on a rental loan, planning to refinance within two years when rates improve or the property appreciates. They do not read the prepayment clause, which carries a five year step down penalty. Two years in, when they go to refinance, the penalty to exit the loan early is large enough to erase most of the benefit of refinancing. They are now choosing

between paying a heavy penalty or staying in a loan they meant to leave. The headline rate was fine. The clause they skimmed is what cost them.

The red line was the exit, written into a term sheet and never read. A prepayment penalty has to be matched to your hold from the start, because by the time it fires there is nothing to negotiate.

## **The thread through all five**

Every failure here is the same failure wearing different clothes. A Lens line was red, or would have been if anyone had scored it, and the investor proceeded on hope instead of arithmetic. None of these required bad markets or bad luck. They required only that the investor skip the few minutes of work that would have surfaced the problem while it was still fixable.

That is the case for the discipline this whole book teaches. Score all five lines, run the full numbers, read the whole term sheet, and confirm the exit before you commit. The investors in this chapter did not lack opportunity. They lacked the habit of looking through the lender's lens before the lender did.

## CHAPTER 16

# Five Deals, Start to Finish

The chapters so far taught the parts. This one runs five complete deals from first look to closing, so you can see the parts working together. The deals are composites built from common situations, with numbers chosen to be realistic for the current market rather than flattering. Three of them work and two do not, because you learn as much from the financing that failed as from the financing that closed. Read each one as a full pass through the Lender's Lens.

### **Deal A: the clean rental**

An investor finds a three bedroom house in a steady mid sized market listed at one hundred ninety thousand dollars. It is already rented to a long term tenant at sixteen hundred dollars a month, in good condition, nothing unusual about it.

Run the Lens first. The investor plans twenty five percent down, so leverage is seventy five percent loan to value, green. Their credit is in the mid seven hundreds with eight months of reserves, green. The property is an ordinary house in a liquid market, green. The exit is a long term hold on a thirty year rental loan, green. Cash flow is the line to check. The full PITIA payment, principal and interest plus taxes and insurance, comes to about thirteen hundred dollars. Sixteen hundred in rent against a thirteen hundred dollar payment is a ratio of 1.23, just under the 1.25 line where the best pricing lives but comfortably above the floor.

The financing is a DSCR loan, chosen because the investor is self employed and does not want to document personal income for a property that plainly pays for itself. They source three quotes, place them against the independent survey band, find their cluster is fair, and negotiate the origination fee down using the lowest competing sheet. To nudge into the best pricing tier they add five percent to the down payment, lifting the ratio above 1.25 and dropping the rate a notch, then check that the extra capital still leaves them strong reserves. The loan closes in nineteen days. Nothing dramatic happens, which is the point. A clean deal, scored honestly and financed deliberately, is boring, and boring is what scales.

### **Deal B: the BRRRR that worked**

A second investor buys a distressed house for one hundred fifteen thousand dollars, with a renovation budget of forty thousand and an honest after repair value, built from typical neighborhood sales, of two hundred twenty thousand. They acquire it with a hard money loan covering most of the purchase and the rehab, a twelve month term at a double digit rate with two points, expensive but brief.

Before taking that first loan, the investor does the one thing the failures chapter warned about: they confirm their permanent DSCR lender's seasoning rule, which is six months, and they size the hard money term at twelve months so it comfortably outlasts it. The rehab runs four months and lands near budget. All in cost, including closing and carrying the hard money, is about one hundred sixty five thousand.

At month seven, past seasoning, they refinance into a DSCR loan at seventy five percent of the two hundred twenty thousand appraised value, a new loan of one hundred sixty five thousand. The renovated house rents for nineteen hundred dollars, the new payment clears the ratio floor, and the refinance pays off the hard money and returns essentially all of the investor's capital. They own a renovated, rented house with almost none of their own money left in it, and the cash is free for the next deal. The engine ran because both numbers, the after repair value and the all in cost, were underwritten honestly, and because the seasoning trap was disarmed before it could fire.

### **Deal C: the BRRRR that stalled**

A third investor runs a similar play and gets the renovation right, but sets the after repair value at two hundred fifty thousand based on the two best sales in the area rather than the typical ones. Their all in cost reaches one hundred eighty thousand. The renovation is genuinely good.

The appraisal comes back at two hundred fifteen thousand, supported by the ordinary comparable sales rather than the exceptional two. The DSCR refinance at seventy five percent is one hundred sixty one thousand, nineteen thousand dollars short of the all in cost. The property still cash flows, the investor still owns a decent rental, but nineteen thousand dollars of their capital is trapped, and the plan to immediately repeat is dead. They did everything right except the single most important number, and that one number cost them the next deal. The lesson is narrow and expensive: in a

BRRRR, the after repair value is not where you express optimism. It is where you are most conservative.

### **Deal D: the DSCR that was declined**

A fourth investor finds a property that looks fine on the surface but does not survive the Lens. It is a condo in a building with high association dues and a market where similar units sell slowly. They plan only fifteen percent down, pushing leverage to eighty five percent, above what most DSCR programs want. The rent is fourteen hundred dollars, but the full PITIA, dragged up by the large association dues, is fourteen hundred fifty, a ratio of 0.97, below the floor.

Score it honestly and three lines are red or yellow before the investor ever applies. Leverage is too high for the program. Cash flow is below 1.0. The property, a slow selling condo with heavy dues, is the hardest kind to exit. The investor applies anyway, drawn by the purchase price, and the lender declines: the ratio is under the floor and the leverage is over the ceiling at the same time, with no single lever able to fix both. Had the investor run the Lens first, they would have seen that this deal needed a far larger down payment to work at all, which would have buried their capital and collapsed the return. The right move was to recognize the red lines and pass, keeping their time and their earnest money. The financing did not fail here. The screening did, by being skipped.

### **Deal E: the right deal, the wrong product**

A fifth investor has a strong property, a standard house that will rent well, but a complicated income picture from

running their own business and writing off heavily. Attracted by the lowest advertised rate, they apply for a conventional investment loan. Underwriting asks for two years of returns, a debt to income calculation, and a paper trail on every deposit. The write offs that help them at tax time now work against them, shrinking their documentable income until the debt to income ratio fails. Weeks pass and the file stalls.

The property was never the problem. The product was. A DSCR loan would have ignored the personal income entirely, underwritten the house on its own rent, and closed in three weeks. The investor eventually pivots to one, but only after losing a month and nearly losing the property to a competing buyer. The deal closes, later and more stressfully than it needed to, and the lesson is the loan types chapter in one sentence: match the product to the borrower and the property, and never let an advertised rate pull you into a lane your file cannot pass through.

## **What the five deals share**

The three that worked share a habit: every line of the Lens was scored before money was committed, the key numbers were run honestly, and the financing arc was confirmed end to end before the first loan. The two that failed share the opposite: a single line, the after repair value in one, the product choice and the screening in the other, was left to hope. None of the five involved a bad market or a stroke of bad luck. They involved arithmetic done early, or arithmetic skipped. Running any deal through the same screen, with the free calculators and pre-qualifier at [investorloancompass.com/book](http://investorloancompass.com/book), before

you commit is the entire difference between the deals that closed and the deals that did not.

## CHAPTER 17

# Building a Financing Pipeline

Financing one property well is a skill. Financing twenty is a system. The investor who wants to scale runs into problems that do not exist on the first deal, and those problems are mostly about financing, not about finding properties. This chapter looks ahead at the path from one rental to a real portfolio, and at the financing moves that keep the path open instead of letting it close at a ceiling you did not see coming.

### **The first few properties**

On your first one to three properties, the financing decisions are the ones this book has already covered. You are choosing between conventional and DSCR, sourcing several quotes, scoring the Lens, and closing clean loans. The main thing to build at this stage is not complexity but habit: run every deal through the same screen, source at least two offers every time, and keep your reserves genuinely strong, because a thin cushion that is survivable on one property becomes dangerous across several.

The quiet mistake at this stage is using up your conventional capacity without thinking about it. Conventional investment loans are the cheapest money you will get, but the market limits how many you can hold, commonly up to ten financed properties, and the slots fill faster than investors expect. Spending all of

them early, on properties that would have financed fine on a DSCR loan, can mean you have no conventional capacity left for the properties that truly need the cheapest rate. Treat your conventional slots as a limited resource and spend them deliberately.

## **The five to ten property stretch**

Somewhere between five and ten properties, the per loan approach starts to strain. You are managing many separate payments, many separate lenders, and the conventional ceiling is now in sight. This is where the financing system has to mature.

Three things matter most here. First, your entity and your books. A clean single purpose company holding your rentals, with organized financials a lender can read in an afternoon, is no longer optional presentation, it is what lets a portfolio minded lender say yes quickly. Second, lender relationships. At this stage you want a relationship with at least one portfolio lender, a local or regional bank or a specialty investor lender that keeps loans on its own books and can therefore use judgment rather than a rigid rulebook. That relationship is the thing that finances the deals that fall outside the standard programs. Third, reserves that scale with the portfolio. The right reserve target is not a fixed number of dollars, it is a number of months of total PITIA across everything you own, and it has to grow as you do.

## **Consolidation and portfolio loans**

Past ten properties, the conventional lane is closed and managing a dozen separate DSCR loans is its own

burden. This is where the portfolio and blanket loans from the loan types chapter earn their place.

A blanket loan secured by several properties at once can replace many separate payments with one, simplify your reporting, and free you from the property count ceilings that govern individual loans. The trade is entanglement. The properties are now tied together under a single loan, so selling one requires a release provision negotiated in advance, and a problem on one property can touch the others. Used well, with release terms set up front so you can still sell individual properties, a blanket loan is how a portfolio of fifteen or twenty rentals becomes manageable. Used carelessly, it ties your hands. The decision turns on the release terms, so negotiate those before you sign, not when you need to sell.

## **The financing ceilings and how to get past them**

Scaling investors hit a predictable sequence of ceilings, and knowing them in advance lets you plan around each one rather than discovering it the hard way.

The first ceiling is the conventional property count limit, reached when the cheapest loans simply stop being available to you. You get past it by moving to DSCR and portfolio products, which have no such count, and by reserving your conventional slots for the deals that need them most.

The second ceiling is documentation and capacity, where your personal debt to income ratio, swollen by the loans you already carry, blocks further conventional borrowing long before the count limit. You get past it by

financing on the property rather than on yourself, which is the entire reason DSCR loans exist, and which is why they remain available to a scaling investor when conventional borrowing against your personal income has run out.

The third ceiling is concentration, reached when a single lender will not extend more credit to you because you already represent too much of their exposure. You get past it by spreading across multiple lenders before you need to, building two or three real relationships while you are still small enough to be an easy yes, so that when you are large the relationships already exist.

### **The system, in one idea**

The pipeline is not a trick. It is the same discipline from the rest of this book, repeated and organized: score every deal, run every number, source every loan from more than one lender, and keep reserves that scale. What changes as you grow is that you add structure ahead of need, the entity, the relationships, the portfolio products, so the next ceiling is already handled when you reach it.

The investor who builds this way is never scrambling, because the financing system is always one step ahead of the portfolio. Keeping the per deal arithmetic effortless, and your read of the market current, is what makes scaling a matter of repeating a known process rather than solving the same financing problem twenty times over. Build the system once and it carries every deal after it.

## CHAPTER 18

# The Worksheets

This is the part of the book you return to with a real deal in front of you. Five worksheets, run by hand, take you through every financing decision the book has taught. They are deliberately simple, because a worksheet you will actually use beats a model you will not. Each one has a live version on the companion site that does the arithmetic for you, but the point of running them by hand at least once is to understand exactly what the numbers mean, so that the live version is a convenience rather than a black box.

### **Worksheet one: the Lens scorecard**

Score the five lines of the Lender's Lens, marking each green, yellow, or red.

- Cash flow: is the debt service coverage ratio above the lender's floor, and by how much? Green above 1.25, yellow from 1.0 to 1.25, red below 1.0.
- Leverage: is the loan to value at or below what the product wants? Green at or under the program target, yellow at the edge, red above the ceiling.
- Borrower: are your credit and reserves comfortably inside the program? Green for a clean file with strong reserves, yellow with one blemish, red with a disqualifying issue.
- Property: is it a standard asset in a liquid market? Green for an ordinary rental, yellow for one quirk, red for an asset too unusual to value or exit.

- Exit: is the way this loan ends real and on a timeline you control? Green for a clear exit, yellow if it depends on something going right, red if it does not really exist.

Read the pattern. All greens, finance it and do not overpay for the loan. A red, stop and either fix the underlying problem or pass.

## **Worksheet two: the DSCR check**

Find out whether the property pays for itself the way a lender will measure it.

- Write down the monthly rent the lender will use, the lower of the actual lease and the market rent.
- Build the full monthly payment, PITIA: principal and interest, plus monthly taxes, plus monthly insurance, plus any association dues.
- Divide the rent by the full payment. That is your debt service coverage ratio.
- Compare it to 1.0 and to 1.25. Below 1.0, the property does not cover its loan. Between 1.0 and 1.25, it finances but pays more. At 1.25 and above, it earns the best pricing.

If the ratio is short, return to the marginal deal chapter and pull one lever at a time on this worksheet until it clears, or conclude honestly that it will not.

## **Worksheet three: cash to close**

Know the real cash the deal requires before you commit, so reserves do not surprise you.

- Down payment: the purchase price times one minus the loan to value.

- Closing costs and fees: points, origination, and the third party fees from the term sheet.
- Required reserves: the lender's reserve months times the full monthly PITIA, held back after closing.
- Add these together. That total, not just the down payment, is the cash the deal actually needs.

Investors who budget only the down payment are the ones caught short by the reserve requirement at the worst moment. Run this before you write the offer.

### **Worksheet four: the BRRRR exit**

Before buying a project to refinance, confirm the engine will return your capital.

- After repair value: set it from typical comparable sales, underwritten conservatively, never from the best two.
- All in cost: purchase price, plus rehab, plus closing, plus the carrying cost of the short term loan.
- Refinance amount: the after repair value times the permanent loan to value, commonly seventy five percent.
- Subtract all in cost from the refinance amount. A positive or near zero result means your capital comes back. A large negative means that much cash stays trapped.
- Confirm the permanent lender's seasoning period, and size the short term loan to outlast it.

### **Worksheet five: the true cost comparison**

Compare two term sheets the honest way, on total cost over the period you will actually hold the loan.

- For each offer, add the points and fees paid at closing.
- Add the total of the monthly payments across your expected hold.
- Add any prepayment penalty you would owe when you exit on schedule.
- The offer with the lower total over your real hold wins, even when it is not the one with the lower rate.

## **The habit that ties it together**

These five worksheets are the whole method made concrete. The Lens scorecard tells you whether to proceed. The DSCR check and the cash to close tell you whether the deal works and what it costs to enter. The BRRRR exit confirms your capital returns. The true cost comparison picks the right loan. Run them in that order on every deal and you will never again be surprised at the closing table.

The live versions at [investorloancompass.com/book](http://investorloancompass.com/book) do the arithmetic instantly and keep the market inputs current, but the discipline is yours, not the tool's. The tool runs the numbers. The habit of always running them, before every financing decision, is the asset this book exists to build.

# Common Financing Questions

These are the questions investors ask most often about financing, answered briefly. Each one points back to the chapter that covers it in full.

## **What is a DSCR loan, in one sentence?**

A loan underwritten on whether the property's rent covers its payment, rather than on your personal income, which makes it the standard tool for financing rentals at scale. Chapter three covers the ratio at its center, and chapter four covers how it compares to the other products.

## **What debt service coverage ratio do I need?**

Most rental programs want at least 1.0, meaning the rent covers the full payment. The best pricing usually starts at 1.25. Some lenders go below 1.0, often to around 0.75, but charge a higher rate or require a larger down payment for the privilege. Run the ratio on the full PITIA payment, not principal and interest alone.

## **How much do I need to put down?**

On a DSCR rental loan, commonly twenty to twenty five percent, though a thinner ratio can push the requirement higher because a larger down payment shrinks the loan and lifts the ratio. Remember that the down payment is not the only cash you need: closing costs and required

reserves are on top of it, which is what the cash to close worksheet is for.

### **What credit score do I need?**

Rental programs often set a floor in the high six hundreds, with the best pricing for scores in the low seven forties and up. Paying down revolving balances before a lender pulls your file can lift your score a tier quickly, since utilization updates monthly. Chapter fourteen covers the borrower file in depth.

### **Can I get one of these loans in an LLC?**

Often yes, and many DSCR lenders prefer it, since they are lending on the property the entity owns. Conventional loans are generally personal. Decide your ownership structure with an attorney and an accountant, and match it to the financing you intend to use. Chapter sixteen covers this, and it is not legal or tax advice.

### **What is a prepayment penalty and should I worry about it?**

It is a fee for paying the loan off early, common on investment loans, and it does not show up in your monthly payment, so it is easy to miss. It only fires when you sell or refinance, which on a rental you very likely will. Read the structure and the number of years before you sign, and match it to how long you actually plan to hold. Chapter seven shows you where to find it.

### **How is a BRRRR financed?**

With two loans in sequence: a short term hard money or bridge loan to buy and renovate, then a permanent DSCR

refinance once the property is stabilized and rented, which pays off the first loan and returns your capital. The deal turns on an honest after repair value and on confirming the refinance lender's seasoning rule before you take the first loan. Chapter six walks through it.

### **What is seasoning and why does it keep coming up?**

Seasoning is the time a lender requires you to own a property, or hold funds, before they will act on a number, most often the time before they will refinance against a new, higher value rather than your purchase price. It is the timing trap that stalls BRRRR deals when the short term loan matures before the refinance is allowed. Confirm it in advance, every time.

### **How do I know if my rate quote is fair?**

Get three or four real quotes on the same deal and read the cluster, then place that cluster against an independent benchmark of current ranges. A quote inside both is fair. A single quote far below the rest is a flag, not a gift, because it is the one most likely to change after you commit. Chapter nine covers reading the market, and the Rate and Terms Survey at [investorloancompass.com/book](http://investorloancompass.com/book) keeps the current ranges.

### **Should I pay points to lower my rate?**

Only if you will hold the loan past the break even. Divide the cost of the points by the monthly payment saving to get the number of months to recover them. Hold past that and points pay off. Refinance or sell before it and

they were a loss. The hold period decides, so never evaluate points without it.

## **Conventional or DSCR?**

If you can fully document strong personal income and you are under the conventional property count ceiling, conventional gives the lowest rate. If your income is hard to document, you write off heavily, you have passed the ceiling, or you want speed and less paperwork, DSCR is the lane. Many investors use conventional early and shift to DSCR as they scale.

## **Why was my loan more expensive than the advertised rate?**

Because advertised rates are best case numbers, built on top credit, low leverage, points paid, and a perfect property. Your real quote reflects your actual Lender lines. If your pricing is higher than hoped, one of those lines, usually leverage, credit, or the ratio, is the reason, and you can sometimes move it. The advertised rate was never a benchmark.

## **How many rentals can I finance?**

The conventional market limits financed properties, commonly to ten, after which those loans stop being available. DSCR and portfolio loans have no such count, which is why scaling investors rely on them past that ceiling. Chapter twelve covers building a financing pipeline that does not stall at the limits.

## **Do these numbers in the book change?**

The principles do not. The prices do. A ratio is calculated the same way every year, but the actual rate, points, and leverage move with the market, sometimes month to month. That is why this book teaches you to read the numbers rather than memorize them, and why the companion site keeps the live figures current.

# Glossary

After repair value. The supported market value of a property once a planned renovation is complete, built from typical comparable sales, not the best ones. The figure a BRRRR refinance is sized against.

Adjustable rate. A rate that holds for an initial period, then resets against an index. Safe on a property you exit before the reset, risky on a long hold.

All in cost. Everything sunk into a property: purchase price, rehab, closing costs, and the carrying cost of any short term loan. The figure a BRRRR refinance must repay to free your capital.

Amortization. The schedule by which a loan is paid down over its term through regular payments of principal and interest.

Blanket loan. A single loan secured by several properties at once. Simplifies a portfolio but ties the properties together, so individual sales require a release provision set in advance.

Bridge loan. A short term, property first loan that holds a property between states while you reposition, stabilize, or arrange permanent financing.

Cash out refinance. A new, larger loan that pays off the old one and hands you the difference in cash, used to pull equity out of a property to fund the next deal.

Conventional loan. An investment loan underwritten on your personal income and sold into the government backed mortgage market. Lowest rates, heaviest

documentation, and a ceiling on the number you can hold.

Debt service coverage ratio. The property's rent divided by its full monthly payment. The central number in rental underwriting. Above 1.0 the property covers its loan; 1.25 and up earns the best pricing.

Debt to income ratio. Your total monthly debt payments divided by your income, used in conventional underwriting. Not used on a DSCR loan.

DSCR loan. A loan underwritten on the property's debt service coverage ratio rather than your personal income. The workhorse of rental investing at scale.

Hard money loan. A short term, property first loan for buying and renovating a property in poor condition, expensive by design and safe only when the exit is real.

Interest only. A loan, or a loan period, in which you pay only interest and no principal, lowering the payment and raising the ratio at the cost of building no equity through the loan.

Leverage. The share of a property's value that is borrowed, measured by loan to value. More leverage means more risk to the lender and higher pricing to you.

Loan to value. The loan amount divided by the property's value, expressed as a percentage. The measure of leverage.

Origination fee. The lender's own up front charge for making the loan, often negotiable, distinct from third party fees.

PITIA. Principal, interest, taxes, insurance, and association dues. The full monthly payment a property

must cover, and the correct figure to use in the debt service coverage ratio.

Points. A fee paid up front to lower the rate, each point equal to one percent of the loan. Worth paying only if you hold past the break even.

Portfolio loan. A loan a lender keeps on its own books rather than selling, which frees it from standard guidelines and lets the lender use judgment on deals that fall outside the box.

Prepayment penalty. A fee for paying a loan off early, common on investment loans, that fires only when you sell or refinance. Match it to your hold before signing.

Rate and term refinance. A new loan that improves the rate or term of an existing one without taking cash out.

Recourse. Whether a lender can pursue you personally if the property does not cover the debt. A non recourse loan limits them to the property itself.

Reserves. Months of full PITIA payments held in the bank after closing, the lender's proof that a vacancy or repair will not immediately threaten the loan.

Seasoning. The time you must own a property, or hold funds, before a lender will act on a number, most often before refinancing against a new value rather than the purchase price.

Single purpose entity. A company, usually a limited liability company, that exists only to hold one property, presenting a clean, isolated file to a property first lender.

Term sheet. The document setting out a loan's proposed terms: rate, points, fees, prepayment penalty, and the clauses that determine its real cost.

Underwriting. The lender's process of assessing the risk of a loan and deciding whether, and on what terms, to make it.

Yield maintenance. A harsh form of prepayment penalty designed to make the lender whole on the interest it expected, expensive to exit early.

# Start Here

You finished the book. Here is exactly what to do with it, in order. Everything below is free to use at [investorloancompass.com/book](http://investorloancompass.com/book), with no signup wall.

## **Step one: analyze your first deal**

Run a real property through the DSCR and cash to close calculators, then score it on the five lines of the Lender's Lens with the pre-qualifier. In a few minutes you will know whether it finances, what it is likely to cost, and which line is weak, before you call a single lender.

## **Step two: check a BRRRR**

If the deal is a buy, rehab, rent, refinance project, run the after repair value and the all-in cost through the BRRRR calculator to confirm your capital comes back before you buy.

## **Step three: read the market**

Check any quote you receive against the independent Rate and Terms Survey, the neutral benchmark of where investor loan pricing and terms actually sit. It tells you whether an offer is fair before you counter it.

## **Step four: choose your financing**

Use the loan guides to choose deliberately among DSCR, hard money, bridge, conventional, and portfolio products, and to see which lenders specialize in the kind of deal you are doing.

## **Step five: repeat**

The whole point is a repeatable system. Run every deal through the same screen, source every loan from more than one lender, and keep your read of the market current. Do that and financing stops being the step where deals die and becomes the step you are best at.

Everything starts at [investorloancompass.com/book](http://investorloancompass.com/book), and it is all free to use.

# About the Author

Owen Brandt writes about real estate investor financing and runs the independent Rate and Terms Survey that tracks where investor loan pricing actually sits. His work focuses on the borrower's side of the table: how investors can read a deal the way a lender does, choose the right loan, and avoid the financing mistakes that quietly cost the most.

He is a researcher and writer, not a licensed lender, broker, or financial advisor, and that independence is deliberate. The value of this work comes from having nothing to sell you. The survey is gathered from many lenders and presented as ranges rather than a single number, because an honest read of the market looks like a range, and the writing aims to give investors the same clear view of financing that lenders have always had of them.

This book is the field guide version of that work. The companion site, [investorloancompass.com/book](http://investorloancompass.com/book), keeps the calculators and the survey current, so the method in these pages always has live numbers to run against.

# Important Notice

This book is for general educational purposes only. It is not financial, investment, legal, tax, or accounting advice, and it is not a recommendation to enter into any specific loan, transaction, or investment. The author is a researcher and writer, not a licensed lender, mortgage broker, attorney, accountant, or financial advisor, and nothing here creates any professional or advisory relationship.

Real estate investing carries risk, including the risk of losing money. Loan terms, rates, program rules, and regulations vary by lender, by location, and over time, and the figures and ranges discussed in this book are illustrative and will change. Nothing in this book is a quote, an offer, or a guarantee of any particular terms.

Before making any financing or investment decision, confirm current terms directly with the relevant lenders and consult qualified professionals, an attorney, an accountant, and a licensed financial or mortgage professional, who can advise you on your specific situation. Any examples are simplified composites for illustration and do not reflect any specific person, property, or transaction. You are responsible for your own decisions.