

THE REAL ESTATE INVESTOR'S GUIDE

How to Finance Rental Properties Without W2s or Tax Returns

The complete guide to DSCR loans, bank statement loans, and cash-out refinancing for self-employed buyers and real estate investors — the money side of buying, renting, refinancing, and scaling a rental portfolio.

Kevin P. Vu | NMLS #2221613

OPTIONS HOME LOANS

Investor & Non-QM Lending • Serving CA, CO, FL, and WA

Before You Read

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All loans are subject to credit approval, underwriting review, and program availability. Not all applicants will qualify. Maximum loan-to-value ratios, minimum credit scores, and other requirements described here reflect general program parameters at the time of writing and may differ for your situation. Real estate investing involves risk, including the possible loss of capital.

Consult licensed tax, legal, and financial professionals regarding your specific circumstances before acting on anything in this book.

A note from the author

I wrote this book because I have the same conversation almost every week: a successful self-employed person or investor tells me they can't qualify for a mortgage, and they're wrong. They've simply been asking the wrong lenders for the wrong loan.

Nobody teaches this. Banks don't advertise the loans they don't sell. Real estate gurus teach deal-finding and skip the financing that makes deals possible. So investors learn the hard way — one declined application at a time.

By the end of this book you'll know every major financing tool built for

people whose income doesn't fit in a W2, how the underwriting actually works, and how to use those tools to build a portfolio. — Kevin P. Vu, NMLS #2221613, Options Home Loans

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INTRODUCTION

Why the Bank Said No — and Why It Doesn't Matter

Picture a borrower. She owns a marketing agency that clears \$300,000 a year. Her credit score is 760. She has six figures in the bank and a rental property under contract that will cash-flow from day one. She walks into the bank where she's kept her accounts for a decade — and gets declined.

Now picture another borrower. He earns \$85,000 as a payroll employee, carries a car loan and student debt, and has \$30,000 saved. Same bank, same week: approved.

Nothing about the second borrower is financially stronger than the first. What's different is the shape of their paperwork. He fits the template. She doesn't. Conventional mortgage underwriting is a template business, and the template was drawn for one person: the W2 employee with two years of steady paystubs.

If you're self-employed, run an S-corp, invest in real estate, earn 1099 income, or simply take the deductions your accountant tells you to take, the template doesn't measure your income. It measures your tax returns — documents you have spent years legally engineering to show as little income as possible. Depreciation, business write-offs, home office, vehicles, retirement contributions: every dollar you deduct lowers your tax bill and your borrowing power in the same stroke. The system punishes you twice. You pay for good tax planning with a mortgage denial.

The industry the banks won't tell you about

Here's what the loan officer at the branch almost never says, because their employer doesn't sell it: an entire lending channel exists for borrowers exactly like you. It's called Non-QM — non-qualified mortgage — and over the past decade it has grown from a niche into a mature, institutionally funded, well-regulated corner of the mortgage market. Billions of dollars of these loans are originated every year, bought by sophisticated investors, and performing well — precisely because they verify a borrower's ability to repay using evidence that reflects reality: rental income, bank deposits, business cash flow, and assets.

These are not the ghost loans of 2006. We'll cover that history — and why today's versions are structurally different — in Chapter 2. For now, the headline: being declined by a conventional lender tells you almost nothing about whether you can finance a property. It tells you which formula was applied. Change the formula and the answer usually changes.

What this book covers

Part I explains the system: how conventional underwriting actually calculates income and debt (and why that math fails you), how the Non-QM industry works, and what investor credit really requires. Understanding the machinery is what separates investors who get structured correctly from investors who get whatever the first loan officer had on the shelf.

Part II is the toolbox — one chapter each on the three programs that matter most for rental investors, plus a framework for choosing between them:

1. **The rental pays for itself:** DSCR loans qualify on the property's rental income. No personal income documentation at all. The core tool of modern portfolio building.
2. **Your deposits tell the story:** Bank statement loans qualify on your actual deposits — the income your tax returns hide. Built for the self-employed.
3. **Speed wins deals:** Stated income business-purpose loans trade leverage for speed and the simplest documentation in the industry.

Part III is the playbook: how to analyze a deal before you offer, how the buy-rehab-rent-refinance-repeat cycle really works (including the parts that go wrong), financing short-term rentals, structuring ownership, building your team, and a 90-day action plan. Case studies, a mistakes chapter, an FAQ, and a glossary round it out.

Who this book is for

Self-employed business owners, 1099 contractors, freelancers, and gig workers who want to buy or refinance property.

Real estate investors — from the first rental to a scaling portfolio — who keep hitting conventional lending's walls.

Anyone who has been declined by a bank and quietly concluded they're unfinanceable. You almost certainly aren't.

PART I

The System

How mortgage underwriting really works — and why the standard formula was never built for you.

The Self-Employed Penalty: How Conventional Underwriting Really Works

To beat a system, you need to understand it. This chapter walks through exactly how a conventional lender turns your finances into a yes or a no — because once you see the formula, you'll see precisely where it breaks for self-employed borrowers and investors, and why no amount of arguing with a loan officer fixes it. The formula is the formula.

Step one: income, as the lender sees it

A conventional underwriter starts with your last two years of federal tax returns and works from the bottom of the page, not the top. Gross revenue is irrelevant. What counts is net income after every deduction — averaged across two years, and if the recent year is lower, often just the lower figure.

Consider a consultant whose business collects \$300,000 a year. After legitimate deductions — home office, health insurance, vehicle, equipment, software, travel, retirement contributions, depreciation — her Schedule C shows \$95,000. To the underwriter, she earns \$95,000. If last year showed \$80,000 because she bought equipment, the underwriter may average down to \$87,500 or flag the "declining income trend." Her real cash flow never enters the file.

Some deductions get added back — depreciation is the big one — but the add-back math is technical, inconsistent across loan

programs, and rarely recovers more than a fraction of the gap between paper income and real income.

Step two: the DTI gauntlet

Next comes the debt-to-income ratio: your total monthly debt payments, including the proposed new mortgage, divided by that documented monthly income. Conventional guidelines generally want the result under roughly 43 to 50 percent.

Watch how fast this math collapses for our consultant. Qualifying income: \$95,000, or \$7,916 a month. A 45 percent DTI ceiling gives her \$3,562 a month for all debt. Subtract a \$600 car payment and \$400 in credit minimums, and \$2,562 remains for a mortgage — principal, interest, taxes, and insurance combined. In most metros, that's a starter condo. Her actual budget, based on real cash flow, could carry three times that.

Step three: the rental income haircut

Now add investment property, because this is where conventional math turns openly hostile. When you own rentals, each mortgage counts fully against your DTI — but the rent counts only partially. Underwriters typically apply a vacancy factor (commonly 25 percent off the top) to the rent shown on your Schedule E or lease, then subtract taxes, insurance, and the mortgage payment. After depreciation has already suppressed your Schedule E, a property that puts real cash in your pocket every month can compute as a monthly loss in the file.

The result is a treadmill: every property you buy adds full debt and partial income, so your DTI degrades with each acquisition. Investors routinely discover that property three or four is where the

conventional channel simply ends — not because their finances weakened, but because the formula compounds against them.

Step four: the overlays

On top of the base formula, conventional lending adds friction that specifically burdens investors and the self-employed:

- **Financed property limits:** Conventional programs cap how many financed properties you can hold, and the terms stiffen sharply after the first few.
- **The two-year rule:** New business, new entity structure, or a career change? Income that hasn't shown up on two full tax returns mostly doesn't exist.
- **Documentation pile-on:** Expect year-to-date profit and loss statements, business license verification, CPA letters, and — for any dip in revenue — written explanations. Self-employed files are the most heavily papered in conventional lending.
- **Entity hostility:** Most conventional programs won't lend to your LLC, forcing personal-name ownership that many investors specifically want to avoid.

Why the formula exists — and why it can't flex

None of this is malice. Conventional loans are sold to government-sponsored enterprises, and those buyers demand standardized files: same documents, same math, every loan interchangeable. Standardization is what makes conventional rates cheap. It's also what makes the box rigid. The loan officer cannot bend the formula because the formula is the product.

The takeaway isn't that conventional lending is bad — if you fit the box, it's the cheapest money available and you should use it. The

takeaway is that the box has edges, you now know exactly where they are, and falling outside them is a routing problem, not a rejection of you.

The key insight

A conventional denial is a verdict on your paperwork's fit with one underwriting formula — not on your finances. The rest of this book is about the formulas that fit.

Non-QM Lending: The Industry Built for Everyone the Banks Ignore

"Non-QM" is one of the worst-named products in finance. It stands for non-qualified mortgage, which sounds like a loan for unqualified people. It isn't. It's a regulatory category — and understanding where it came from will permanently change how you shop for financing.

A short history you actually need

Before 2008, the mortgage industry ran two parallel tracks: fully documented loans, and an expanding carnival of reduced-documentation products. At the carnival's peak, "stated income" meant a borrower could write any number on an application and no one checked. Loans were approved for people with no income, no assets, and no realistic ability to repay, then sold off before the defaults landed. We all know how that ended.

The regulatory response, the Ability-to-Repay rule, did two things. First, it required every lender to verify — with real evidence — that a borrower can repay. That rule applies to every mortgage in America, no exceptions. Second, it defined a safe-harbor template called the qualified mortgage: roughly, a loan documented with tax returns and W2s under strict DTI limits. Loans inside the template are "QM." Loans outside it are "non-QM."

Here's the part almost nobody understands: non-QM does not mean unverified. It means verified differently. A DSCR lender verifies repayment ability through the property's rental income. A bank statement lender verifies it through twelve to twenty-four months of

real deposits. Both are rigorous. Both produce loans that institutional investors compete to buy. The verification never went away — only the assumption that a tax return is the sole legitimate evidence of income.

How today's Non-QM machine actually works

Modern Non-QM is an institutional supply chain. Specialized wholesale lenders design the programs and underwrite the loans. Independent brokers — the channel I work in — originate them, matching each borrower to the lender whose guidelines fit best. The closed loans are pooled, rated by the same agencies that rate other bonds, and sold as securities to insurance companies, pension funds, and asset managers who study the default data closely.

That last step matters to you more than it seems. Because institutional buyers scrutinize performance, Non-QM guidelines are self-correcting: programs that produce defaults get tightened or killed. The market discipline that was absent in 2006 is now the engine of the whole system. Reserves are required. Appraisals are reviewed. Credit standards are real. Down payments are meaningful — typically 10 to 25 percent or more — which keeps every borrower invested in the outcome.

Broker versus bank: why the channel matters

A bank loan officer can sell you whatever their employer manufactures — usually conventional products plus a house Non-QM program or two, priced however the bank prices them. A wholesale broker works the other side of the street: one application, shopped across many lenders' programs and rate sheets, structured to whichever guideline set treats your file best.

In conventional lending, where every lender runs the same formula, the broker advantage is mostly price. In Non-QM, guidelines differ wildly between lenders — one lender's 0.75 minimum DSCR is another's 1.10; one counts short-term rental income, another doesn't; expense factors on bank statement programs range widely. Matching the file to the guideline is the difference between approved and declined, and between 75 and 90 percent leverage. In this channel, the broker advantage is the outcome itself.

What Non-QM costs — the honest version

Non-QM rates run above conventional — commonly somewhere between half a point and a couple of points, depending on program, credit score, down payment, and how the loan is structured. Three things to keep in perspective:

4. **Compare real alternatives:** The comparison is theoretical if conventional won't approve you. The relevant question is never "Non-QM versus conventional" — it's "this loan versus no loan," or versus hard money at far higher cost.
5. **Think like an investor:** For an investment property, the rate premium is a business expense set against the property's returns — and often partially deductible. A rental earning a strong cash-on-cash return doesn't care about an extra point of rate. (Ask your tax professional about deductibility.)
6. **You control the price:** Rate follows risk factors you control: more equity, higher credit, and stronger property cash flow all buy the rate down. Chapter 3 and Chapter 8 show you the levers.

Rule of thumb for the whole book

If the property's rent can carry the loan, start with DSCR (Chapter 4). If

you're qualifying on your own finances and you're self-employed, start with bank statements (Chapter 5). If the deal is investment-purpose and speed or simplicity is the priority, ask about stated income (Chapter 6). Chapter 7 turns this into a full decision framework.

Credit for Investors: What Actually Matters and What Doesn't

Non-QM lending removed tax returns from the equation. That makes the two remaining pillars — credit and equity — carry more weight, not less. Your credit score is the single biggest lever on your rate and maximum leverage across every program in this book, so it deserves a chapter of straight talk.

The thresholds that matter

Programs vary, but the general shape of the market looks like this:

Score range	What it generally means for investor financing
740+	Best pricing tiers, maximum LTVs, most program flexibility. Every door open.
700–739	Strong. Minor pricing adjustments; nearly all programs available.
660–699	Solid. DSCR and bank statement programs fully in play; stated income programs (generally 660+) open up at the bottom of this band.
620–659	Workable. DSCR and bank statement programs generally start around 620; expect lower maximum LTV and higher rates. A larger down payment does a lot of compensating.
Below 620	Limited but not hopeless — this is a repair-first situation. Six months of focused work often moves a file into the 620s.

Two structural notes. First, mortgage lenders pull all three bureaus and typically use the middle score — so one strong bureau doesn't carry you, and one weak one doesn't sink you. Second, pricing moves in 20-point bands: getting from 678 to 680 can genuinely change

your rate, which makes small, targeted credit work worth real money.

What moves the score fastest

7. **Crush utilization:** Utilization is the quick win. The share of your revolving limits you're using updates monthly and has no memory. Paying cards below 30 percent — ideally below 10 — before your report is pulled can move a score dramatically in one statement cycle. If you run business expenses through personal cards, this is likely your biggest lever.
8. **Protect payment history:** A single recent late payment does outsized damage. Automate every minimum payment forever. If you have one recent late on an otherwise clean history, a goodwill letter to the creditor sometimes removes it — worth the stamp.
9. **Go quiet before you apply:** Don't open new accounts or finance anything in the months before applying. Each inquiry and new account dings the score and, worse, invites underwriter questions.
10. **Dispute the junk:** Old collections and errors respond to dispute letters more often than people expect. Pull all three reports and work the errors first — they're the fastest points on the board.

What matters less than you think

- You don't need an 800. The difference between 760 and 800 is bragging rights; the difference between 640 and 680 is real money. Optimize the band you're in.
- Closing old cards usually hurts (it raises utilization and shortens average age). Leave paid-off cards open.

- A past bankruptcy, foreclosure, or short sale is not a permanent bar in Non-QM — many programs work with meaningful seasoning after the event, far sooner than conventional timelines. Disclose it early and let your broker route around it.

Reserves: the quiet second currency

Alongside credit, Non-QM underwriting cares about liquidity — reserves, measured in months of the new payment you'll have in the bank after closing. Requirements commonly run from a few months up to twelve for larger portfolios. Reserves are also a compensating factor: strong liquidity can offset a thinner credit file or a tighter DSCR. When you're planning a purchase, budget the down payment plus closing costs plus the reserve requirement, or the file stalls at the finish line.

Ninety days out

The ideal pre-application quarter: pay revolving balances down hard, open nothing, finance nothing, keep deposits clean and consistent, and pull your own reports to dispute errors. Ninety quiet days routinely add 20–40 points — which, at the scale of a mortgage, is one of the best hourly rates you'll ever earn.

PART II

The Toolbox

Three loan programs built for investors and the self-employed — and how to pick the right one for each deal.

DSCR Loans: When the Property Qualifies, Not You

If you remember one program from this book, make it this one. The DSCR loan — Debt Service Coverage Ratio loan — is purpose-built financing for rental investors, and it's the engine behind most modern portfolio building. It answers conventional lending's worst failure with a beautifully simple idea: judge the property, not the person.

The core idea

A DSCR lender asks one primary question: does the property's rent cover the property's payment? Your personal income never enters the equation. No tax returns, no W2s, no paystubs, no employment verification, no personal DTI calculation. Your day job could be anything or nothing. The property is a small business, and the business is judged on its own cash flow.

The math, thoroughly

DSCR = Monthly Rent ÷ Monthly PITIA (principal, interest, taxes, insurance, and association dues)

Work an example end to end. A single-family rental is under contract at \$350,000. Market rent, per the appraiser's rent analysis, is \$2,600. With 20 percent down, the loan is \$280,000; say principal and interest come to \$1,975, taxes \$325, insurance \$140, no HOA. PITIA totals \$2,440. $DSCR = 2,600 \div 2,440 = 1.07$ — the property covers its payment with 7 percent to spare, and the loan qualifies on most programs.

Now the useful table. Here's how ratio bands are generally read by lenders:

DSCR	Read	What it means for your loan
1.25+	Strong	Best pricing tiers. The property carries itself with a comfortable cushion.
1.00–1.24	Standard	Break-even or better. Broad program availability at standard pricing.
0.75–0.99	Sub-1.0	Property doesn't fully cover the payment yet. Qualifying still possible from as low as 0.75 on some programs — with pricing and LTV adjustments.
Below 0.75	Thin	Generally outside DSCR guidelines; look at repositioning the deal, a larger down payment, or a different program.

Why would anyone lend below break-even? Because rent today isn't rent forever. Sub-1.0 programs exist for properties with a story: units under renovation, below-market leases expiring, strong appreciation markets where the investor is deliberately buying negative near-term cash flow. The lender prices the risk; the investor buys the upside. Just walk in with eyes open — a sub-1.0 property costs you money every month until the story comes true.

Typical program parameters

Minimum credit score	Generally from 620
Maximum LTV	Up to 80% (20% down, or 20% equity on a refinance)
Minimum DSCR	Qualifying from as low as 0.75 on some programs

Income documentation	None — no tax returns, W2s, paystubs, or employment verification
Property types	Single-family rentals, 2-4 units, condos; short-term rentals on many programs
Ownership	Personal name or LLC — most investors close in an LLC
Reserves	Commonly several months of PITIA
Asset depletion hybrid	Available — liquid assets can supplement the ratio on some programs

How the rent number gets set

The rent in the ratio is not your projection. For a leased property, the underwriter generally uses the lower of the actual lease or the appraiser's market-rent opinion (the rent schedule attached to the appraisal). For a vacant property, the appraiser's number stands alone. Practical implications: comparable rents in the immediate area drive your qualification, over-improved properties don't get credit for rent the neighborhood can't support, and a below-market lease you inherited can drag the ratio down — sometimes it's worth waiting for a lease to expire and re-signing at market before you refinance.

Structure decisions that matter more than rate

Prepayment penalties

Most DSCR loans carry a prepayment penalty, commonly structured as a step-down over the first three to five years (for example, 5 percent of the balance if you pay off in year one, declining a point a year). This is the single most important structural choice on the loan,

because it must match your exit. Planning to hold ten years? Take the longer prepay and enjoy the rate discount it buys. Planning a BRRRR-style refinance in month eight? You need a short or bought-out prepay structure, and it will cost some rate. Getting this wrong turns a good deal into a five-figure exit fee — always tell your broker the exit plan before the loan is structured.

Interest-only periods

Many programs offer an interest-only option for the first several years. The payment drops, which lifts your DSCR and monthly cash flow; the trade is no principal paydown during the IO period. For investors prioritizing cash flow or qualifying near the ratio line, IO is a legitimate tool — as long as you're honest that appreciation and rent growth, not amortization, are doing the wealth-building during those years.

Thirty-year fixed versus alternatives

DSCR programs commonly offer 30- and 40-year fixed terms and adjustable options. For buy-and-hold rentals, a long fixed term is the default choice: it locks the ratio math permanently and removes rate risk from the business plan. Consider ARMs only when you have a defined exit inside the fixed period.

Why investors build on DSCR

- **It scales:** Property ten underwrites exactly like property one — your personal DTI never fills up, because it's never used.
- **It protects your tax strategy:** Deduct aggressively on your taxes without touching your borrowing power.
- **It fits entity ownership:** Close in an LLC and keep investment debt off your personal profile on many programs.

- **It moves fast:** Slim documentation means fast underwriting — often the edge that wins a competitive offer.

What to watch

- Rates run above owner-occupied conventional. Underwrite the deal at the real rate, not a hoped-for one.
- The appraiser's rent opinion rules the file. If your deal only works at fantasy rent, it doesn't work.
- Vacancy is your risk, not the lender's. One empty month is roughly 8 percent of annual rent gone — hold reserves like the business owner you are.
- Condos and unusual property types face extra review; flag them to your broker on day one.

Illustrative example

An investor with strong credit finds a duplex for \$400,000 renting a combined \$3,600/month. With 20% down, all-in PITIA is roughly \$3,000 — a 1.20 DSCR. The loan approves on the property's cash flow alone, closes in her LLC, and her tax returns — which show modest income after depreciation on her other rentals — are never requested. Her fourth conventional denial that year turns out to be irrelevant.

Bank Statement Loans: Qualify on Your Real Income

DSCR solves the investment-property problem. But plenty of situations require qualifying on your own finances: a primary residence, a second home, or a deal where you want your personal strength — not just the property's — carrying the file. For the self-employed, the answer is the bank statement loan, and it may be the most life-changing product in this book for business owners who've been told no.

The core idea

Instead of tax returns, the lender reviews 12 or 24 months of your bank statements and calculates income from actual deposits. If your business consistently deposits \$30,000 a month, that cash flow is your income — regardless of what your Schedule C shows after write-offs. The gap between those two numbers is exactly the gap between a denial and an approval.

How the income calculation really works

This is worth understanding in detail, because it's where files are won and lost.

Personal statements

If you deposit business income into personal accounts, lenders generally count qualifying deposits close to fully — the assumption is that money arriving in your personal account is already yours. Transfers between your own accounts, refunds, and one-off windfalls get excluded, which is why clean statements matter.

Business statements and the expense factor

For business accounts, the lender applies an expense factor: a haircut representing the business's operating costs. A common default is 50 percent — \$40,000 in monthly deposits computes as \$20,000 of income. But the factor is negotiable with evidence: a letter from your CPA attesting to a lower actual expense ratio, or a profit-and-loss statement, can drop the factor substantially and transform your qualifying income. Service businesses with thin cost structures (consultants, agencies, software, professionals) benefit most — a consultant with 20 percent real expenses who accepts a default 50 percent factor is leaving nearly half their income off the application.

Twelve months or twenty-four?

Twenty-four months smooths seasonality and rewards stable or growing businesses with a fuller average. Twelve months favors a business whose recent year is much stronger than the prior one — a growth-stage company qualifies on the surge instead of averaging it away. Run the calculation both ways before choosing; the right window can change qualifying income by a third.

Typical program parameters

Minimum credit score	Generally from 620
Maximum LTV	Up to 90% — as little as 10% down on some programs
Documentation	12 or 24 months of personal or business bank statements
Not required	Tax returns, W2s, or employment verification

Self-employment	Generally two years in business (exceptions exist with related work history)
Best for	Business owners, 1099 contractors, freelancers, gig workers, professionals with heavy write-offs

Preparing a file that sails

- 11. Separate your accounts:** Keep business and personal banking strictly separate. Commingled accounts force conservative treatment and slow everything down.
- 12. Deposit consistently:** Underwriters read deposit patterns like an EKG. Steady or rising is healthy; erratic spikes need letters of explanation. If you control your own invoicing, smooth it in the year before you apply.
- 13. Minimize transfers:** Large movements between your own accounts look like income until proven otherwise — and then get excluded. Keep the qualifying account clean for the statement window.
- 14. Zero NSF:** Non-sufficient-funds incidents and overdrafts are credibility wounds on a bank statement file. Buffer the account.
- 15. Weaponize your CPA:** If your real expense ratio is low, a CPA letter is possibly the highest-value document in your file. Get it before underwriting, not during.

Illustrative example

A contractor's tax returns show \$60,000 after aggressive write-offs — but his business account deposits average \$32,000/month. On a 24-month bank statement program with a CPA-supported expense factor, his qualifying income lands near \$19,000/month. He purchases with 10% down on a program built for exactly his profile — one year after a conventional lender declined him at a fraction of the budget.

Stated Income Loans: Speed and Simplicity for Investment Deals

The third tool is the modern stated income loan — and before anything else, we need to defuse the name. Yes, this is the product family that earned infamy before 2008. No, it is not the same product. What survived the regulatory rebuild is a narrow, disciplined version that exists for one context only: business-purpose lending.

What "business purpose" means and why it matters

Consumer mortgage rules protect people financing the roof over their heads — and today, those rules effectively require income verification on any owner-occupied loan. Business-purpose loans are different: when an investor finances a rental property, the law treats the transaction as commerce between parties who can look after themselves. That's the legal foundation of modern stated income lending: investment property only, never a home you'll occupy. A lender who lets you fudge that line is telling you exactly what kind of lender they are — walk away.

How the underwriting works

With no income file, the loan stands on three legs. Credit: generally 660 minimum, and the score carries real pricing weight here. Equity: maximum LTV around 75 percent, so you're bringing at least a quarter of the value — skin in the game is the verification. The deal: property type, condition, location, and your track record as an investor. Strong legs, fast approval; this is routinely the quickest full-documentation-to-clear path in the industry.

Typical program parameters

Minimum credit score	Generally from 660
Maximum LTV	Up to 75%
Purpose	Business / investment purpose only
Not required	Income verification, employment verification, or tax returns
Best for	Experienced investors prioritizing speed, privacy, or documentation simplicity

When it's the right tool

- **Complexity:** Your finances are genuinely complex — multiple entities, K-1s, irregular distributions — and assembling a bank statement file would take longer than the escrow.
- **Speed:** A competitive deal demands a three-week close and you can bring 25 percent. Documentation speed becomes the winning bid.
- **The ratio doesn't fit:** The property's DSCR is thin but your credit and equity are strong — stated income judges the borrower's strength instead of the property's ratio.
- **Privacy:** You'd simply rather not hand over your banking life for a business transaction. Privacy is a legitimate preference.

The trade-off is honest and simple: the lowest maximum leverage and the highest credit bar in this book, in exchange for the least documentation and often the most speed. For the right deal — especially where certainty of close is worth real money — that trade wins.

Choosing Your Weapon: A Decision Framework

Three programs, overlapping situations. Here's the decision logic I walk through with clients, condensed to a page you can use forever.

Start with two questions

- 16. Occupancy first:** Will you live in the property? If yes, business-purpose programs (DSCR for most lenders, stated income always) are off the table — you're choosing between conventional and bank statement. If no, all three tools are in play.
- 17. Then the ratio:** Does the property's rent cover its payment? If yes, DSCR is the default — it's the tool that never touches your personal file and never stops scaling. If no or not yet, you're qualifying on personal strength: bank statements or stated income.

The comparison at a glance

	DSCR	Bank statement	Stated income
Qualifies on	Property's rent	Your deposits	Credit + equity
Min. credit (typ.)	620	620	660
Max LTV (typ.)	80%	90%	75%
Income docs	None	12-24 mo. statements	None
Occupancy	Investment	Any	Investment only
LLC-friendly	Yes	Varies	Yes

Speed	Fast	Moderate	Fastest
Best for	Buy-and-hold, BRRRR, scaling	Primary homes, max leverage, self-employed	Complex finances, tight closings

Common situations, routed

- **The situation:** Self-employed buying a primary residence → bank statement. It's the only Non-QM lane for owner-occupied, and up to 90% LTV preserves your cash.
- **The situation:** Buying rental #1 with a strong lease in place → DSCR. Start the portfolio on the tool that scales, even if you could qualify conventionally — you're saving conventional capacity for your own home.
- **The situation:** BRRRR refinance after a rehab → cash-out DSCR. The new lease qualifies the loan; Chapter 10 covers the sequencing.
- **The situation:** Off-market fourplex, seller wants three weeks → stated income if you have 25% and 660+; the certainty and speed win the deal.
- **The situation:** Thin-ratio property in an appreciating market → sub-1.0 DSCR if the story is real, or stated income if your credit and equity are the stronger leg.
- **The situation:** W2 employee with side-business income and two rentals → sometimes still conventional! When you genuinely fit the cheap box, use the cheap box. A good broker checks this first, not last.

The honest meta-rule

Programs are priced efficiently: more leverage costs rate, less

documentation costs leverage, more speed costs something somewhere. There's no secret free lunch — there's only matching the trade-offs to the deal in front of you. That matching is the whole job.

PART III

The Playbook

From analyzing your first deal to scaling a portfolio — the money side of buy, rehab, rent, refinance, repeat.

Deal Math: Analyzing a Rental Before You Offer

Financing determines whether you can buy. This chapter is about whether you should. Every number here feeds directly into the loan you'll get — the DSCR you'll qualify at, the appraisal you'll need, the reserves you'll hold — so treat deal analysis and financing as one discipline, because lenders certainly do.

Build the real monthly picture

New investors underwrite rent minus mortgage and call the remainder cash flow. The market then educates them. The honest monthly ledger for a rental includes:

- **PITIA:** The full loan payment plus property taxes, insurance, and any HOA dues — the same PITIA your DSCR is computed on.
- **Vacancy:** Budget roughly 5–8% of rent even if the property is full today. Every vacancy month is ~8% of annual rent.
- **Repairs and maintenance:** Ongoing fixes: commonly 5–10% of rent depending on age and condition.
- **Capital expenditures:** The roof, HVAC, and water heater are all quietly dying on a schedule. Reserve 5–10% of rent so their funerals don't surprise you.
- **Management:** 8–10% of rent if professionally managed — and budget it even if you self-manage, because your time isn't free and someday you'll want it back.

A property renting \$2,600 with \$2,200 PITIA looks like \$400 of cash flow. After realistic vacancy, maintenance, capex, and management

allowances, the true expected number might be closer to break-even. That's not a reason to despair — it's the difference between knowing your deal and hoping at it.

The three numbers that decide

1. DSCR — the qualifying number

$\text{Rent} \div \text{PITIA}$, as covered in Chapter 4. Compute it yourself before you offer, using conservative rent comps, real tax figures (post-sale reassessment, not the seller's old bill), and an actual insurance quote. If your own math says 1.05, don't write an offer that needs 1.20 to appraise.

2. Cash-on-cash return — the performance number

$\text{Annual pre-tax cash flow} \div \text{total cash invested}$ (down payment + closing costs + immediate repairs). If you put \$80,000 into a deal producing \$6,400 a year after honest expenses, that's an 8% cash-on-cash return. This is the number that tells you whether the deal beats your alternatives — and it's exquisitely sensitive to financing structure, which is why loan choice is an investment decision, not paperwork.

3. Cap rate — the comparison number

$\text{Net operating income} \div \text{purchase price}$, ignoring financing entirely. Cap rate lets you compare properties and markets apples-to-apples and sanity-check a price against what similar buildings trade for. Low-cap markets are appreciation bets; high-cap markets are cash-flow plays with slower growth. Neither is wrong — but know which game your market is playing before you buy a ticket.

Screens and reality

You may hear rules of thumb like the "1% rule" (monthly rent $\approx$ 1% of purchase price). Treat these as sorting filters for scanning listings, never as analysis — in many strong markets nothing passes 1%, and in some weak markets everything does. The full ledger above is twenty minutes of work per serious candidate. Do the twenty minutes.

Stress-test before you sign

- 18. Vacancy shock:** Two months vacant this year — does the deal survive?
- 19. Rate shock:** Rate 1% higher at refinance time — does the exit still work?
- 20. Capex shock:** A \$7,000 HVAC in year one — do reserves cover it without touching your life?
- 21. Value shock:** Appraisal 5% light — do you have the cash to bridge, or a walk-away clause?

The discipline that compounds

Investors who analyze this way buy fewer properties in year one and far more by year ten — because nothing bleeds capital and confidence like a bad building. The spreadsheet is boring. The results aren't.

From Application to Keys: The Loan Process, Demystified

Most borrower anxiety comes from not knowing what happens next. So here's the whole machine, stage by stage — what's happening, how long it takes, and what you control at each step. A well-prepared Non-QM investor file commonly runs three to five weeks from application to closing; here's where those weeks go.

Stage 1: Scenario and structure (before you're in contract)

The real process starts before the application. In a scenario review, your broker takes the shape of your situation — credit band, liquidity, entity, the deal type — and matches it against live lender guidelines to answer the questions that matter: which program, what maximum leverage, what rate band, what reserve requirement. Done properly, this stage means you shop for property already knowing your number, and an accepted offer drops into a pre-built structure instead of starting a scramble.

Stage 2: Application and disclosures (days 1–3)

Once you're in contract, the formal application goes in and the lender issues disclosures — the legally required paperwork describing the loan's terms and costs. Read the loan estimate carefully and ask about anything surprising; this is the document that keeps everyone honest. Sign promptly: disclosure turnaround is one of the few timeline levers entirely in your hands.

Stage 3: The document sprint (days 1–7, in parallel)

The document list for a Non-QM file is short by mortgage standards, but it's absolute — underwriting can't start on a partial file. Typical requests:

- DSCR: purchase contract, lease or short-term rental history if any, insurance quote, entity documents (articles, operating agreement, EIN letter), two months of asset statements for down payment and reserves.
- Bank statement: everything above minus the lease, plus the full 12 or 24 months of statements and, ideally, that CPA expense-factor letter from Chapter 5.
- Stated income: contract, entity documents, asset statements, ID. That's most of the list — the program's entire point.

Deliver documents as complete files, not a two-week trickle. Every partial delivery restarts someone's review clock.

Stage 4: Appraisal (ordered day 1–3, back in 7–14 days)

The appraisal is usually the critical path, so good brokers order it the moment the file opens. For investor loans it typically includes a rent schedule — the market-rent opinion your DSCR is computed from. You can't talk to the appraiser about value, but you can lawfully make evidence available: rehab invoices, photos, your comp list, a rent roll. An appraisal is an argument; show up with exhibits.

If the value or rent comes in light, options exist — a reconsideration of value with better comps, restructuring at the lower number, or renegotiating the purchase price. Light appraisals are a solvable event, not a dead file.

Stage 5: Underwriting and conditions (days 7–21)

An underwriter reviews the complete file against program guidelines and issues a conditional approval — approved, subject to a list of conditions. Expect items like a letter of explanation for a deposit, an updated insurance binder, or an entity document page. Conditions are normal; every file has them. The professional move is boring: answer exactly what's asked, completely, within 24 hours, without volunteering new paperwork that spawns new questions.

Stage 6: Clear to close and closing (final week)

Conditions satisfied, the file goes clear to close. Closing documents are drawn, you review the final closing disclosure against the original estimate, wire your funds (call the title company to verbally confirm wire instructions — wire fraud is real and unrecoverable), and sign. For an investment property there's no post-signing rescission wait; funding and recording typically follow quickly, and the property is yours.

The meta-rule of fast closings

Every file has two clocks: the lender's and yours. You control yours — complete documents up front, same-day condition responses, prompt signatures. Files that close in three weeks aren't lucky; they're responsive.

The BRRRR Method: Recycling One Down Payment Into a Portfolio

Buy, Rehab, Rent, Refinance, Repeat. Five words that have built more small real-estate portfolios than any other strategy — because they solve the real constraint. The obstacle to owning ten rentals was never finding ten properties; it's funding ten down payments. BRRRR recycles the same capital through deal after deal, and Non-QM financing is the machinery that makes it work for self-employed investors.

The engine, step by step

Buy — where the profit is created

The entire strategy rests on buying below stabilized value — almost always a property that needs work, bought from a seller who values speed or certainty. Your target math: purchase price plus rehab budget should land meaningfully under the after-repair value (ARV), because that gap is what the refinance later converts back into cash. Acquisition financing at this stage is commonly cash, a hard-money or bridge loan, or a stated income loan when timing is tight — the permanent loan comes later.

Rehab — disciplined, not beautiful

You are renovating to a rental standard, not a flip standard: durable floors, clean kitchens and baths, safe systems, strong curb appeal. Every dollar should either raise achievable rent or raise appraised value — ideally both. Budget a contingency of 10–20%, because rehabs run over the way rivers run downhill. Keep every invoice and

take before-and-after photos of everything; that paper trail becomes appraisal evidence in step four.

Rent — the number that qualifies your exit

Place a quality tenant at genuine market rent. The signed lease does double duty: it produces income, and it becomes the qualifying document for a DSCR refinance. Under-rent the unit to fill it fast and you've directly shrunk the loan you can get. Screen hard — the refinance underwriter may want to see payment history, and an eviction mid-process wrecks the timeline.

Refinance — the step everything was for

Now the cash-out refinance based on the new appraised value. This is where the DSCR loan earns its place at the center of the strategy: the new lease qualifies the loan, your tax returns stay in the drawer, and your personal DTI is untouched — which means the strategy is exactly as repeatable at property six as at property one. At up to 75–80% of the new value, a well-bought deal returns most or all of your original capital.

Repeat — with compounding advantages

The recovered capital funds the next acquisition — except now you also have a completed project in your track record, a contractor who knows your standard, an agent who knows your buy box, and a broker with your file built. Cycle two is faster than cycle one. That's the real compounding.

A full cycle in numbers

Purchase price	\$220,000 (distressed condition)
Rehab budget (incl. contingency)	\$45,000

Total cash in	\$265,000 plus closing and carrying costs
After-repair value (appraised)	\$360,000
New market rent	\$2,700/month
Cash-out DSCR refinance at up to 75-80% LTV	≈ \$270,000–\$288,000 new loan
Result	Original capital recovered; property cash-flows above its payment; capital redeployed

Figures are illustrative, and real cycles are messier: appraisals come in light, rehabs run long, rates move mid-project. The mechanism, though, is real — and even a "partial" BRRRR that returns 70% of your capital still beats saving a whole new down payment by years.

The details that make or break the refinance

- Seasoning:** Most cash-out programs require you to own the property for a seasoning period — commonly several months — before lending on the new appraised value rather than your purchase price. Your carrying-cost budget and timeline must be built around it. Ask about seasoning before you buy, not after.
- The exit test:** Underwrite the exit first. Before you offer, price the refinance at today's rates, a conservative ARV, and the actual cash-out LTV. If the deal only works at a fantasy appraisal, it doesn't work.
- Feed the appraiser:** Appraisers respond to evidence. Hand over the invoice file, the photo set, and your own comp list. An appraisal is an argument; show up with exhibits.

- **Parallel-path the loan:** Involve your broker before the rehab finishes so the refinance processes while the paint dries. Compressing dead time between rent-up and close is pure profit.
- **Mind both prepaids:** Confirm the new loan's prepay structure matches your hold plan — and that your acquisition loan doesn't penalize the early payoff the refinance triggers.

Why this beats saving

At 20–25% down per property, saving your way to a portfolio takes decades of discipline. Recycling capital means the binding constraint stops being your savings rate and becomes your deal flow — a much better problem, and one that skills, networks, and effort actually solve.

Short-Term Rentals: Financing the Airbnb Play

Short-term rentals can gross two to four times what the same property earns on a lease — and they carry operating intensity, regulatory risk, and financing wrinkles to match. This chapter covers the money side: how lenders treat STRs and how to structure the purchase.

How lenders underwrite an STR

The good news: many DSCR programs now underwrite short-term rentals directly. The question is what income counts. Approaches vary by lender — and this is exactly the kind of guideline spread where broker channel-shopping pays:

- **Actual history:** For established STRs, some programs qualify on trailing 12-month actual revenue from your platform statements — the strongest treatment if your numbers are good.
- **Market projection:** Other programs use projected STR income from specialized market-data reports or the appraiser's analysis — the lane for properties without operating history.
- **Long-term rent basis:** The most conservative programs qualify the property on its long-term market rent even if you'll run it as an STR — your ratio must work on lease numbers, with STR upside as pure margin.

Underwriting an STR purchase to long-term rent is also a private stress test worth running on yourself: if the deal survives on lease income, regulation change and slow seasons can hurt you but not kill

you. If it only works at 80% occupancy and peak nightly rates, you've bought a job with a mortgage attached.

The regulatory layer

Before any financing conversation: verify the property can legally operate. City-level permits, zoning overlays, HOA prohibitions, and state rules change fast, and a permit regime that tightens after you close can convert an STR into a long-term rental overnight — which is exactly why the long-term-rent stress test matters. Municipal risk is the tallest risk in this niche.

Practical structure notes

- Expect somewhat lower maximum LTVs on STR programs than standard rentals; bring extra equity to the plan.
- Reserves matter more here — seasonality means lumpy income, and underwriters (and prudence) want deeper cushions.
- Standard landlord insurance does not cover short-term guests; you need STR-specific coverage, and its higher premium belongs in your PITIA math from day one.
- Furniture, linens, and setup commonly run \$15,000–\$40,000+ and are not financeable in the mortgage — budget them as cash alongside your down payment.

Illustrative example

An investor buys a cabin near a national park for \$380,000. Long-term rent would be ~\$2,100 — a thin 1.02 DSCR on lease numbers. A market-data projection supports \$4,300/month average STR revenue, and an STR-friendly DSCR program qualifies the deal on that basis with 25% down and healthy reserves. The investor keeps the lease-income stress test in her back pocket: if regulation shifts, the property survives

— it just stops being spectacular.

Picking Your Market: Where the Numbers Actually Work

Financing is portable — the programs in this book work in essentially every state. Your capital is portable too. Which raises the question most investors answer by accident instead of analysis: where should you buy? This chapter gives you the framework, whether that means your own city or a market three states away.

The cash-flow-versus-appreciation spectrum

Every market sits somewhere on one spectrum. On one end, high-price coastal and boom metros: properties are expensive relative to rents, DSCRs are thin at 80% leverage, and the investment thesis is appreciation. On the other end, affordable Midwest and Southern markets: rent is high relative to price, ratios clear easily, and the thesis is cash flow with slower growth. Neither end is wrong — but your financing lives on this spectrum. A DSCR loan in a 0.9-ratio metro needs a bigger down payment or an interest-only structure; the same loan in a 1.3-ratio market sails. Know which game your market plays before you buy a ticket.

What to actually evaluate

- **Demand drivers:** Population and job growth over five-plus years, and employer diversity — a market that depends on one plant or one industry carries that concentration into your rent roll.
- **Rent-to-price ratio:** Median rent against median price for your property type — this is your DSCR raw material. Screen it before anything else.

- **Rental absorption:** Vacancy rates and days-on-market for rentals. A market where units sit sixty days makes every turnover twice as expensive.
- **The carrying-cost layer:** Property taxes and insurance costs — the silent DSCR killers. Two otherwise identical markets can differ by hundreds a month in carrying cost, which is the entire margin on many deals.
- **Regulatory climate:** Landlord-tenant law and, if relevant, short-term rental regulation. Operating friction is a real expense even when it never shows on a spreadsheet.

Local versus long-distance

Buying where you live means firsthand knowledge and easy oversight — and, in expensive metros, sometimes means the numbers simply don't work. Long-distance investing trades convenience for arithmetic: you gain markets where ratios clear, and you take on dependence on a team you can't drive past. The honest requirements for going long-distance: a property manager you've verified through other investors' references (not reviews), an agent and contractor sourced the same way, at least one trip to walk the market before you wire money, and systems — photo documentation, monthly statements, clear scopes — that replace your eyeballs. Thousands of investors do this successfully. The ones who fail almost always skipped the team-verification step.

A practical screening sequence

22. **Desk screen:** Screen a handful of candidate metros on rent-to-price ratio, growth, and taxes/insurance — an evening of work with public data.

- 23. Calibration reps:** For the top two, run Chapter 8's full ledger on ten real listings each. The spreadsheet will eliminate one market for you.
- 24. Team, then deals:** Build the team in the winner — manager, agent, contractor — before you offer, then analyze live deals with local carrying costs, not national averages.

One market, done deeply

The investors who struggle are usually in four markets shallowly. The ones who compound are in one or two markets so deeply they can price a listing from the address alone. Depth is the edge — pick your ground and learn it cold.

LLCs, Insurance, and Protecting What You Build

A portfolio worth building is worth protecting. This chapter covers the ownership and protection questions every investor hits — with a standing disclaimer that matters: entity structuring and asset protection are legal and tax decisions. This chapter gives you the financing-side view so you can have an intelligent conversation with your attorney and CPA. Have that conversation.

Why investors close in LLCs

- **Liability separation:** A properly maintained LLC separates the property's liabilities from your personal assets — the core reason it's the default vehicle for rental ownership.
- **Privacy:** Public records show the entity, not you personally, as owner.
- **Partnership and succession:** Entities make shared ownership, estate planning, and eventual sales cleaner.
- **Separation of concerns:** Portfolio debt held in entities keeps investment activity organized apart from your personal financial life.

The financing angle — where Non-QM shines again

Conventional loans generally won't close in an LLC, which forces conventional investors into personal-name ownership or into risky after-closing transfers. Business-purpose Non-QM programs — DSCR and stated income — are built for entity ownership: most close directly in the LLC, with members providing a personal guarantee.

That guarantee is standard and worth understanding plainly: the lender can pursue you if the loan defaults, so the LLC is protecting you from the property's liabilities (a slip-and-fall, a lawsuit), not from your own debt.

If you already own properties in your personal name, moving them into an LLC involves real considerations — a potential due-on-sale issue with existing conventional loans, title and insurance re-papering, and transfer taxes in some states. A cash-out DSCR refinance into the LLC is often the clean solution: new entity-vested loan, capital extracted, structure fixed, one closing. Route this through your attorney and your broker together.

Insurance: the first line, not the afterthought

- **The right policy type:** A landlord policy (dwelling fire / DP-3 class), not homeowner's insurance — the wrong policy type can mean a denied claim on a tenant-occupied property.
- **Real limits:** Liability limits sized to what you own, with loss-of-rents coverage so a fire doesn't also torch your DSCR.
- **The umbrella:** An umbrella policy layering extra liability coverage across the portfolio — typically inexpensive per dollar of protection and the standard second line behind the LLC.
- **Match the use:** STR-specific coverage for short-term rentals, as covered in Chapter 11 — standard landlord policies exclude that use.

Bookkeeping is protection too

One bank account per entity, no commingling, clean books from day one. This isn't just audit hygiene: commingling funds is the classic way courts disregard an LLC's protection ("piercing the veil"), and

messy books also sabotage your next loan file — remember how much bank statement and DSCR underwriting leans on clean accounts. The same discipline protects you in court and qualifies you at the lender. Do it once, benefit twice.

The professional-team rule

The right structure is a three-way conversation: attorney (liability), CPA (tax treatment), broker (financeability). Any structure designed by only one of the three tends to be elegant on that axis and a problem on the other two. Chapter 15 is about building that team.

The Landlord's Tax Advantage: Why Paper Losses Are the Point

Here's the beautiful irony at the center of this book. The tax advantages that make rental real estate so attractive are the exact reason conventional lenders can't read your income — and Non-QM lending is what lets you keep both: the tax treatment and the borrowing power. This chapter is a plain-English tour of why the tax side matters. It is emphatically not tax advice — every item here has rules, limits, and exceptions that belong in a conversation with your CPA. The goal is that you arrive at that conversation knowing what to ask.

Depreciation: the flagship

The tax code treats a rental building (not the land) as an asset that wears out over 27.5 years, letting you deduct a slice of its value every year as depreciation — a deduction that requires no cash outlay. A property with a \$275,000 building value generates roughly \$10,000 a year of depreciation expense. Combine that with mortgage interest, taxes, insurance, and repairs, and a rental that puts real cash in your pocket can show a paper loss on your return.

Now connect the dots to Part I: that engineered paper loss is precisely what a conventional underwriter reads on your Schedule E — and why your real cash flow vanishes in their math. A DSCR loan never opens your Schedule E. You depreciate aggressively; the lender reads the lease. That single decoupling is arguably the biggest financial-engineering win in this entire book.

The rest of the toolkit — a preview for your CPA conversation

- **Cost segregation:** An engineering study that reclassifies components of a property into shorter depreciation lives, front-loading deductions into the early ownership years. Most valuable on larger or recently renovated properties; ask your CPA when the study cost pays for itself.
- **Operating deductions:** Mortgage interest, property management, insurance, repairs, travel to the property, professional fees, and more — the ordinary operating costs of the rental business generally deduct against its income.
- **The 1031 exchange:** When you sell, rolling proceeds into a like-kind property under exchange rules can defer the capital gains tax — the mechanism serious portfolios use to trade up for decades without a tax bill at each step. Strict timelines apply; this is never a DIY project.
- **The long game:** Held until death, appreciated property historically passes to heirs at a stepped-up basis — one reason 'buy, borrow, hold' is a multigenerational strategy, and a topic squarely for professional advice.

What this means for how you borrow

25. **Don't un-engineer your taxes:** Never let a lender talk you into 'showing more income' on your taxes to qualify. Paying real tax dollars to unlock a loan is exactly backwards when programs exist that don't read the return.
26. **Coordinate the professionals:** Your CPA minimizes taxable income; your broker qualifies you anyway; the two strategies only work if each professional knows the other exists. Introduce them.

- 27. Respect the fine print:** Depreciation recapture, passive-loss limits, and real-estate-professional status rules all shape the real outcome — three more reasons the CPA in Chapter 15's team is not optional.

The one-paragraph summary for your CPA meeting

"I'm buying rentals financed with DSCR loans that don't use my tax returns, so we can optimize deductions without protecting my qualifying income. What should we do differently, starting with depreciation strategy and whether cost segregation makes sense at my scale?" That sentence will make it the most productive meeting you've had with them.

Building Your Team and Scaling From One to Ten

One rental is a project. Ten is a business — and businesses run on systems and people. This chapter maps the arc from first property to real portfolio, with the financing milestones that mark the road.

The core team

- **Agent:** An investor-focused agent who understands ARV, rent comps, and off-market flow — not a retail agent moonlighting. Test: ask what they own.
- **Mortgage broker:** A broker who lives in Non-QM guidelines across many lenders and asks about your exit plan before quoting a rate. Your financing strategy compounds across every future deal; choose accordingly.
- **Contractor:** Proven on renovate-to-rent budgets. Found through investor referrals, verified through completed projects, never through the lowest bid.
- **CPA:** A real-estate-savvy CPA changes your after-tax returns materially — depreciation strategy alone justifies the fee. Interview for investor clientele.
- **Attorney:** Entity setup, lease review, evictions. You need them rarely; when you need them, you need them already found.
- **Property manager:** Optional at property one, essential somewhere before property ten — the difference between owning a portfolio and being employed by one.

The scaling arc

Properties 1-2: prove the machine

Goals: complete a full cycle — buy, stabilize, hold or refinance — and build your baseline systems (one bank account per entity, a bookkeeping stack, a deal-analysis template you trust). Financing: DSCR for rentals; keep your conventional capacity free for your own home. Biggest risk: overpaying for a "easy" first deal out of impatience.

Properties 3-5: the conventional wall (that you'll never hit)

This is where conventionally financed investors stall — DTI clogged, financed-property limits binding. On DSCR rails there is no wall: each property qualifies alone. Goals: standardize the buy box (one or two neighborhoods, one property profile), lock the contractor relationship, start the property-manager conversation. Reserves now matter portfolio-wide: lenders — and reality — want deeper liquidity as the payment stack grows.

Properties 6-10: run it like the business it is

Portfolio-level thinking arrives: staggering lease expirations, scheduling capex across roofs and HVACs, watching concentration risk in a single zip code, and pruning — selling the underperformer to redeploy equity is a skill, and 1031 exchange rules (talk to that CPA) can defer the tax bill when you do. On the financing side, your file itself becomes an asset: a documented track record, seasoned reserves, and a broker who already holds your entity docs make each successive close faster than the last.

The capital stack as you grow

Early on, capital means your savings plus BRRRR recycling. As the portfolio matures, equity in stabilized properties becomes the growth engine: periodic cash-out refinances harvest appreciation into down payments for the next acquisitions. The discipline that keeps this safe is simple and non-negotiable: every refinanced property must still clear a healthy DSCR at the new, larger loan — you are compounding, not maximizing leverage. Portfolios die of over-leverage in bad years, not under-leverage in good ones.

The one-sentence scaling strategy

Buy right, finance on rails that scale, keep reserves you never plan to touch, and let the machine run longer than feels exciting. Boring, repeated, is how portfolios get built.

Case Files: Six Investors, Six Solutions

Every scenario below is an illustrative composite — details changed, numbers rounded — but each reflects files that cross a Non-QM desk constantly. Watch the pattern: nobody's finances change. Only the formula applied to them does.

Case 1 — The scaling landlord

Maria owns four rentals; purchase five just died in conventional underwriting — four mortgages plus depreciation-suppressed Schedule E income finally broke her DTI. The target property rents strong, around a 1.3 DSCR. Solution: DSCR purchase at 80% LTV, closed in her LLC, zero personal income documentation. Lesson: the conventional wall is real, and it's also optional.

Case 2 — The write-off professional

James's consultancy grosses \$400,000; taxable income after aggressive (and legal) deductions is \$85,000. He wants a small multifamily with maximum leverage to preserve cash. Solution: 24-month bank statement loan; a CPA letter supports a low expense factor, qualifying income lands near his real cash flow, and the right program allows as little as 10% down. Lesson: the gap between your tax return and your deposits is bridgeable — with paper.

Case 3 — The speed buyer

Dana finds an off-market fourplex priced to move; the seller wants three weeks, and her finances span three LLCs. Solution: stated income business-purpose loan at 75% LTV — strong credit plus 25% down carries the file, documentation drops to nearly nothing, and

the deal closes on time against slower competing offers. Lesson: certainty of close is a bid, and sometimes the winning one.

Case 4 — The BRRRR operator

Marcus buys a tired duplex for \$210,000 with a bridge loan, puts \$50,000 into it, and leases both units for a combined \$2,900. Appraisal after seasoning: \$345,000. Solution: cash-out DSCR refinance at 75% — a ~\$258,000 loan that retires the bridge debt and returns nearly all his capital, with the new leases qualifying the file. His tax returns, thin with depreciation, never enter it. Lesson: the refinance is where BRRRR lives or dies, and DSCR is why it lives.

Case 5 — The STR host

Priya targets a lake cottage at \$310,000. Long-term rent (~\$1,800) barely covers the payment, but a market-data projection supports \$3,900/month average short-term revenue. Solution: an STR-friendly DSCR program qualifies on projected short-term income with 25% down and deep reserves; she verifies the county's permit regime before removing contingencies. Lesson: STR financing exists — and the lease-income stress test is still the difference between a business and a gamble.

Case 6 — The rebuilder

Tom sold a business in a rough wind-down three years ago; the aftermath left a 640 score and a credit file full of scar tissue — but also \$200,000 cash and a clear plan. Conventional lending wants years of distance. Solution: a DSCR purchase at reduced leverage — a larger down payment and reserves compensating for the credit file — gets him a cash-flowing rental now; eighteen months of clean history later, a refinance re-prices him into a better tier. Lesson: Non-

QM prices risk instead of just refusing it, which makes it the natural re-entry ramp.

The pattern, stated once more

Six borrowers, six formulas, six approvals — and not one improved their finances between the denial and the yes. They changed the underwriting lens. That is the entire thesis of this book in one paragraph.

Twelve Expensive Mistakes to Avoid

Every one of these comes from watching real money burn. Read the list before your first deal and again before every one after.

- 28. Mistake #1:** Walking away after one conventional denial. The most common and costliest mistake in this book. A denial from one formula says nothing about the others — you now know that better than most loan officers.
- 29. Mistake #2:** Letting a lender pull tax returns the program doesn't need. Documents can't be un-seen once they're in a file. Choose the program first; document to that program only.
- 30. Mistake #3:** Ignoring the prepayment penalty. If your plan is a year-one refinance and your loan carries a five-year step-down prepay, your plan has a five-figure hole in it. Exit plan first, structure second, rate third.
- 31. Mistake #4:** Underwriting with fantasy rents. The appraiser's market-rent analysis sets your DSCR — not your optimism, not the listing agent's flyer. Qualify on conservative numbers; let upside be upside.
- 32. Mistake #5:** Sloppy banking before applying. Commingled accounts, unexplained deposits, NSF's, and big self-transfers all shrink qualifying income on bank statement files and slow every file. Run clean accounts for the full statement window.
- 33. Mistake #6:** Buying in the wrong name. Vesting affects liability, financing, insurance, and taxes — and fixing it later can trigger due-on-sale issues and transfer costs. Decide the entity question with your attorney before you write offers.

- 34. Mistake #7:** Optimizing rate over structure. A quarter point of rate is trivial next to the right LTV, the right prepay, an interest-only option that fixes your ratio, and a loan that actually closes on time. Investors think in deals, not decimals.
- 35. Mistake #8:** Skipping the exit underwrite on a BRRRR. If the refinance only works at a hero appraisal, the strategy is a hope. Price the exit at conservative ARV and today's rates before you buy.
- 36. Mistake #9:** Draining reserves to close. Arriving at the closing table with nothing left fails reserve requirements and, worse, leaves the first vacancy or furnace failure pointed at your personal finances. The cushion is part of the purchase price.
- 37. Mistake #10:** Treating insurance as a checkbox. Homeowner's policies on tenant-occupied properties and standard landlord policies on STRs are both claim denials waiting for their moment. Match the policy to the use, every property, every time.
- 38. Mistake #11:** Ignoring seasoning timelines. Cash-out programs generally want months of ownership before lending on new value. Investors who learn this after buying carry bridge debt they didn't budget. Ask before, not after.
- 39. Mistake #12:** Doing all of this alone. The spread between lenders' guidelines is the whole game in Non-QM, and you can't see it from outside the industry. One conversation with a specialist before you shop beats ten applications after. (Yes, I'm biased. I'm also right.)

Your 90-Day Action Plan

Knowledge without sequence is trivia. Here's the order of operations for the next ninety days, whether you're buying your first rental or unsticking a stalled portfolio.

Days 1–30: build the foundation

- 40. Credit sprint:** Pull all three credit reports. Dispute errors, pay revolving balances below 30% (ideally 10%), automate every minimum, and open nothing new from here forward.
- 41. Clean the banking:** Separate business and personal accounts if they're commingled, stop large self-transfers, and buffer against NSF's — your statements are now a document in your next loan file.
- 42. Inventory capital:** Count liquid funds against a realistic target: down payment (10–25%) + closing costs + several months of reserves. Name the gap, if any, and the plan to close it.
- 43. Talk to a specialist:** Get a scenario review (yes, this is the plug — it's also genuinely the step). Fifteen minutes with a Non-QM specialist converts this book into your numbers: program, realistic leverage, rate band, and budget.

Days 31–60: build the machine

- 44. Define the buy box:** Pick one or two neighborhoods and one property profile you'll actually analyze deeply — small enough to know cold within a month of watching.
- 45. Recruit the core team:** Interview investor-focused agents; talk to your CPA about depreciation and entity treatment; have the

attorney conversation about vesting before you need it in escrow.

- 46. Run ten reps:** Underwrite ten real listings with Chapter 8's full ledger — not to buy them, to calibrate. By listing ten you'll know your market's real numbers better than most owners in it.
- 47. Pre-build the exit:** If BRRRR is the plan, price the exit machinery now: seasoning windows, cash-out LTVs, and what bridge or acquisition financing will cost you.

Days 61–90: go live

- 48. Analyze in real time:** Move from calibration to live analysis — every serious candidate gets the full ledger and the four stress tests within 24 hours of hitting your radar.
- 49. Stage the financing:** Get your file pre-structured with your broker — entity docs, statements, reserves verified — so an accepted offer starts underwriting the same week.
- 50. Offer with discipline:** Write offers that your analysis supports and your financing can close. The goal of the quarter isn't a purchase; it's a correct purchase. If the right deal appears on day 75, you're ready. If it appears on day 110, you're still ready.

The only real deadline

Markets reward people who are prepared before opportunities appear and punish people who prepare after. Ninety days of this sequence makes you the prepared buyer in every negotiation you enter — permanently.

FAQ: Straight Answers to the Questions Everyone Asks

Are these loans legal and safe? They sound like 2008.

They're fully legal and heavily regulated. Every mortgage in America — including every loan in this book — must comply with the federal Ability-to-Repay rule. Non-QM loans verify repayment ability using rental income, bank deposits, or assets instead of tax returns. The 2008-era product that verified nothing no longer exists. See Chapter 2 for the full history.

How much higher are the rates, really?

Commonly somewhere between half a point and a couple of points above conventional, depending on program, credit, leverage, and structure. For an investment property, that premium is a business expense set against the property's returns — and the honest comparison is rarely 'Non-QM versus conventional.' It's 'this loan versus no loan.'

What credit score do I actually need?

DSCR and bank statement programs generally start around 620; stated income around 660. Higher scores buy better pricing and more leverage, and pricing moves in roughly 20-point bands — so targeted credit work before applying pays real money. Chapter 3 covers the fast levers.

How much do I need to put down?

Typical ranges: as little as 10% on bank statement programs, 20% on DSCR (up to 80% LTV), and 25% on stated income (up to 75% LTV) —

plus closing costs and several months of reserves. Program specifics vary; treat these as the general shape of the market.

Can I buy in my LLC?

On business-purpose programs — DSCR and stated income — usually yes, and most investors do, with a standard personal guarantee. Conventional loans generally cannot close in an entity. Chapter 13 covers the structure conversation to have with your attorney and CPA.

Do these programs work for first-time investors?

Many do, sometimes with adjusted terms — a bit more down, deeper reserves, or a minimum DSCR. A first rental on DSCR rails is extremely common. Experience helps pricing; it isn't a gate.

I was declined by my bank last month. How soon can I try again?

Immediately. A conventional denial has no cooling-off period and — the whole point of this book — no bearing on programs that use different math. Bring the same file to a Non-QM review and let the right formula read it.

What about a bankruptcy or foreclosure in my past?

Not a permanent bar. Many Non-QM programs work with meaningful seasoning after a credit event — often far sooner than conventional timelines. Disclose it upfront so your broker routes around it instead of tripping over it in underwriting.

Can I refinance an existing conventional rental into these programs?

Yes — a cash-out DSCR refinance is the standard move for pulling equity out of a stabilized rental, fixing entity vesting, or escaping a DTI trap your portfolio has outgrown. Seasoning rules apply to cash-out; see Chapter 10.

Is this book a substitute for advice?

No. It's a map, not a survey of your specific parcel. Loan guidelines change, states differ, and your tax and legal position is yours alone. Use the map to ask sharp questions of your broker, CPA, and attorney — that's what it's for.

Glossary: Investor Financing, Translated

Term	Plain-English meaning
ARV	After-repair value — what a property will appraise for once renovations are complete. The number a BRRRR refinance is built on.
Business-purpose loan	A loan for investment or business use, not a home you'll occupy. The legal category that makes DSCR and stated income lending possible.
Cap rate	Net operating income ÷ price, ignoring financing. The apples-to-apples number for comparing properties and markets.
Cash-on-cash return	Annual pre-tax cash flow ÷ total cash you put in. The number that tells you whether the deal beats your alternatives.
Cash-out refinance	A new, larger loan against a property you own; the difference comes to you as cash. The 'harvest' step of BRRRR.
DSCR	Debt Service Coverage Ratio: monthly rent ÷ monthly PITIA. Above 1.0, the property carries itself; many programs qualify from 0.75.
DTI	Debt-to-income ratio — the conventional-lending gauge of monthly debts against documented income. The formula that punishes write-offs.
Expense factor	The haircut applied to business bank deposits to estimate income on a bank statement loan. Often ~50% by default; reducible with CPA evidence.
Interest-only (IO)	A period during which payments cover only interest. Lowers the payment (helping DSCR and cash flow) but builds no equity while it runs.
LTV	Loan-to-value: loan amount ÷ property value. 80% LTV means 20% down or 20% equity.

Non-QM	Non-qualified mortgage — a loan verified with evidence other than tax returns/W2s. Verified differently, not unverified.
Personal guarantee	Your individual promise behind an LLC's loan. Standard on entity-vested investor loans.
PITIA	Principal, interest, taxes, insurance, association dues — the full monthly payment used in the DSCR calculation.
Prepayment penalty	A fee for paying the loan off early, common on investor loans, usually stepping down over 3–5 years. Must match your exit plan.
Reserves	Liquid funds after closing, measured in months of PITIA. The quiet second currency of Non-QM underwriting.
Seasoning	Required ownership time before certain treatment applies — most importantly, before a cash-out refinance can use new appraised value.
Vacancy factor	The percentage of rent underwriting assumes you'll lose to empty units — commonly 25% in conventional rental math.
1031 exchange	A tax-code mechanism to defer capital gains by rolling sale proceeds into a like-kind property. A CPA conversation, not a DIY project.

NEXT STEPS

Find Out What You Qualify For — Free

You now understand investor financing better than most loan officers at a retail bank. The final step is turning knowledge into numbers: your numbers.

I offer a free, no-obligation scenario review for readers of this book. Send me the basics — credit range, the property or deal you're considering, and your goal — and I'll tell you which program fits, what leverage is realistic, and what your payment would look like. If a conventional loan is genuinely your best option, I'll tell you that too.

What we can look at together

- DSCR purchase and cash-out refinance scenarios — including short-term rentals and LLC closings
- Bank statement qualification with a real income calculation from your deposits
- Stated income options for time-sensitive investment deals
- A full BRRRR financing plan: acquisition through cash-out exit
- A portfolio review if you're scaling and want the capital stack structured properly

Get your free scenario review

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Important Disclosures

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All loans subject to credit approval, underwriting guidelines, program availability, and property appraisal. Loan-to-value maximums, minimum credit scores, minimum DSCR ratios, expense factors, seasoning periods, reserve requirements, and other parameters referenced in this book reflect general program guidelines at the time of writing, vary by program and borrower profile, and are subject to change without notice. Not all applicants will qualify. Programs may not be available in all states.

Business-purpose loan programs are available only for bona fide business or investment purposes and are not available for owner-occupied residential purchases. Rental income and short-term rental revenue projections should be independently verified. Real estate investing involves risk, including possible loss of principal. Nothing in this book creates a broker-client relationship. Consult licensed tax, legal, insurance, and financial professionals before making investment, entity, or tax decisions.

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