10 COMMON OBSTACLES FOR

DSCR LOANS

AND HOW TO OVERCOME THEM AND SUCCESSFULLY SALVAGE AND FUND YOUR DSCR DEAL!

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Inside this Guide

Common Obstacles and How to Overcome Them for a Smooth DSCR Loan Process!

One of the biggest advantages of DSCR Loans **is flexibility and adaptability**. Private lenders with their own policies, prices and guidelines and the ability to grant exceptions and evaluate deals with common sense and on a case-by-case basis is often a very refreshing change for real estate investors used to both the cookie-cutter constraints of conventional loan programs and the real estate reality that lots of things can and do go wrong. – "**It's always something**" is a common refrain of experienced investors for a reason! **DSCR Lenders have much more ability and willingness to work with investors (borrowers) to tackle obstacles** and things that inevitably come up that jeopardize deals. Simply put, DSCR Lenders are best equipped to help and to power through together with the borrower towards a successful close.

However, the enhanced flexibility and varied guidelines and policies **can sometimes be a double-edged sword**. **Just because DSCR Lenders can** offer expanded programs and options, and grant exceptions on hairy deals, **doesn't mean they always do**. Further, deals and applications that would have been shut down and stopped at the pre-application stage for banks and conventional lenders can move toward the process for a DSCR Loan – and incur valuable time and expenses that can't be gotten back – only for something to kill the deal before it can close. And this can be **a worse outcome than if the application wouldn't have been taken at all!**

One important thing for real estate investors using DSCR Loans to remember – especially in inevitable times of stress and frustration – is that the lender **wants to successfully close the loan just as much as you.** Lenders make money from closing loans – not killing deals. However, they are restrained by responsible risk management and the necessary constraints of independent third parties (like appraisers) in the system. Nevertheless, the DSCR Lender is typically **on your side, willing and incentivized to get the loan closed as much as possible.** Understanding this reality and working productively with your lender can ensure the highest probability of success and long-term scaling.

While there are DSCR Loan obstacles that simply can't be overcome – nothing either the borrower or lender can do on their side, many **significant obstacles during the DSCR Loan process can be worked around and** fixed, salvaging your loan and getting to funding. This bonus chapter will walk through **the top 10 common obstacles that can put a DSCR Loan in jeopardy** during the loan origination cycle – and how you can be best prepared to work with your lender to **overcome these obstacles successfully** and close.

Common Obstacle #1: Appraisal Value Comes in Low

For most DSCR Loans, the **appraisal value determination** is one of the most pivotal (and sometimes most frustrating) parts of the process. Unlike some other underwriting elements, the DSCR Lender can't simply "override" an appraisal, the valuation is determined by an independent third-party appraiser, and strict independence rules prevent lenders from pressuring or influencing them to "hit a number."

On acquisitions, low appraisal values are possible but less common. In most cases, the appraised value comes in close to the purchase price, especially when the contract was negotiated in an active market with multiple participants. In fact, in a buyer's market, a **slightly low appraisal can even work in your favor**, giving you leverage to renegotiate the purchase price or ask for concessions, all while staying within your original loan terms.

On refinances, however, **low appraisal values are both more prevalent and more consequential**. Unlike a purchase transaction, where the agreed-upon contract price serves as a concrete market reference point, a refinance begins with an appraised value assumption that is inherently subjective. Borrowers often approach this estimate with an optimistic bias, consciously or subconsciously projecting a best-case scenario for market appreciation, property condition or recent comparable sales. **This inclination toward overestimation can, unfortunately, sometimes set the stage for a significant valuation gap** when the independent appraisal is completed.

Adding to the complexity, many DSCR Lenders will issue preliminary terms or a term sheet for a refinance based on the borrower's stated valuation, even when it is on the aggressive side, in order to "win the deal" and remain competitive, especially when borrowers are actively shopping quotes. From the DSCR Lender's perspective, there is a commercial tension at play: **adopting a conservative value at the outset risks losing the business to competitors who are willing to accept, or at least defer questioning, the borrower's higher estimate**. As a result, the definitive reality check arrives only when the appraisal report is delivered, at which point the actual numbers may diverge sharply from the figures on which the loan was originally quoted.

For DSCR Loans, a low appraised value can have an outsized impact on **Loan-to-Value ratio (LTV), which is the top factor for both pricing (interest rate and fees) and eligibility**. Even a seemingly small shift, such as a 5% drop in value versus what is expected, can move a DSCR Loan from qualifying comfortably to exceeding maximum LTV thresholds, triggering higher rates, stricter terms or outright ineligibility.

For refinances, a lower value can take a substantial bite out of or even completely eliminate projected cash-out proceeds**, undermining, at least for *cash-out* refinances, the very purpose of the loan**. On purchases, the consequences can be equally disruptive. Because DSCR Lenders determine LTV using the lower of the purchase price or the appraised value, an appraised value shortfall means you'll **need a larger down payment to close**. If the seller refuses to lower the price, you may have to **commit significantly more cash than budgeted or even available**, **potentially making the deal no longer affordable** if money is not available for the larger down payment (and to satisfy needed liquid asset reserve requirements, closing costs and any upfront escrows). In some cases, the revised numbers simply don't make sense compared to other investment opportunities, **causing the deal to stall or collapse entirely.**

Three Example Scenarios where a Low Appraised Value can kill a DSCR Loan

Here are **three examples** of this common DSCR Loan obstacle where a lower-than-expected appraisal value can derail a DSCR Loan:

Example 1: Acquisition Where Seller Refuses to Renegotiate Price

An investor goes under contract for a duplex with a purchase price of $500,000, expecting a $375,000 loan at 75.0% LTV. The appraisal comes in at $460,000. The maximum loan amount at 75.0% LTV is now $345,000, creating a $30,000 shortfall. The investor must bring that additional $30,000 in cash to close. This makes the **DSCR Loan unfeasible at these terms since if having to bring another $30k to the down payment, the investor won't have enough liquid assets** to satisfy the lender's six-month PITIA liquid reserves requirement.

Example 2: Cash-Out Refinance with No Remaining Cash-Out Proceeds

An investor applies for a cash-out refinance on a rental property he estimates is worth $400,000, expecting to borrow $300,000 (75.0% LTV) against a current loan balance of $200,000, **creating approximately $80,000 in cash-out proceeds, which he plans to use as the down payment for his next rental property**. The appraisal comes in at $300,000 instead. At 75.0% LTV, the maximum loan is now $225,000. After paying off the $200,000 balance and covering closing costs, the net proceeds could be reduced to nearly zero, effectively ***eliminating the primary reason for doing the loan*** in the first place, which was only to cash-out enough proceeds for a down payment on another purchase.

Example 3: Lowering Interest Rate with a Rate-Term Refinance That No Longer Makes Sense

An investor plans a rate-term refinance on a single-family rental she believes is worth $600,000, aiming for a $480,000 loan at 80.0% LTV to replace an existing $480,000 loan with a lower rate and better terms. The appraisal comes in at $540,000, lowering the maximum loan at 80.0% LTV to $432,000. To close, she'd have to bring $48,000 in cash to the table to pay off the old loan, plus closing costs. If ***the rate savings aren't significant enough to justify tying up that much extra capital***, or if that capital is better deployed elsewhere, the refinance **may no longer make financial sense compared to other available opportunities.**

Three Options for How to Overcome a Low Appraisal (Value) for a DSCR Loan

While a low appraised value can be a major setback, it ***isn't necessarily*** the end of the road. Options for overcoming this obstacle, and odds of success, depend on lots of factors outside of your control, including on whether you're purchasing or refinancing, the degree of the shortfall, and how much flexibility your DSCR Lender has within their program guidelines and operating model. However, there *are* several actions and strategies ***within your control*** that can greatly enhance your ability to salvage success and overcome a dreaded low appraised value.

However, first things first, don't just glance at the final value**, it's critical to review the value, and the entire appraisal report for that matter, in detail.** It's necessary to confirm **property data accuracy**, such as by checking the recorded square footage, bedroom/bathroom count, lot size and year built against public records and your own information. A mistake here can materially change value. After confirming the basic data, next it is smart to check the **"quality of the comparable sales, or "comps."** Were stronger comps available that the appraiser didn't use? Look at condition, location and sale date and see if you (or your real estate agent) can provide properties that might have been a better fit. Finally, you should **dig into the reasonableness of the adjustments**. Check whether the condition or amenity adjustments are clearly justified and consistent. Excessive downward adjustments can signal overly conservative grading.

Many errors are minor and won't change the value meaningfully, but occasionally**, catching a significant factual mistake, blatantly missed comp or obvious adjustment misfire** can lead to a real bump in value without the time, effort and uncertainty the next steps and tactics entail. This is the first and most important step before trying anything else.

Tactic 1: Negotiate With the Seller (Purchases Only)

For **acquisition transactions**, a low appraised value gives legitimate grounds to reopen negotiations, especially if the PSA (purchase and sales agreement) **includes an appraisal or financing contingency.** How this method is approached depends on the seller's motivation, market conditions and how far apart the numbers are. The cleanest path is to request a price reduction **to propose to match the appraised value**. This removes the financing gap entirely and allows the DSCR Loan to proceed without a larger down payment. Although world-famous negotiators tend to argue against it, **asking to "split the difference**" can also help. If the seller is unwilling to absorb the full drop, offer to meet in the middle. This reduces, though doesn't eliminate, the additional cash needed. And even if the seller won't change the price, a low appraised value could also be an opening for asking for credits toward closing costs, prepaid expenses or repairs. This doesn't fix the LTV issue, but it **can reduce total out-of-pocket costs and soften the blow**.

This tactic obviously won't work 100% percent of the time or always completely solve the issues caused by a low appraised value. For one, it only applies to acquisitions and not refinances (obviously). Also, in "a **seller's market"** sellers often resist price changes and could be entertaining backup offers, which they could move to, especially if the backup offers are offering all cash, or have plenty of liquidity for a down payment. The **strength of contract contingencies** matters here a lot too. If appraisal contingencies were waived in a competitive bidding war, or an inexperienced real estate agent was used, there might not be much "leverage" in the negotiation. However, if they are in place, the seller is faced with the ability of the buyer to walk away with minimal sunk costs.

Tactic 2: Request an Appraisal "Rebuttal" also known as a Reconsideration of Value (ROV)

For most DSCR Loan situations where a low appraised value threatens the deal, **the main option pursued by borrowers** for refinances or acquisitions where the seller won't budge, and the new value just won't work, is what's commonly referred to as an **appraisal rebuttal**. This is a process, more formally referred to as a **Reconsideration of Value (or "ROV")**, where **the appraiser's findings are challenged with the hope of obtaining a revised appraisal with a higher appraised value**.

Because of the significant conflicts of interest around appraisals and valuations, and the associated rules around working with independent appraisal management companies ("AMCs") to ensure independent values, an **appraisal rebuttal is not simply calling up or e-mailing the appraiser and arguing your case**.

Instead, the DSCR Lender will likely have a formal process, where the borrower and lender representative (plus any other helpful parties, like a real estate agent with access to the MLS) will **work together to identify errors or better comps and present a formal ROV package to the AMC**. The best appraisal rebuttals, i.e. ones with the greatest chance of successfully convincing an appraiser to increase the value determination, include **3–5 truly comparable recent sales** that closely match your property in location, size, condition, and amenities. It shouldn't just be presenting an opinion, it should also come with **supporting evidence** like MLS printouts, photos and public record data. Finally, be **concise and fact-driven** and **focus on measurable differences, not opinions or emotional appeals to maximize the odds of success**.

While many borrowers in this situation – a low appraised value threatening a deal – will be quick to stake hopes on an appraisal rebuttal, it's important to understand that success rates for ROVs for DSCR Loans are relatively low, often in the **~20% range**, because appraisers and AMCs are reluctant to change a signed report without clear objective errors. And even when successful, **adjustments are often modest** (e.g., a few thousand dollars), not dramatic jumps in value. Appraisal rebuttals or ROVs could still be worth pursuing if there's strong evidence, but **expectations should be managed**, and ROVs truly salvaging DSCR Loan deals tend to work best when the original appraised value is only slightly short of the number needed to make the deal work.

Tactic 3: Reorder With a New Lender (Last Resort)

If convinced the appraisal is significantly wrong and the DSCR Lender's AMC (Appraisal Management Company) will not adjust the value after an attempted rebuttal, **the most definitive way to get a fresh opinion is to start over with a different lender.** A new DSCR Lender will likely use a different AMC, which means a different appraiser, and this *could* result in a higher valuation.

In very rare situations, some DSCR Lenders have an internal policy allowing them to order a completely new appraisal **with the same AMC** if there is **a genuine and well-documented reason to believe the first appraisal was materially flawed**. This is not a standard option and it requires substantial justification, such as the internal underwriter sharing the opinion that the appraisal was not well performed or supported, and almost always adds both cost and delays to the process. Even then, the likelihood of a materially different result is low, which is why this path is rarely taken.

While this option can start the process, reordering with a new lender is costly and time-consuming. The costs of the second appraisal are borne by the borrower and re-submitting all the documentation over again with a new DSCR Lender can be quite a hassle. In addition, there is **no guarantee** the new appraisal will be higher, and in fact, it could come in even lower, especially if the local comp pool is limited. This **route should be reserved for situations where there is strong, objective market data that was clearly overlooked or improperly applied in the original appraisal**. Otherwise, it is often better to focus on solutions within the current DSCR Lender's framework.

Common Obstacle #2: Appraisal Comes Back with Subject-To Requirements or Deferred Maintenance >$2,000

In DSCR Loan appraisals, the appraised value utilized is the "**as-is value**," or the **value based on the state of the property on the day that the appraiser visits and evaluates it**. However, if the appraiser identifies significant repair needs or deferred maintenance, or the property's original construction or major renovation is not yet completed, they may issue a **"subject-to" value. This is** essentially saying the valuation is valid only if specific repairs are completed before closing.

The common threshold is approximately **$2,000 in deferred maintenance**. Crossing that line signals problems that go beyond cosmetic issues and materially affect habitability, safety, or marketability, or what DSCR Lenders essentially care about: the ability for the property to **generate income (through rental), on day one of the loan term.**

The key is **feasibility and timing**: most subject-to findings involve repairs that can be fixed in a matter of weeks and verified with a re-inspection. But time is tight. Appraisals typically expire within **90–120 days**, so borrowers must complete the repairs (or have sellers complete the repairs if an acquisition), schedule the re-inspection and return the updated "as-is" certification to the lender while the appraisal is still valid. Delays can mean added costs, re-inspection fees (another $150 to $250 typically), or in the worst case, having to order a completely new appraisal.

Three Example Scenarios where a Deferred Maintenance or a "Subject-To" Value can kill a DSCR Loan

Here are **three examples** of this common DSCR Loan obstacle where the appraisal report can jeopardize a deal, not through a low appraised value, but rather through a finding of deferred maintenance past the standard limits ($2,000) or by only being able to provide a "subject-to" value, requiring some actions to get to the needed "as-is" valuation.

Example 1: "As-Is" Valuation Reduced After HVAC Replacement Required

An investor goes under contract to buy a triplex for $720,000, expecting a $540,000 DSCR Loan at 75.0% LTV. During the appraisal inspection, the appraiser notes that **one of the two outdoor HVAC compressor units is inoperative and requires full replacement, with estimated costs of $9,000**. Because the system serves one of the three units, the appraiser classifies the issue as material deferred maintenance and reduces the "as-is" value to $705,000, stating that **the $720,000 valuation applies only on a "subject-to" basis once the HVAC is replaced and verified**.

DSCR Lenders cannot lend on “subject-to” conditions unless the repairs are already completed and re-inspected before closing and likely won’t proceed with the DSCR Loan even on the lower value accounting for the HVAC issue. The borrower either has to front the repair, delay the closing for a reinspection, or renegotiate the price, all of which can stall or kill the deal.

Example 2: Cash-Out Refinance Delayed Due to Unfinished New Construction

A builder-investor applies for a DSCR Loan refinance on a newly constructed duplex, expecting a $600,000 loan at 75.0% LTV based on an estimated $800,000 valuation. However, when the appraiser arrives, **several elements of the building remain incomplete**, specifically, the upstairs flooring is not installed, one bathroom lacks plumbing fixtures, and final electrical inspection hasn’t been signed off on. Because the property is not yet “rent-ready,” **the appraiser issues only a “subject-to” value of $800,000 based on the value once these final touches are completed**, and declines to provide an “as-is” value. DSCR Lenders require a property to be fully complete, habitable, and ready for occupancy before funding, with a final **certificate of occupancy (CO)**. The DSCR Loan cannot proceed towards close until completion, reinspection, and reissuance of a CO.

Example 3: Seller’s Deferred Roof Repair Tanks an Otherwise Solid Purchase

A buyer (borrowing through a DSCR Loan) agrees to purchase a single-family rental for $430,000 with plans for a $322,500 loan at 75.0% LTV. The seller, who has owned and occupied the home for over 25 years, admits the roof hasn’t been replaced since the early 2000s but refuses to make repairs before closing. The appraiser notes “shingle curling and active leaks in attic,” **estimates $12,000 for replacement**, and **values the property at a $430,000 “subject-to” value** once the new roof is installed, **tagging the $12,000 as deferred maintenance**. The long-time homeowner’s reluctance to invest in a major repair turns what looked like a clean turnkey rental acquisition into a financing headache and possible deal-killer, **and the buyer (borrower) can’t close a DSCR Loan to purchase the property with the $12,000 repair and subject-to value in the deal’s appraisal**.

Three Options for How to Overcome an Appraisal with Deferred Maintenance or a Subject-To Value on a DSCR Loan

The reality of real estate investing is that **rental properties will always have issues**. Unlike the digital world, the real world is full of wear and tear and all that comes with that. **Long-time investors in real estate will always have a long list of repairs and problems that were solved along the way**. So, a finding of deferred maintenance or a “subject-to” value requiring some physical action items shouldn’t be too alarming or distressing – or else you are probably in the wrong business.

These are serious issues that can derail DSCR Loans and cost time, energy and money. **Tactically preparing to prevent or minimize them is essential**, and knowing how to best respond if and when they do inevitably come up is key for a long-term real estate investor. Here are **three tips** on how to prevent and potentially overcome this common DSCR Loan obstacle.

Tactic 1: Do a Property Inspection Quickly (and Before the Appraisal)

The most effective way to handle subject-to or deferred maintenance issues is to **prevent them from being flagged in the first place**. A key tactic to prevent this obstacle is to **get a property inspection as soon as possible, and well before ordering the appraisal.** Smart investors will hire a trusted inspector who understands what types of issues appraisers and lenders care about. Catching items like HVAC not working, missing handrails or active roof leaks early allows you to correct them before the appraiser ever steps foot on the property.

While property inspections are a part of almost all **acquisition transactions**, they can be hired for **refinances as well**. Hiring one, and spending the money, typically around $500, which is not nothing, but likely not too much, can be the smartest way to prevent these sorts of deferred maintenance or subject-to surprises. And even if the inspector doesn't find anything that will prevent a smooth as-is appraised value, they will typically find some things that can be repaired, and the cost of a periodic inspection will likely typically pay for itself many times over through catching things that may become serious issues later on down the road before they can do so.

Tactic 2: Have Go-To Expertise for Contractors and Vendors in the Market

Even with the best preparation, **most investors will eventually face a repair that needs to be addressed before closing a DSCR Loan**. The investors who navigate these issues smoothly are the ones who already have **trusted local vendors lined up**, not the ones scrambling to find a roofer, HVAC tech or general contractor on short notice. Having a **ready list of reliable professionals in the market area** who can quickly produce bids, complete work, or even provide repair verification documentation can make the difference between closing on time and watching a deal fall apart.

This is where the tradeoff between *long-distance real estate investing* and focusing on specific markets comes into play. Chasing the best numbers or hottest emerging markets across the country can open doors to better cash flow and diversification, but it often comes with the hidden cost of having no local infrastructure when a problem arises. In contrast, **focusing on a handful of markets you know well**, where you've built a dependable vendor network, understand urgent timelines and have contractors who can prioritize your jobs, can dramatically increase execution speed and reliability. The result is not just fewer "subject-to" appraisal surprises, but also faster turnarounds when inevitable issues appear. The ability to have someone **"on call"** in cases of deferred maintenance or subject-to appraisals, that will **communicate and execute the fix quickly and affordably**, is the best way to overcome this particular DSCR Loan obstacle.

Tactic 3: Be Extremely Proactive with Everything Else – i.e. Needs List and Coordination

An additional best practice for overcoming an appraisal with a subject-to value or deferred maintenance may not be obvious, but should be very effective. If the appraisal comes back with these conditions, there are several pathways and solutions to solve it, but what might be just as important, is **borrower behavior on the "needs list" and other items on the rest of the loan file**. Many DSCR Lenders have busy operations teams, and are constantly juggling lots of deals and timelines, loans in different stages and with different issues and nuances that are popping up. That means that the lender is likely balancing prioritization of underwriting and processing, typically with focus on the loans that are most likely to be the quickest to close.

As such, if a DSCR Loan in process receives a "subject-to" appraisal or deferred maintenance, this is unfortunately typically a green light for "de-prioritization" of a loan file from the DSCR Lender's operations team, i.e. if there are now doubts that the loan will make it to close, or if the fixes or property completions are indicating another few weeks of timeline, **the reality is that the loan will likely move down the prioritization list** – "pencil's down" – in industry lingo. The result will likely be that the underwriting team's precious hours and time moving to other loan files until a clear resolution is made.

While some of this is unavoidable, and there's nothing a borrower or lender can do if there is a physical fix that takes time, **borrowers can make an impact in this area by being extremely proactive with everything else**. That means that while a needed fix or project is planned to bring the appraisal up to "as-is" or erase the deferred maintenance, **everything else on the needs list should be quickly and neatly tackled, so that the loan file is pristine and complete in every way** other than the pending appraisal update. It is very likely that these proactive actions will be not only greatly appreciated by the DSCR Lender's operations team, but **can also play a huge role in pushing the loan back up the lender's prioritization list, so everything is "ready to go" as soon as the 1004 appraisal update is received**, and the timeline havoc of the findings is fully minimized.

Common Obstacle #3: DSCR Ratio Dips Below Threshold When Final Numbers Replace Estimates

In the elevated interest rate environment of recent years, DSCR ratios are often razor-thin. Many deals hover right at or just above key thresholds like **1.00x, 1.10x, or 1.15x**, meaning even small deviations from initial estimates can wreak havoc on pricing, terms or even eligibility. A DSCR Loan that seemed to fit perfectly at application can suddenly require restructuring once final numbers are in. **The DSCR ratio can move down in multiple ways late in the process**, including on the revenue side, the numerator in the equation, or the expense side, the denominator in the equation, and within expenses, from the final property tax numbers, insurance numbers or even HOA dues.

On the revenue side, even though the rise of short term rentals have made them a significant portion of properties securing DSCR Loans, a sizable majority of DSCR Loans are still the classic "long-term single family rental," or a single family residence rented out, or planned to be, to one tenant. Most DSCR Loan acquisitions involve the buyer, or the borrower on the transaction, purchasing a property that is unleased, either fully vacant or with the previous occupant moving out with the sale. In these situations, when the plan is not for STR usage, **the rental revenue number, or the numerator in the DSCR ratio used by the DSCR Lender, is going to be the "market rent" as determined by the appraiser**. While there are varying sources available to estimate this number, many times investors are optimistic and appraisers are more conservative, **resulting in an appraised market rent lower than expected, and thus a final DSCR ratio lower than what was planned for.**

The **same thing can happen on the expense side, or the denominator in the DSCR ratio formula**. While listings and many easily accessible online sources like Zillow contain **estimated property taxes, insurance and HOA dues for properties**, these are almost always estimates and can be lower than the final, confirmed and underwritten version used by the DSCR Lender. Furthermore, listing agents have an incentive to list properties optimistically to attract buyers, and since these figures are estimates, have been known to understate some of these projected expenses, either through shady salesmanship or even just error. In these cases, **an even slightly higher than estimated figure in one of the expense figures in PITIA can push a DSCR ratio down**, resulting in an unaffordable set of new loan terms (i.e. **much higher rate or leverage cut**) or **even ineligibility** at previously hoped for balances.

Three Example Scenarios where Final Numbers cause a DSCR Ratio to Dip; Threatening a DSCR Loan

While this obstacle contains changes that almost certainly can't be "rebutted" or "fixed" like through a reconsideration of value request or deferred maintenance fix, there are typically **lots of options available when faced with a DSCR ratio change and needed adjustment**. The below will cover three typical examples of when a DSCR ratio is thrown out of whack as well as three tactics DSCR Loan borrowers can use to solve the issue and get to close.

Example 1: Appraisal-Determined Market Rent Erases Projected Cash Flow

An experienced investor in single family rentals goes under contract for a vacant SFR in a new market, with online tools such as "rentometer" projecting market rents of $4,000 per month due to the location in a great school zone and a bedroom count of four, perfect for renting families. Their **strategy is to focus more on appreciation than cash flow**, with an investment thesis that large single family residences in good neighborhoods will rise in value over time, no matter the geographic region. By **banking on this appreciation focus**, the investor is comfortable with a high LTV (80.0%) and minimal down payment, and **the estimated DSCR ratio of just 1.05x is okay with this investor**, as essentially breaking even while building equity is the plan. However, the appraisal comes back with the **1007 market rent schedule showing a market rent of just $3,500 instead of the planned for $4,000**. When substituting this new market rent number into the DSCR formula**, the ratio drops below 1.00x**, making the DSCR Loan now ineligible at this leverage point (80.0% LTV).

Example 2: Property Tax Surprise Throws Off the DSCR Ratio with Higher PITIA

A homeowner and **real estate investing novice has been interested in diving into the real estate investing game**, and when one of his neighbors puts their property on the market, he decides to make an offer and make it his first rental property. He knows the area intimately, has good connections with local real estate agents and handymen, and this appears to be a perfect opportunity. While the projected **DSCR ratio is relatively low at 1.02x**, he has watched his own home appreciate significantly in recent years, and believes the neighborhood will continue to produce appreciation, this new property included. However, when the final numbers come in for the DSCR ratio, **the property tax number is way higher than expected, as he didn't account for the loss of the homeowner's exception on the property** that his neighbor enjoyed but he wouldn't as an investor. This pushes the **DSCR ratio down to 0.98x**, and losing money every month on a first rental casts doubt about whether the deal will work.

Example 3: DSCR Ratio is Too Low Because the STR "Haircut" was Forgot

A **real estate investor with an expertise in short term rentals** spots a new property available in her favored market, knowing that the specific location near one of the area's most popular beaches and a layout perfect for large groups and families should thrive as an STR. She goes under contract to purchase the property to add to her portfolio, checking AirDNA quickly to evaluate her estimates. While she thinks, **based on her local market knowledge, and her expertise and systems in place that she will easily outperform the median "Rentalizer" projections**, the conservative AirDNA estimates still show a solid **DSCR ratio of 1.11x, enough to qualify at just 25% down**. However, once the final numbers come in, her **DSCR Lender informs her that they can utilize AirDNA, but must use a 20% "haircut" reducing the projected revenue**, which pushes her DSCR ratio into a lower "pricing bucket," which then requires a higher interest rate, which when applied, increases the PITIA through a higher debt service, which pushes the DSCR ratio down further, the dreaded "DSCR death spiral." **Forgetting that the AirDNA projections would be reduced by a "haircut" threatens to undo the entire deal**.

Three Options for Overcoming a low DSCR Ratio Final Calculation

This obstacle, while disruptive, is usually the most fixable of the big DSCR Loan challenges. The key is to know which levers can be pulled, and to prepare for them in advance during quoting and application, so that if your DSCR ratio dips after the appraisal or updated PITIA projections, you and your lender can pivot quickly.

Tactic 1: Restructure the Loan to a Partial-IO Rate Structure

One of the first things to look at in situations where something has to be done to boost a DSCR ratio back to an eligible or needed tier is to explore if the option exists to **switch to a Partial-IO option**. While moving from a Fully Amortizing structure to Partial-IO often means a **bit higher interest rate**, the resulting monthly **PITIA payment** (when eliminating the "P" – principal) **actually usually goes down significantly**, improving the DSCR ratio (DSCR Lenders use the *initial* interest-only payment when calculating the DSCR ratio used to qualify).

Changing from Fully Amortizing to a Partial-IO structure **should be the first step to consider for solving a DSCR ratio issue**, as it can have a significant effect, especially with smaller loan amounts. It's also relatively easy to calculate and compare, as the math to determine the new debt service payment that will be used for DSCR ratio qualifying will be simple: interest rate times loan amount.

Tactic 2: Buy Down the Interest Rate with more "Points" (or Closing Fee)

Another area where DSCR Loans' flexibility shines is when dealing with this obstacle is the relative ease (and borrower optionality) to toggle the tradeoff of interest rates and closing fees. Most borrowers **should always have the option to lower the interest rate on their DSCR Loan by "buying it down**," i.e. paying more fees upfront for a lower interest rate. And the good news is that this can be done throughout the loan process, including after an appraisal or other document lowers the DSCR ratio, even if the rate is "locked" early on! This is because the DSCR Loan rate "lock" doesn't really lock in an untouchable interest rate number, but locks a rate "sheet," so the flexibility to buy down the rate late in the process typically will still be available, and the borrower won't stand to lose the benefit of the lock if market interest rates had risen in the meantime either.

The flexibility to "buy down" an interest rate can solve a DSCR ratio issue many times, as the debt service payment is typically a big portion of the PITIA. While paying a couple more points upfront isn't ideal for many borrowers, it will have the **double benefits** of **fixing a DSCR ratio** that dipped too low for qualification and will **lower the monthly payment** over the course of the loan.

Tactic 3: Loan Term Tweaks Around the Edges

While DSCR Loans have a higher likelihood of changes in qualification and eligibility late in the process than conventional loans, (since the appraisal affects qualification so much, versus qualification mostly known upfront for DTI-based mortgage loans), **the added flexibility to tweak terms offsets this potential DSCR Loan downside.** DSCR ratios that move slightly below eligibility tiers, like moving from 1.05x to 0.98x, and needing 1.00x to qualify, **can be fixed in a lot of different ways, and often with small tweaks**. For example, while the interest rate benefits for utilizing a Hybrid (Fixed to ARM) option rather than fixed rate are typically small, if the DSCR ratio only needs to be moved up slightly to qualify, like from 0.98x to 1.00x, this structure fix can make that crucially needed 0.02 difference.

Additionally, while most borrowers determine loan amounts by **choosing the loan amount that correlates with the highest LTV available in a given LTV "bucket**," i.e. borrowing at 75.0% LTV when in the 70.1-75.0% LTV bucket, and at 70.0% LTV if in the 65.1-70.0% LTV bucket, **it's not necessary**. While not ideal, if for example you start with an 80.0% LTV, but reducing the loan amount by a couple thousand dollars would result in a 79.2% LTV, it would fix the DSCR ratio issue. That would be an option. DSCR Lenders should always be amenable to tailored and non-standard loan amounts, and the corresponding LTVs needed to solve for a DSCR ratio of 1.00x.

Depending on the flexibility of the particular DSCR Lender, **these small tweaks can also be done in terms of interest rates and buydowns**. Some lenders might allow buy downs not just in one percent (i.e. "one point") increments, offering carefully minimized adjustments, like paying an extra 0.3% in fee to get the exact minimum DSCR ratio needed. One of the great benefits of DSCR Loans is the ability to pull multiple levers to get deals to work, and there should be many options (used individually or in conjunction) to fix a DSCR ratio issue. Keeping these **levers in your back pocket** when running the initial numbers **can be a great "Plan B" for if the DSCR ratio needs a slight boost late in the process.**

Common Obstacle #4: Interest Rates Move Higher (No Rate Lock) or Lock Expires

Rate Locks for DSCR Loans are very different, and far more confusing, than what most real estate investors expect, particularly if they are used to funding deals with conventional lenders or other DTI-based loan programs. In consumer lending, a "lock" generally means the borrower has secured a specific interest rate number for a set period. For DSCR Loans however, a lock (if offered at all) applies to a **day's rate sheet or base pricing stack**, not to a single guaranteed rate.

That distinction matters because **DSCR Loan pricing is built from multiple moving parts,** including loan-level pricing adjustments ("LLPAs") that are known upfront in the process. Examples include property type and qualifying credit score, as well as the "base rate" stack tied to overall market rates, and LLPAs that can change later on in the process when more information, chiefly the appraisal, comes in, such as LTV and DSCR. Additionally, there are multiple LLPAs and loan provisions that can be changed throughout the process, even for borrower preference or changing minds, such as adjustments for loan amount, loan structure and even prepayment penalty choices. If any of those terms change during underwriting, or if the borrower decides to tweak the structure (say, trading higher closing fees for a lower rate, or switching prepayment penalty provisions), **the "locked" DSCR Loan is re-priced against the locked rate sheet and base stack**, not the exact interest rate number originally discussed.

The result is that **many borrowers sometimes feel blindsided**. They think "locking" secures their interest rate, only to learn later that restructuring the deal or updated underwriting numbers can still move the final rate and points. Because this is **often very confusing and/or poorly explained**, and many DSCR Lenders avoid offering locks altogether (unless sometimes through experienced mortgage brokers who can manage borrower expectations), **confusion and frustration are common** when rates and terms change for the worse midway through a DSCR Loan deal.

In volatile rate environments like the past few years, this issue is magnified. Over the 30–45 days it typically takes to close a DSCR Loan, the base rate stacks can shift significantly. A deal penciled tightly at application, with DSCR ratios hovering around 1.00x or 1.10x, or cash-out sized right up to program limits, **may suddenly require more points, a higher rate or even a full restructuring when repriced**. Borrowers, unfamiliar with how DSCR Loan rate sheets truly work, often interpret this as a "bait and switch" when in reality it's simply the nature of the product.

Three Example Scenarios where Interest Rates move up for a DSCR Loan after Thinking Terms were Locked In

Because DSCR Loan locks don't operate like conventional mortgage locks, a moving interest rate, "locked" or not, is a common issue that **causes frustration and puts DSCR Loans in jeopardy**, especially in recent years where market interest rates frequently "spiked" and moved higher in short periods of time. The below are **three examples** of how confusion on DSCR Loan locks, or rapid changes in market rates can cause trouble with DSCR Loans trying to get across the finish line.

Example 1: Market Interest Rates Move on an "unlocked" DSCR Loan

An investor has used conventional loans to build a portfolio of four rental properties to provide cash flow to supplement their income. However, after going under contract with a fifth rental property, he realizes that with four mortgages to his personal name and tax strategies lowering his income, he can't qualify for another conventional loan with his current DTI. He researches other options online, and **finds a direct DSCR Lender to provide a DSCR Loan for this purchase, his first time using this financing option**. He signs **a term sheet with an interest rate of 6.25%** and after plugging in the loan terms to his trusty Excel tool, he is confident the deal is a winner.

However, over the course of the next month, while he gets used to the different documents he needs to provide (he creates his first LLC to vest the property in), market rates spike because of an unfavorable CPI report. The **week before closing, his DSCR Lender informs him that his rate is now 7.25% since market rates moved**. The **DSCR Lender doesn't offer locks** because it finds that it's too confusing to explain the concept of "rate sheet" locks versus "rate locks" and doesn't want to create friction in finding borrowers, especially those new to DSCR Loans. The investor, used to knowing and "locking" the rate upfront with his conventional lender, **is blindsided and enraged, and wants to move to another lender, but other DSCR Lenders are dealing with the same market rate moves**, and are all quoting him above 7%. Unfortunately, the 6.25% rate he assumed he was getting is gone.

Example 2: A Low Appraised Value Pushes Loan to Higher LTV; "Locked" Rate Increases

An experienced real estate investor specializing in duplexes has owned a two-unit property for several years and online sources indicate that it has significantly increased in value since he purchased it five years ago, estimating it now worth $1,000,000 versus the $600,000 at which he bought it. He works with **a mortgage broker who sells him on the idea of doing a cash-out refinance DSCR Loan on the property, to access some of the capital** "trapped" in the property in order to continue expanding his portfolio. This investor has been around awhile and seen different real estate cycles, **so he makes sure to get a rate lock on his DSCR Loan when deciding on quoted terms**, which include an interest rate of

6.75%, a number which will still allow the tenanted property to cash flow post-refinance into a larger loan. He has a low leverage loan now, and he chooses to balance accessing equity via cash-out with maintaining cash flow (instead of maximizing leverage), planning for a 65.0% LTV ratio ($650,000 loan amount).

When the appraisal comes in a few weeks into the process, the appraised value is lower than expected, at $866,667 instead of $1,000,000. A $650,000 loan amount is still eligible for a cash-out refinance DSCR Loan since the lender goes up to 75.0% LTV on cash-outs ($650,000 ÷ $866,667 = 75.0%). The **investor is disappointed in the value, but knows it's just an appraiser's opinion, and he can still get the same loan amount and proceeds**. However, near closing, he is informed that his interest rate is now 7.50%, since the rate needs to be adjusted upwards for the higher risk LLPA of a 75.0% LTV versus the pricing at 65.0% LTV. He is shocked and confused, thinking his interest rate was locked, however his broker informs him **that he is locked to a "rate sheet" not an interest rate number, and that sheet requires a much higher rate because of the newly calculated LTV ratio**.

Example 3: Deal Delays Push Loan Past Lock Period; Lock Extension Fees Apply

A **real estate investor closely follows the market**, watching Bloomberg News daily as well as his local housing listings to strategically make moves to purchase properties when everything lines up – falling mortgage rates and low-priced opportunities in his area. After a month of inflation and jobs data indicate that the Federal Reserve will likely be cutting rates aggressively in the near future moves general mortgage market rates down, **he spots a great underpriced triplex in his market and goes under contract**. He calls his DSCR Lender and locks in terms, and as a **sophisticated investor understands he is locking to a sheet, not a specific rate**, and already **has "plan Bs"** in mind in case the final numbers differ, such as a rate buy down plan or switching to a Partial-IO structure if needed.

The DSCR Loan **process unfolds as expected**, everything appears on track and he knows how to deal with **unfortunate, but not uncommon, headaches** such as it taking a **few extra days to coordinate the property inspection,** and then the appraisal on a turnkey triplex with each of the three units occupied with tenants. He diligently pushes the seller to coordinate, and **patiently pushes for leases to be tweaked and altered,** as the existing ones were poorly scanned and illegible, and one of the tenants was only on a "verbal" agreement, **which also adds a week to the process.** While dealing with this seller, **he is delayed a little bit providing all of his "needs list" documents** such as his LLC agreement and final insurance binder, **but makes sure those documents are in a couple of days after the appraisal comes back**, confirming value and giving the green light towards close, even though the **whole process took a couple of weeks longer than expected**.

Approaching the close date, the borrower is informed that **he is required to pay an additional $5,000 for a "rate lock extension" because his lock period had expired after 30 days.** He feels blindsided and upset from this fee, and angry because a lot of the delays were outside of his control, especially the seller's lack of coordination with the tenants and inspector and appraisers and the issue with the leases. While he could have been quicker on his needs list, the final underwriting on the **DSCR Lender's side took a few extra days as well,** since due to rates dropping and the market heating up, **their underwriting team was a bit backed up.** However, market rates had ticked up slightly during this period, and **starting the process over with a new DSCR Lender would likely result in a higher rate than he signed up for, ruining the benefits of his perfect timing**.

Three Options on How to Overcome an Interest Rate Retrade or Lock Expiration Extra Fees

Additional fees or higher interest rates dropped on borrowers late in the game are one of **the most aggravating aspects of DSCR Loans** and are **unfortunately fairly common due to many factors,** including the confusion around and **infeasibility of truly "locking rates"** for these loans, as well as the reality that **deals generally take longer than expected** and as such, lock extension fees are an additional painful blow at the end of an already-delayed deal. However, there are **several tactics** best-informed borrowers can do to **minimize the chances of landing in these frustrating and unfavorable situations**.

Tactic 1: Choose a DSCR Lender with Locks; and Know and Understand the Lock Process

While not all DSCR Lenders will offer rate locks (or really, locks to "rate sheets"), there are enough DSCR Lenders out there, or mortgage brokers with access to enough lenders, that with some minor shopping around and research, finding good DSCR Loan terms for your scenario with a lender that locks is very likely. What is harder, and far more important, is not just locking in your DSCR Loan, but **fully understanding all of the terms of the rate lock and how the process works**. This means understanding how or if the interest rate will change if final underwriting metrics change, such as if the appraised value comes in low resulting in a new LTV or if the DSCR ratio dips a couple of points due to higher than expected expenses or a lower than expected market rate. Also, **it's crucial to understand what flexibility is allowed**, such as if the prepayment penalty provision can be changed or a switch to a Partial-IO structure is allowed, and critically, if done, what effect would that have on interest rate, points or other loan terms.

Additionally, it's absolutely crucial to **understand the lock term** as well, including **how long the lock is valid** for (many DSCR Lenders offer different lock periods **such as 30 days, 45 days and 60 days**) and if different periods mean different fees. Also, it's imperative to **make sure you understand any**

"lock extension" fees that might be applied, such as how much it will cost if you need to extend the lock period by 15 days, for example. Even understanding the **nuance of how the lock period is calculated** is important, i.e. is it from the day of application to the day of close or something different, such as whatever day you want to secure the lock, or if the lock period is based on a "clear to close" declaration, rather than the pure closing date.

While this doesn't solve this obstacle in every instance – locks may not be offered with your preferred DSCR Lender, or a lock period may expire because of items outside your control – **having a full understanding of all of the details of the lock process goes a long way in avoiding getting blindsided by a higher rate and fee than you bargained for at the end** of the DSCR Loan process. **Bonus points** for having "**plan Bs**" in hand can make all the difference when the rate sheet is locked, like knowing exactly how the pricing will adjust if needing to "buy down the rate" or switch to a Partial-IO structure to fix a low DSCR ratio.

Tactic 2: Move Quickly on Needs List and Seller Coordination

While there are multiple issues that the rate locking system for DSCR Loans can create, one of the best tactics to avoid this obstacle, and most obstacles in general, **is to be very proactive and provide any "needs list" items as quickly as possible.** This has many benefits and no downsides. For "unlocked" DSCR Loans, moving as quickly as possible means the **lowest interest rate risk**, i.e. the lower risk market rates move up in between the initial term sheet and the finalized loan terms, simply because **there are fewer days in between, and thus fewer days in which market rates can move**. For "locked" DSCR Loans, moving quickly helps avoid costly rate lock extension fees. Proactive responsiveness and providing documents c**an also help prioritize your loan file with the DSCR Lender's underwriting team**, as lenders typically move more quickly on files that are complete and have responsive and helpful borrowers. While not a cure-all, minimizing any borrower-caused delays can help avoid a lot of negative situations with rate lock and rate movement.

Tactic 3: Understand Lender Economics and Negotiate Accordingly

The third tactic in this situation is arguably the most powerful, and makes being a well-informed borrower very worthwhile. It comes from not just an understanding of the complicated nuances of DSCR Loan locking, but also an understanding of the economics of a DSCR Lender, and how they make money and operate their business. The key concept to internalize is that DSCR Lenders **make their money on *closing* loans** not by denying or losing deals. While there may be some non-refundable fees collected by some, these amounts are a miniscule part of their total revenue. Indeed, when a DSCR Loan dies late in the process, most DSCR Lenders, even those that may have collected a processing fee or deposit up front, will likely **lose money on the lost transaction**, since they are in most instances on the hook for title costs, appraisal reviews and credit reports and other items. The vast majority of DSCR Lenders rely on making thin margins on closed loans through a **combination of upfront closing fee and selling the loan for a premium** on the secondary market, typically aiming for these two income sources to net to **between 2 to 3 percent gross margin**.

When faced with a situation where there is a **negative rate move** or **additional fees required (whether to "buy down" rate or as lock extension fees)**, negotiating with the DSCR Lender is possible. This is because they are likely facing a situation where the bought down rate or extra fees are necessary for them to hit their needed "pricing hurdle," such as 2.5%. or else they make nothing (or probably lose money on "eaten" deal costs) if the DSCR Loan dies before closing. Knowing this, **a smart borrower can likely negotiate** with the DSCR Lender, who might be willing to waive the fees or rate increase to a point where **they might still make a 1.25% gross profit on the loan, not up to their typical margin requirements of 2.5%, but obviously better than zero**!

The **likelihood of success of this tactic depends on many factors**, as some DSCR Lenders may have strict policies against negotiating in these scenarios, while others will only entertain it in certain scenarios. However, this is where knowledge and preparation come into play but also borrower behavior: it is **much more likely for a DSCR Lender to offer these pricing concessions** to borrowers that have been **respectful and communicative** throughout the process, and who can point to **delays "not being their fault**," i.e. they were extremely prompt with the needs list items. A DSCR Lender is far more likely to waive a lock extension fee if the delays were not caused by the borrower. For example, if the borrower delivered all the needs list items neatly within a week, and the delay was caused by their own underwriting team being backed up on file reviews, or the appraiser not being available. This **can be a powerful tool for negotiation. Knowledge matters, but being a model borrower to the point of the ask is key**.

Common Obstacle #5: Title Issues for DSCR Loans

Title is one of the most underappreciated parts of a DSCR Loan until it suddenly becomes the biggest obstacle. For a loan to fund, the DSCR Lender's mortgage or deed of trust must be recorded in **first-lien position**, meaning no other encumbrances, clouds, or defects are allowed to sit ahead of it. That's why the title company (or attorney in attorney-close states) combs through years of county records to verify clean ownership. In practice, title searches often uncover lingering problems: unreleased liens, old judgments, deed errors, or disputes that no one knew about, sometimes stretching back decades. Even small-dollar items must be cleared before closing, and can frustrate otherwise clean files that are waiting on a small issue from way back when to close.

Three Example Scenarios where Title Troubles could Derail a DSCR Loan

Below are **three** example situations where a **title company curveball** can cause delays and extra costs for an otherwise clean DSCR Loan close.

Example 1: Unreleased "Phantom" Mortgage Triggers DSCR Loan Delays and Fees

An investor applies for a DSCR Loan **cash-out refinance** on a duplex that was last refinanced in 2019, and now the investor is ready to take some cash out from the accumulated equity appreciation. Title finds **a $92,000 mortgage recorded in 2010** that was paid off in 2019 when the borrower refinanced into the current loan. The same borrower still owns the property, but the **old mortgage release was never recorded in county records.** The originating lender merged twice after 2021, leaving no clear contact for payoff verification. The title company **must now trace the successor bank, obtain written confirmation and record a satisfaction**. That process **adds roughly three weeks** and pushes the file past the 30-day lock, triggering a costly lock-extension fee and higher taxes on the new settlement statement. The refinance eventually closes, but the borrower's cash-out drops by nearly $5,000 after fees and delays.

Example 2: Judgment and HOA Lien Derail a Condo Purchase

An investor goes under contract to buy a condo unit, using a DSCR Loan to finance the acquisition. Title uncovers both a $**12,800 judgment against the seller and a $6,200 HOA lien for unpaid assessments.** Because both liens take priority over the lender's mortgage, the DSCR Loan cannot close until they're cleared. The seller, already tight on proceeds and still upset at a long-ago dispute over the HOA special assessment that was the original source of the judgment and HOA lien (which she thinks were unfair), balks at paying them off. The DSCR Lender also has a strict 2% cap on seller concessions and won't allow the seller to credit the full $20,000 in judgments and liens at closing, thus killing the deal.

Example 3: Improper LLC Transfer Creates a Chain-of-Title Gap and Funding Freeze

A few years ago, **an investor decided to transfer ownership of his fourplex into an LLC from his personal name** for asset protection and tax purposes. The property was still encumbered by a mortgage at the time, which technically required the lender's written consent before any title transfer. Assuming it was "no big deal," the investor went ahead and drafted a quitclaim deed to his LLC without notifying the lender or ensuring it was recorded properly.

Fast forward to today, the investor applies for a DSCR refinance under the LLC's name, with the entity listed as the borrower on the application, insurance policy and tax records. When the **title search is completed, the county still shows ownership in the investor's personal name, not the LLC's.** Worse, the original lender from the old mortgage still has a recorded interest tied to the individual borrower. The title company **flags a clear break in the chain of title**, and the DSCR Lender can't proceed until ownership is corrected and the prior lender provides written acknowledgment or a release of interest.

The investor must now re-execute and record a deed from himself personally to the LLC and wait for it to post in county records. Because lender consent was never formally obtained, title also requires a written waiver or "no objection" letter from the prior lender to insure the transfer. The process drags on for nearly three weeks, pushing the appraisal beyond its expiration window and requiring a costly update.

Three Options on How to Overcome Title Issues on DSCR Loans

Title issues can be tough for DSCR Loans, because they are often seemingly minor and the process and seriousness taken by DSCR Lenders and title companies can seem like overkill or lacking in "common sense." Further, **title companies and county records are notoriously slow-moving and outdated in many jurisdictions**, as it can seem like solving title issues involves a time machine into the distant past, where everyone else is in the digital modern age. Regardless, **title issues and processes are a reality in DSCR Loans** now and in the foreseeable future, and the good news is that there are several ways for **best-prepared borrowers to solve them, or better yet, ensure they don't crop up in the first place**.

Tactic 1: Maintain and Confirm Your Own Vesting and Property Records: Don't Skip Steps

One of the simplest ways to avoid title nightmares is to treat your own property records like permanent business files, not one-time closing paperwork. Too many investors hand off everything to title or their prior lender and never **double-check that key steps, like recording a deed transfer or releasing a paid-off mortgage, were actually completed**. After every refinance or payoff, follow up with the title company 30 to 60 days later to confirm the lien release has been recorded in county records. A five-minute verification can prevent the kind of “phantom mortgage” problems that can stall a future refinance or sale.

Likewise, if you plan to **transfer a property into or out of an LLC**, never assume it’s a formality. Most mortgages require lender consent before any title transfer, and skipping that step **can cause chain-of-title gaps** or even violate the loan’s due-on-sale clause. Make sure **all transfers are properly documented, consented to in writing and recorded with the correct legal description**. Maintaining accurate, complete records for every property in your portfolio, including deeds, recorded releases and entity filings, keeps future DSCR Loans running smoothly and protects you from surprises buried in old paperwork.

Tactic 2: Run Your Own Mini Title Check and Verify Details Before Applying for a DSCR Loan

A **quick self-audit** before submitting a DSCR Loan application can save weeks of stress later. Most investors assume the title company will catch any issues, but by the time those problems surface, the clock is already ticking on rate locks and appraisal expirations. Taking 10-15 minutes to **search your county recorder’s website for the property address and your name (or the seller’s name for purchases**) can reveal old liens, unreleased mortgages, judgments or even unpaid taxes that could complicate closing. Likewise, if the property is held in an entity, **log into your state’s corporate database to confirm that your LLC or corporation is still active, current on filings and legally authorized** to hold and borrow against real estate. An expired registration, lapsed annual report, or missing operating agreement can create just as much of a delay as a title defect.

Doing this light due diligence early also helps you look like the kind of borrower lenders and title officers love to work with: **organized, responsive, and detail-oriented**. When you’ve already verified that your entity is in good standing and your ownership matches public records, you eliminate easy reasons for a file to get bogged down in “title curative” limbo. If you find a small issue, like a typo on a prior deed or a missing member authorization, fix it before the application goes in. That way, by the time the DSCR Lender officially orders title, you’re ahead of the curve. **A quick self-check may not catch everything, but it can prevent the most common slowdowns** and keep your DSCR Loan moving smoothly from approval to funding.

Tactic 3: Build a Small “Title Cure” Budget and Stay Aggressively Involved in the Process

Even well-run transactions can hit title snags, and while they rarely cost huge sums, they can grind a closing to a halt if no one is actively managing them. Setting aside a modest **“title cure” budget**, say $500 to $1,000, **and a few extra days of flexibility in your closing timeline** is one of the smartest forms of insurance a DSCR Loan borrower can have. Recording fees, lien releases, payoff verifications, and survey updates are small but common out-of-pocket items that can pop up unexpectedly, especially in older properties or states with outdated county systems. Having funds and time earmarked for these minor fixes lets you respond instantly instead of waiting for title to “check with you,” and that alone can save a rate lock or prevent a deal from slipping.

Just as important, never assume the title officer or county clerk is moving at your speed. **Be the driver of your own deal.** Call or email your title contact every few days to confirm what’s still outstanding, when documents were submitted, and what’s left to record. If you’re buying, coordinate with the seller’s agent to make sure they’re clearing any liens or HOA balances ahead of closing. If you’re refinancing, stay in close contact with your lender and provide any payoff statements or old loan data they might need. **Most title delays come not from the complexity of the cure but from a lack of urgency**. Staying politely persistent keeps your file on the top of the stack instead of the bottom, and in a business where days matter, that can mean the difference between a smooth DSCR Loan closing and one that dies waiting on someone else’s paperwork.

Common Obstacle #6: Signing Issues for DSCR Loans

Signing looks simple on the surface: show up, sign papers, get funded. But for DSCR Loans, where loans often involve LLCs, multiple guarantors and state-specific quirks, the signing table can become a major obstacle. The most common pitfalls are requirements borrowers didn't anticipate: spousal signatures, entity resolutions, travel or scheduling conflicts, or restrictions on Power of Attorney (POA). What feels like a small formality can end up delaying funding by days or weeks, or even having this delay kill the deal entirely!

Three Example Scenarios where Signing Issues could Derail a DSCR Loan at the Finish Line

Signing issues are a surprisingly common occurrence with DSCR Loans, likely driven by the fact that they are commonly made to investors that are used to the more personal and simplified signings of conventional residential real estate loans (i.e. the individual simply signs the documents) and **are unfamiliar with the nuances of business-purpose lending with LLCs and other issues**. Typically, these signing issues come from three areas, **spousal consent surprises**, especially in "community property states," attorney-involvements in states with **mandatory lawyer involvement rules** and **complex signature authorizations with LLCs and** other entity structures.

Example 1: Community Property Surprise Derails a Texas DSCR Loan Closing

An investor closing on a DSCR Loan purchase under an LLC in Texas is blindsided when the title company informs him that his non-borrowing spouse must sign the Deed of Trust to waive community property rights. His wife, who isn't involved in the LLC or the transaction, refuses at first, frustrated that she's being asked to sign for "his business deal." The DSCR Lender can't fund without the spousal consent, and the closing is postponed while attorneys explain the legal requirement and arrange for her to sign separately. The one-week delay pushes the closing beyond the seller's contractual deadline, and the seller threatens to walk.

Example 2: Out-of-State Borrower Tripped Up by Attorney-Closing Requirement in New York

An **out-of-state investor** schedules a remote signing for a DSCR Loan rate-term refinance on a Brooklyn triplex, expecting a simple mobile-notary mail-away closing. Two days before the scheduled funding, the title company notifies her that **New York law requires an attorney** to conduct or supervise all real estate closings. Since she doesn't have local counsel lined up, the **loan file stalls while she scrambles to retain a New York attorney and coordinate new signing logistics.** The attorney's fees add $1,200 in unplanned costs, and the new schedule pushes the closing five days past the original rate-lock window. Because of the delay, the DSCR Lender must redraw documents and re-verify payoff figures, turning what should have been a routine refinance into a logistical and financial headache.

Example 3: Missing Entity Resolution Freezes a Refinance at the Finish Line

A three-member LLC applies for a DSCR Loan refinance on a small multifamily property, with one member taking the lead on the transaction. Everyone **assumes that member has signing authority for the group**, but when title reviews the operating agreement, it doesn't specify who can bind the entity. The DSCR Lender's attorney flags the issue immediately and halts funding **until a formal corporate resolution is executed by all members**. **One member is on an overseas business trip**, another is traveling out of state and coordinating signatures across time zones proves slow and costly. The delay forces the title company to reschedule the notary, reissue documents, and push the closing into the following month, adding rush fees and another round of payoff recalculations.

Three Options on How to Overcome Signing Issues on DSCR Loans

The good news for **overcoming any potential signing obstacles** for DSCR Loans is that they are **pretty much all avoidable with knowledge and preparation**. The rules around spousal consent (and which states are "community property states" that require it), attorney closing involvement and LLC signing authorities are all knowable in advance and can be confirmed through your lender or title representative or even your own research. You can overcome these obstacles simply by **preparing well**, so a signing snafu can be avoided on your DSCR Loan.

Tactic 1: Anticipate Spousal and Signature Requirements Before They Become a Crisis

When properties or borrowers are based in **community property states**, assume from the start that a spouse or additional signer may need to be involved, even if they're not on title or in the LLC. **Spousal consent** signatures are one of the **most common last-minute curveballs facing DSCR Loans**, particularly since community property rules apply to high-volume states including Texas, Arizona and California. The surprise comes not from complexity, but from lack of preparation. The best approach is to confirm marital status and title vesting details with your DSCR Lender and title company early in the process so required signatures can be added to the initial closing package. Similarly, if an entity has multiple members or guarantors, ensure everyone who might be asked to sign knows their role and is available. **Few things derail funding faster than someone who's traveling, unaware they're needed at the table or reluctant to sign because they weren't looped in until the last minute**.

Tactic 2: Understand State-Specific Closing Rules and Plan for Scheduling Realities

Each state handles real estate closings differently, and DSCR Loan borrowers, especially out-of-state investors, are often caught off guard by those differences. Some states, such **as New York, Georgia, and South Carolina, require an attorney to conduct or oversee the closing**. Others allow mobile notaries or e-notarization, but only if certificates meet strict formatting or witnessing standards. **Knowing which applies to your property early on lets you plan for attorney fees, availability and the additional coordination** that comes with mail-away closings or remote signings. Even within the same state, local customs vary by county, so confirm who's authorized to notarize and what the lender will accept before final loan documents are issued. The more you understand the logistics ahead of time, the less likely you'll face last-minute surprises, redraws, or costly rate-lock extensions when the signing table turns out to be more complicated than expected.

Tactic 3: Prepare for Travel, POA, and Entity Authority Issues Before Closing Week

Because DSCR Loan borrowers are often active investors or business owners with busy schedules, travel conflicts and entity-authorization gaps are common. Believe it or not, **borrowers being overseas and traveling in far flung destinations around the closing date is extremely common**. When you think about it, since DSCR Loans are often the engine of creating financial freedom through real estate investing, maybe it shouldn't be a surprise that DSCR Loan borrowers are often enjoying such freedom, and on vacation!

If you or any guarantor will be out of state, or worse, out of the country, during the anticipated closing window (or typically, a week or two after the initially planned closing, i.e. with common delays, this becomes the "actual" closing window), tell your DSCR Lender and title company early. Some lenders allow e-notary closings or domestic remote signings, but international signings typically require notarization at a **U.S. Embassy or Consulate**, where appointments can take weeks to secure. Power of Attorney (POA) options are rarely accepted and must be reviewed and recorded well in advance if they are. Likewise, for LLCs or corporations, make sure your operating agreement clearly defines who has authority to borrow and sign. If not, execute a written resolution signed by all members before closing week begins. **These small steps keep a deal from falling apart simply because the right person wasn't in the right place, or couldn't legally sign, when the money was ready to move**.

Common Obstacle #7: Large Deposit Sourcing for DSCR Loans

Many investors come to DSCR Loans expecting a light-touch underwriting process, no tax returns, no W-2s, no DTI calculations. However, some borrowers are surprised to discover that DSCR Lenders still have **strict rules around sourcing large deposits**. Even though your personal income isn't under review, your financials around down payment and liquid assets are.

The logic is simple: lenders need to know the money funding the loan is **yours, legitimate, and not secretly borrowed**. They also have to comply with federal **anti-money laundering (AML)** regulations, even as private lenders under the conventional, government-subsidized system. For real estate investors, many of whom have irregular project-based income, shifting business cash flows or frequent transfers between accounts, **this can create unexpected friction.**

Three Example Scenarios where Deposit Sourcing can cause DSCR Loan Problems

Example 1: Gift Funds Without Documentation Trigger Underwriting Red Flags

An investor's parents wire $50,000 to help with the down payment on a DSCR purchase. The borrower assumes that because DSCR Loans don't verify personal income, the DSCR Lender won't care where the funds came from. During underwriting, however, the lender flags the transfer as an unexplained large deposit within the 60-day bank statement review window. Even though gift funds are allowed as long as the amount doesn't make up over 90% of the down payment, the DSCR Lender **requires a formal gift letter, a copy of the sender's bank statement showing the withdrawal and evidence the gift is not a loan that must be repaid**. The borrower's parents are traveling abroad and slow to provide documentation, delaying final approval by nearly two weeks. The deal still closes, but the seller demands a per-diem extension fee, adding $1,200 in unexpected costs simply because the "family gift" wasn't disclosed and sourced upfront.

Example 2: Inter-Business Transfer Looks Like Borrowed Money for a DSCR Loan

A real estate investor who **owns multiple businesses** moves $120,000 from one company's operating account into his personal checking to show sufficient liquidity for a DSCR Loan refinance on one of his rental properties. The funds are legitimate, his share of profits from a recent project, but **the business has two other partners listed on the account**. When underwriting reviews the statements, they flag the transfer as a potential loan or shared funds not solely controlled by the borrower. The DSCR Lender requires a **Letter of Explanation (LOE)** and documentation confirming that the transfer represents the borrower's own earned proceeds and that no repayment is owed to the company or partners. **Coordinating signatures and corporate records takes over a week**, pushing the DSCR Loan past the original funding date and creating a short gap between payoff and new disbursement.

Example 3: Flip Sale Proceeds Within Lookback Window Stall a Refinance

An investor who dabbles in different strategies such as flips and turnkey rentals, applies to refinance a rental property with a DSCR Loan expecting $60,000 in cash-out proceeds. Two weeks before submitting the DSCR Loan application, he deposits $75,000 into his checking account from the sale of a recent fix-and-flip. Because the deposit falls inside the lender's 60-day review period, underwriting requires full documentation: the prior property's **HUD-1 settlement statement**, wire confirmation, and proof that no short-term loan or partner financing was involved. The title company from the flip has already archived its records, forcing the borrower to **hunt down old documents and payoff wires**. The back-and-forth adds three weeks to the process and pushes the lock extension cost to nearly $2,000, erasing most of the refinance's rate savings. The funds were legitimate, but lacking quick access to clean documentation, common for frenzied flippers, **turned a routine refinance into a timing and cost problem.**

Three Options on How to Overcome Large Deposit Sourcing Problems for DSCR Loans

While these large deposit sourcing issues can cause serious problems for DSCR Loans, they are **mostly preventable** when **understanding the DSCR Lender's rules** around "large deposits," by **budgeting enough time between bank statements and big deposits** and by **keeping clean and tidy records**. A well-prepared borrower – both in terms of understanding exactly what will get flagged, and what won't show up in due diligence, and staying tightly organized – will essentially guarantee this isn't an obstacle worth worrying about.

Tactic 1: Season Your Funds and Centralize Them Well Before You Apply

The **cleanest way** to avoid sourcing headaches is to **plan ahead**. Move your closing funds and reserve capital into the account you'll use for underwriting **at least 60–90 days before** starting a DSCR Loan application. DSCR Lenders generally **only review the two most recent months of statements**, so if your funds **are already sitting in the account**, steady and untouched, they'll be considered "seasoned," meaning **no explanation or paper trail is required**. This isn't about hiding sources; it's about avoiding the chaos of last-minute transfers that trigger documentation requests. Investors who routinely move cash between projects, partnerships, or businesses should designate a single account for DSCR Loan transactions. When the lender reviews statements, what they see should be a straightforward story: money in place, stable, and clearly yours.

Tactic 2: Keep a Digital Paper Trail for Every Major Deposit or Asset Event

When large deposits are unavoidable, documentation is your best friend. If you're selling a property, liquidating an investment or receiving a partner distribution, **save every supporting document**, wire confirmations, HUD or closing statements, contribution agreements, or brokerage settlement reports. The key is to connect the dots between where the money came from and when it arrived. Underwriters don't assume wrongdoing; they **just need to prove the funds weren't borrowed or part of another party's assets.** Having a neatly labeled digital folder ready to send eliminates the scramble of tracking down old records or waiting on title companies to reopen archived files. The few minutes it takes to organize paperwork upfront can save weeks of delays and hundreds, or even thousands, of dollars in rate-lock extension fees later.

Tactic 3: Separate Business Cash Flow from Loan Funds and Reserves

For active investors juggling multiple projects, it's tempting to pull DSCR Loan capital from the same business account used for renovations, payroll or rental income. Unfortunately, those irregular inflows and outflows can make DSCR Lenders nervous, especially when unexplained transfers resemble short-term loans. The solution is simple: **use a clean account**, personal or dedicated to investments, for closing funds and reserves. Keep it quiet in the weeks leading up to underwriting: no incoming wires from other entities, no big outgoing transfers. When your bank statements look stable and self-contained, the underwriter has no reason to question them. A tidy, isolated account tells a reassuring story: the money is yours, it's seasoned, and it's ready to close.

Common Obstacle #8: Entity Documentation Issues for DSCR Loans

Most DSCR Loan borrowers close loans in the name of an LLC or other entity for liability protection and tax strategy. While that's standard practice, it also introduces a layer of scrutiny: DSCR Lenders require a **complete and compliant set of entity documents** to ensure the borrower has legal authority to own the property and enter into the loan.

Problems surface when the DSCR Lender's legal team reviews the entity documents and finds gaps, inconsistencies or compliance issues. Sometimes these are small, like a missing resolution. Other times, they're structural, such as an LLC not being properly registered in the state where the property is located. These issues often come up late in underwriting and can derail a DSCR Loan closing timeline if not addressed quickly.

Three Example Scenarios where Entity Issues can cause DSCR Loan signing table issues

Unfortunately, the reality is that the **large majority of DSCR Loans today vest property title in an entity** like an LLC or Trust, and **a large majority of these entity borrowers have problems with their documentation packages** requiring changes and updates. There are many minor nuances involved with borrowing through an LLC, and many DSCR Lenders take the time to have active, fully-licensed lawyers comb through the entity document packages to make sure that even small errors don't exist, and if errors are found, they are fixed. **These seemingly small issues can have outsized risks for the lender** down the line, such as potentially voiding foreclosure rights or even the debt itself if for example the borrowing entity wasn't actually allowed to take on debt (in some of these cases, if that can be proven in court, the lender faces the catastrophic situation of being "out" all of the money owed – or "not owed" if determined by the court!). While the following three examples are common and major issues that can pop up for DSCR Loans, **entity documents issues are frequent and wide-ranging**, so it definitely pays to pay attention in this area.

Example 1: LLC Operating Agreement Lacks Clear Signing Authority

An investor formed an LLC years ago to hold multiple rental properties but never updates the operating agreement to spell out who can sign for mortgage loans or encumber property. When applying for a DSCR Loan cash-out refinance, the DSCR Lender requests evidence that the signer, one of three members, has the authority to bind the company. The title company reviews the **operating agreement and finds it silent on borrowing powers or management authority**. As a result, underwriting halts until a formal amendment or corporate resolution is executed and signed by all members. One partner is out of state and difficult to reach, forcing a two-week delay while notarized signatures are collected and filed. What should have been a straightforward closing turns into an **administrative scramble simply because the original LLC documents weren't drafted with financing in mind.**

Example 2: Foreign Registration Requirement Catches Borrower Off Guard

A common structure for real estate investors is to **form an LLC in a business-friendly state such as Delaware, Wyoming or Nevada while buying property elsewhere**. An investor does just that; her LLC is registered in Delaware, but the property securing her DSCR Loan is in Florida. During underwriting, the DSCR Lender's legal review flags that the LLC hasn't been registered as a **foreign entity** in Florida, meaning it technically isn't authorized to conduct business or hold title in that state. To move forward, the investor must file for a Certificate of Authority with the Florida Secretary of State, pay the filing fee and designate a local registered agent. **While not complex, the process takes about ten business days and can't be skipped.** The delay pushes closing into the next rate-lock period, increasing costs and adding frustration over an easily preventable oversight.

Example 3: Late-Stage LLC Formation Scrambles Deal Economics

An investor is purchasing a **single-family rental in Illinois** under his personal name, planning to use a DSCR Loan **with a five-year prepayment penalty structure** that offers the best rate. Midway through underwriting, the DSCR Lender informs him that they **only allow prepayment penalties for DSCR Loans made to entities in Illinois**, not to individuals. If he closes in his personal name, the loan will have to be priced with a much higher interest rate, wiping out the deal's projected cash flow. With just days before closing, the investor **scrambles to create an LLC, obtain an EIN, draft an operating agreement, and coordinate a title update so the entity can take title instead**. The rushed process adds filing fees, legal costs and nearly two weeks of delay. While the loan eventually closes, the stress and expense could have been avoided if entity structuring had been addressed before the application stage.

Three Options on How to Overcome Borrowing Entity (i.e. Vesting) Issues for DSCR Loans

While **entity documentation issues** are widespread, the good news is that they a**re relatively easy to avoid with preparation**, and typically **fairly fixable** and not "deal-killers," more like "delay-delayers." Even a delayed deal can cause significant time and money, and sometimes, especially on tight purchase timelines in sellers' markets, can actually cause a DSCR Loan to completely fall apart. As such, it's smart to prepare well and know all the rules and potential issues ahead of time to avoid any potential trouble.

Tactic 1: Invest in Proper LLC Formation and Legal Setup from the Start for your DSCR Loan

When it comes to borrowing through entities, **cutting corners early almost always costs more later**. Many investors rush to create their LLCs online or through budget filing services, only to find out during underwriting that their operating agreement doesn't authorize anyone to borrow money, encumber property or sign loan documents. At that point, they're forced to hire an attorney anyway, only now it's under time pressure, with closing dates looming.

It's worth **spending a few hundred dollars more upfront to have an experienced real estate attorney or a company that specializes in DSCR Loan ready LLCs** draft your documents **correctly the first time**. A properly written operating agreement should clearly define management authority, outline who can bind the entity in loan transactions and be consistent with how the LLC is registered with the state. Getting this foundation right not only prevents future delays but also provides long-term legal protection for your investments.

Tactic 2: Keep Your Entity in Good Standing and Stay Ahead of Registration Rules

Even the best-formed LLCs can trigger problems if they're not properly maintained. **Lenders routinely verify an entity's Certificate of Good Standing** during underwriting to confirm it's active and compliant with all state filing requirements. Forgetting to file an annual report, missing a renewal deadline or failing to pay a small state fee can cause your entity to show as "inactive" or "delinquent," instantly halting the loan process. The same goes for **foreign registration**, one of the most common, and preventable, DSCR Loan issues. If your LLC was formed in one state but owns property in another, you'll almost always need to register as a foreign entity in the property's state before you can close. The fix is simple but not instant, it can take a week or two for processing, **which can easily blow a rate lock or purchase timeline**. Setting calendar reminders for annual filings, renewals, and state registration deadlines keeps your entity "funding-ready" year-round.

Tactic 3: Get Early Clarity When Using Non-Traditional Entities Like Trusts or Series LLCs for DSCR Loans

Not all entities are treated equally when it comes to DSCR Loans and vesting simplicity. **Trusts, Series LLCs and structures** more complex than a standard LLC often have unique signing rules and documentation requirements that can trip up even experienced investors. Some DSCR Lenders allow these structures only under specific conditions, such as requiring all trustees or series managers to sign or mandating separate EINs and operating agreements for each cell in a Series LLC. Others don't permit them at all. If you're borrowing through a trust, confirm early how your DSCR Lender defines signing authority: do they require both the trustee and the grantor to sign, or just the trustee? If you're using a Series LLC, clarify whether the lender will need documentation for both the master entity and the individual series cell. Sorting this out during application instead of at closing gives you time to prepare the correct resolutions, EINs, and document sets, avoiding last-minute chaos. The key is to **treat entity clarity as part of loan prep, not loan cleanup**, because once a deal is deep in underwriting, every missing document becomes a clock ticking against your closing date.

Common Obstacle #9: Surprise at the Closing Table for a DSCR Loan

You've made it through appraisal, underwriting, title, and entity review, but when the final settlement statement and loan documents arrive, **something doesn't match what you expected**. Maybe the cash-out is lower, the cash-to-close is higher or an unfamiliar fee or prepayment penalty term appears in the fine print.

For DSCR Loan borrowers, this is one of the most stressful moments in the process. Unlike conventional mortgage loans, where disclosure rules (like the three-day Closing Disclosure requirement and strict tolerance thresholds) lock down most fees early, DSCR Loans, which are **beloved by many real estate investors for their flexibility**, also come with a **flexibility flip side**: **less disclosure and consumer protection guardrails**. If you haven't carefully tracked terms and costs throughout, "surprises" can hit all at once, often just before signing.

Three Example Scenarios where Closing Table Surprises can kill a DSCR Loan at the Goal Line

Unfortunately, the DSCR Loans industry is still relatively new, and with very low barriers to entry in most states for anyone to come in and call themselves an "expert" mortgage broker for these loans, **miscommunication and lack of clarity around loan terms and details are still unfortunately rampant**. Unlike conventional lending where every lender must follow all the same rules and provide strict CFPB-mandated disclosures, these aren't required for DSCR Loans and **many lenders and brokers don't always clearly state everything to watch out for**, especially in a tough low-volume market of the last few years where many are desperate to win deals.

While there are many sorts of things that can qualify as "surprises" at the closing table that can threaten to derail a deal and cause the borrower to get cold feet or be so upset as to walk away in a fit of red, hot anger. Here are **three unfortunately common such issues that can arise** with DSCR lending:

Example 1: Cash-to-Close Shock Throws Off Final Wiring Plans for a DSCR Loan

An investor **budgets $60,000 for the down payment and closing costs** on a DSCR Loan purchase, based on the initial term sheet received at the start of the process. The quote listed **"**two months tax escrow" as standard, along with familiar items like appraisal and underwriting fees. Everything appears on track until the final settlement statement arrives the night before closing **with much more than $80,000 due**, a far greater amount than was planned for. When the borrower asks why the tax escrow suddenly ballooned to six months, the lender explains that while “two months is standard,” they collected additional escrow because a large property tax installment was coming due soon after closing.

The surprises don’t stop there. Alongside the expected underwriting fee, the borrower spots a list of new, unfamiliar charges, several that look suspiciously like **junk fees**. The most glaring is a **“Document Preparation Fee” of $1,900**, which online research shows is typically $100 to $250 at most. Other miscellaneous administrative and “funding” charges also appear. These were in the “fine print” of the term sheet, but no specific dollar amounts were specified, making it a “grey area” of whether they were truly disclosed or not. With wiring deadlines approaching, the borrower scrambles to verify the legitimacy of the fees and source extra funds to cover the higher amount due. The deal eventually closes, but the experience leaves a sour taste.

Example 2: Prepayment Penalty Mix-Up Causes Last-Minute Delay on a DSCR Loan

An experienced investor is refinancing a DSCR Loan on a small multifamily property to pull out equity and lock in a better long-term rate. The term sheet he signed months earlier clearly stated “**5-Year Prepayment Penalty**,” which he assumed referred to a standard step-down structure, i.e. **5–4–3–2–1**, where the penalty percentage decreases each year. Confident it matched what he’d seen on other DSCR Loans, he didn’t press for clarification. Fast forward to closing: when the final note and rider arrive, he’s stunned to find the prepayment provision doesn’t step down at all. Instead, it’s written as a **flat 5% penalty for the full five years**, meaning he’d owe 5% of the outstanding balance no matter when he pays off the loan before year six.

The difference is massive. The investor had planned to potentially sell or refinance within two to three years, expecting a manageable early-exit cost. Under the flat 5% clause, that plan would now cost tens of thousands more. He halts the signing immediately, calling his loan officer and the DSCR Lender’s closing department for clarification. The DSCR Lender points out that the flat 5% structure was indeed disclosed, just not in language that made the difference obvious. If the investor wants to change the provision from flat 5% to step-down, the DSCR Lender informs him that the interest rate will need to be 0.25% higher and the loan documents will need to be re-drafted, costing him a $500 redrafting fee and two more days of timeline.

Example 3: Lower-Than-Expected Cash-Out Catches Borrower Off Guard on a DSCR Loan

An investor applies for a DSCR Loan cash-out refinance expecting to net $100,000 in proceeds, planning to use the funds as down payment on a new property. Based on the lender’s preliminary valuation estimates, the numbers appeared solid: 75.0% LTV, a 1.10x DSCR ratio and projected monthly cash flow that easily met guidelines. But when the **appraisal comes in lower than expected**, and property insurance premiums come in higher, the underwriter must reduce the loan amount to maintain both the maximum LTV and the minimum DSCR ratio requirements. The **DSCR Loan still qualifies, and the terms are still based on the same pricing "buckets," but the loan amount is now reduced to fit**. The adjustment drops the net cash-out to $72,000, a $28,000 shortfall.

The borrower doesn't realize the change until the final closing documents are presented for review. **With funds already committed to the next investment, the smaller payout throws the entire strategy into question.** Frustration mounts as the investor and lender representative review the math, discovering the new appraisal value and DSCR ratio. The DSCR Loan still closes, but the investor **leaves the table disappointed and financially constrained.**

Three Options on How to Overcome Closing Table Surprises

While the specific surprises that could create issues at the closing table can vary widely, the way to avoid them does not vary: **it really comes down to preparation through education on DSCR Loans and not being afraid to ask questions** about anything. There is no shame in asking questions; it's part of being prepared. While it is not advisable to deliberately "misunderstand" or claim to misunderstand something before hitting the closing table, also **realizing the DSCR Lender's perspective**, i.e. they stand to lose out on significant dollars if a deal dies at the end, can be helpful, particularly if the miscommunication and effects of that misunderstanding can fairly be placed on their shoulders.

Tactic 1: Ask Every Question Upfront for your DSCR Loan: Even the "Dumb" Ones

For DSCR Loans, **assumptions are dangerous and acronyms can be deceiving**. Always take the time to confirm every term, condition, and fee on your **term sheet or quote**, even if something seems self-explanatory or sounds familiar from a previous deal. Ask your mortgage broker or lender account representative to spell out the exact structure of prepayment penalties, interest-only periods, escrow requirements and any lender or underwriting fees that appear vague or lumped together under catch-all labels like "processing" or "doc prep." **Don't worry about "looking inexperienced" by asking questions**; a few extra minutes of clarification can prevent days of stress or thousands in unexpected costs later. If you're not sure what a term means, ask for a plain-English explanation or a written breakdown and **always try to get everything "in writing" (e-mail counts)**. The borrowers who come to the closing table confident and calm are the ones who were unafraid to look curious at the start.

Tactic 2: Push for Draft Documents and Closing Figures as Early as Possible

One of the simplest ways to prevent closing-table chaos is to **see everything early**. While DSCR Lenders aren't required to issue a "Closing Disclosure (CD)" like conventional lenders, many will prepare one or a draft settlement statement upon request. Ask for it as soon as your DSCR Loan moves into final underwriting so you can compare the numbers, cash-to-close, estimated proceeds, and all itemized fees, against your quote and term sheet. Do the same for loan documents: review the note, deed of trust, and prepayment rider in draft form if possible. Even catching a small error like the wrong vesting name or an outdated entity address early can save days of delay later. **The further in advance you review, the more time the DSCR Lender has to correct or address any discrepancies** without redrawing documents under pressure.

Tactic 3: Leverage Your Position When the DSCR Lender Drops the Ball

If a major miscommunication or missing disclosure can clearly be traced back to the lender or broker, say, an undisclosed underwriting fee, inflated “doc prep” charge or junk fee that was never mentioned on the quote, you have negotiating power. **Don’t be afraid to push back.** Calmly but firmly point out the discrepancy, reference your original term sheet, and state that you’re unwilling to close unless the fee is corrected. Most DSCR Lenders stand to lose substantial revenue if a deal dies at the finish line, so they’ll often concede to keep the closing intact. You can also request an adjustment or credit on the final statement if a mistake caused a rate-lock extension or other delay. **Standing your ground respectfully but assertively** signals that you know your numbers, and that you expect the same level of professionalism from your lending partners as you bring to the deal.

Common Obstacle #10: Post-Close Servicing Scares for DSCR Loans

While this last common obstacle isn't exactly a fit for throwing off a DSCR Loan, it's important for every well-prepared DSCR Loan borrower. **Servicing issues unfortunately plague the world of DSCR Loans**, and while **they can't actually "undo" a DSCR Loan** that has successfully closed and funded, they **can and do jeopardize the success of future DSCR Loans**, either for additional properties or a refinance on the same property being serviced down the line. As such, it's highly important that DSCR Loan borrowers are on the lookout for these servicing issue obstacles that can cause a lot of damage to current and future real estate investing endeavors.

Three Example Scenarios of Significant Servicing Issues for DSCR Loans

There are several issues that cause havoc with servicing, and **most occur in the short period between the closing of the loan and the first few monthly payments**, which typically involve the DSCR Loan being sold and transferred to a new servicer. It is *usually* smooth sailing once this first transfer has occurred, but the first few months can be stormy seas, **so being ultra vigilant right *after you might think it's over* – i.e. the closing and funding of the loan, is critical**.

Example 1: ACH Typo in the Loan Package Form for a DSCR Loan

An investor is required by his DSCR Lender to sign a consent to **automatic ACH payments** when signing the final loan documents package, entering bank details directly onto the form when signing at the title company office. A single digit in the routing number is slightly illegible, and the servicing associate types in a "6" rather than a "5" when inputting it into the system. A month and a half later, when the first PITIA payment is processed, it bounces back as a **"non-sufficient funds" (NSF)** error. The borrower's account has plenty of money, but the system flags the payment as failed. When the DSCR Lender's servicer attempts to reach out to the borrower multiple times, he ignores the calls since he is inundated with spam calls daily, and the servicer never leaves a voicemail or text to follow up.

By the time the error is caught and corrected, the loan servicer has already assessed a $50 NSF fee and reported the payment as late to the credit bureau. When the investor later applies for another DSCR Loan refinance a few months later, **the "30-day late" mark** triggers higher pricing and a letter of explanation. While **blame could arguably be laid on both sides, borrower and lender's servicer, the damage is done**, and it will be over 12 months before this "real estate late" payment rolls off the credit report.

Example 2: Servicing Transfer Snafu on a DSCR Loan: New Servicer Requires Info Re-entry

Three months after closing, an investor receives a short letter in the mail notifying him that his DSCR Loan servicing has been transferred to a new company. The letter looks routine, just a standard "goodbye letter" notice, and **he assumes there's nothing to do.** After all, at closing, he had been **required to sign an ACH authorization** form allowing the lender to automatically debit his payments each month, as well as a separate servicing disclosure stating that if the loan was ever sold or transferred, the new servicer would automatically receive the same authorization and account information. In other words**, he had already granted full consent for the new company to continue drafting his payments**, so as long as he continued to have enough money in the bank account, nothing needed to change.

Unfortunately, **that assumption turns out to be costly**. The original DSCR Lender properly transfers servicing, but **the new servicer's automated system fails to import his ACH data correctly.** When the first payment under the new servicer comes due, the draft never processes. Two weeks later, the borrower receives a delinquency notice and a $75 late fee, despite having the funds sitting in his account. Confused, he calls his original lender representative, who refers him to the new servicer, who insists that his ACH setup was never completed on their end. **To correct it, he must reauthorize the ACH form directly with them and manually submit the missed payment to bring the account current**.

By the time the issue is resolved, a late notice has already been issued and reported internally as a "technical delinquency." Though he manages to have the fee waived, the borrower **spends hours untangling what should have been an automated**, frictionless process. Worse, when he later applies for another refinance, the new DSCR Lender flags the account history for a "recent late payment," forcing additional documentation and explanation. The **borrower did everything right**, signed the ACH forms, read the servicing disclosures, and had sufficient funds, but **the handoff between systems wasn't flawless, and he paid the price for assuming it would be**.

Example 3: NSFs; Timing Mismatch Between DSCR Loan Payment Date and Rents Received

An investor with several DSCR Loan-financed rentals sets all loans on automatic ACH drafts due on the first of the month, assuming the system will take care of itself. But one month later, two tenants pay rent several days late, on the 5th and the 8^{th}, while the PITIA drafts hit the account right on schedule. The funds aren't there in time, triggering **NSF (non-sufficient funds)** notices, $75 return fees per loan, and a cascade of "payment failed" alerts from the servicer. The investor immediately transfers money to cover the payments, but the system's delayed reattempt pushes both payments beyond the grace window, generating late notices and internal delinquency records.

Though no 30-day lates appear on credit, the incident lingers in the loan's servicing history. When the investor later applies for another DSCR Loan refinance, the underwriter flags the NSF events as a liquidity management issue and requests months of additional bank statements and explanations. What started as a harmless **timing mismatch between rent receipts and auto-drafts ends up adding costs, delays and unnecessary scrutiny** to the investor's next deal.

Three Tactics to Overcome Common DSCR Loan Servicing Scares

Servicing issues are some of the worst "obstacles" to a good experience with DSCR Loans, particularly **because of all the potential problems, these are the ones most likely to not be the borrower's fault**, and rather the fault of poorly performing payment processing companies – "servicers." However, as everyone knows, and especially real estate investors, "life isn't fair," and while it's not ideal for borrowers to have to spend extra time to prevent and fix any problems that aren't their fault, it's definitely worth it. Here are **three tactics that shouldn't be necessary, but unfortunately often are.**

Tactic 1: Always Double Check Every Digit on the ACH Form when Signing for a DSCR Loan

Automatic payments are convenient and often required for DSCR Loans, but they also introduce risk if even a single character is wrong. Before signing your closing package, take the time **to carefully review every digit** on your **ACH authorization form**, the routing number, account number, payment start date and **the account name exactly as it appears at your bank**. A single typo or mismatched account title can cause an automatic payment to fail, leading to NSF notices, late fees and even false delinquency reports that can follow you into future loans. Don't assume the escrow agent or lender entered the information correctly just because they handle it every day. These forms are filled out fast during signing, and a misplaced digit can cause major headaches down the line.

Once **your first payment is scheduled, confirm it posts properly**. Log into your servicer's portal a few days after the due date to verify that the ACH draft cleared for the right amount and that your account reflects "paid as agreed." **If you see anything off, wrong date, duplicate draft, or a missing payment, contact the servicer immediately and request written confirmation once corrected**. DSCR Lenders care about payment history, and even one erroneous late mark can make your next refinance harder or more expensive**. A five-minute double-check at closing and on your first payment is one of the easiest ways to protect your investment record.**

Tactic 2: Double Check All the Details if your DSCR Loan is Transferred to a New Servicer; Call, Verify and Never Assume

Servicing transfers are common for DSCR Loans, since most loans are sold to aggregators or securitizers, companies that are separate from those that actually provide the loans. Even if you signed disclosures allowing a new servicer to take over your ACH authorization, it's risky to assume the handoff will be seamless. When you receive a transfer notice, read it carefully and **call both the old and new servicers** to confirm key details: your next payment due date, where it will draft from and whether your ACH setup transferred correctly. **Many investors have learned the hard way that data doesn't always migrate perfectly between systems, and one missed draft can trigger late fees or payment errors that take months to clear up**.

Don't just rely on automated emails or mailed notices. Ask for **written confirmation** that your ACH authorization is active with the new servicer, and **monitor your bank account to verify the first payment clears successfully after the transfer**. Keep all correspondence and receipts in your loan file, especially if the loan is new or has recently changed hands. Servicing errors aren't rare, and they're not always caught quickly. A short phone call and a few screenshots can save you from costly mistakes, unnecessary late marks, and hours of cleanup later.

Tactic 3: Keep Account Cushions: Better Safe Than Sorry; Keep Extra Funds in Account for PITIA Payments in case Tenants are Late

Many real estate investors rely on rental income to cover the payments for their DSCR Loans, but tenants don't always pay on the first of the month. Having a **cash buffer**, at least one full month's PITIA payment, sitting in your draft account ensures your automatic mortgage payments clear even if rent hits a few days late or an unexpected repair bill drains funds temporarily. Too many borrowers run their loan accounts razor-thin, assuming rent and ACH timing will always line up. When that assumption fails, NSF notices and reattempt fees follow. **A small cushion can prevent those fees, protect your payment history, and avoid a needless red flag on your next DSCR Loan application**.

Consider maintaining a dedicated "loan servicing account" just for DSCR Loan payments, funded once per month from your operating account. Keeping this account clean and predictable prevents rent and expense fluctuations from interfering with automated drafts. In short, think of your DSCR Loan payments like payroll, nonnegotiable and always covered first. A **small liquidity cushion** isn't just good practice; it's one of the simplest **risk-management habits that separates smooth-scaling investors from those constantly fighting fires at the end of every month**.

Conclusion: Avoiding DSCR Loan Obstacles Like A Pro

While every situation is unique, **the problems associated with DSCR Loans are fairly predictable, both in terms of how they appear, and how to best protect against them**. The **appraisal report** is the source of the most frequent hurdles, as **the first two obstacles** showed - a low appraised value or subject-to determination is the most common way DSCR Loans get thrown off track. The **third obstacle**, when a DSCR ratio dips below a key mark, **can also be sourced from an appraisal report**, i.e. a low 1007 market rent figure, but **also from other things** like insurance or property taxes coming in high.

Obstacle four covers how lack of preparation and understanding of the nuances of DSCR Loan **"rate locks" and how that works** can cause issues, but how a well-informed borrower can avoid these issues with proper prep.

The next obstacles, **five through eight**, cover other issues that frequently pop up related to **title insurance and vesting**, small issues that can become a big snag for DSCR Loans. A robust understanding of all the nuances and potential problems in terms of getting every last detail right when it comes to **who cleanly owns the property and who can legally sign the documents to finance them** is key for every DSCR Loan borrower looking to scale. While these seem like minor items, they certainly punch above their weight in throwing otherwise smoothly progressing DSCR deals off.

Obstacle **nine**, which covers "surprises at the closing table" is more of a catch-all, but underscores the importance of **asking questions and doing research** on everything as soon as possible, so things don't fall apart at the finish line. Finally, obstacle **ten** covers **servicing issues**, which while not an obstacle for actually closing a DSCR Loan, remains a huge hurdle for real estate investors to make the loan and investment worthwhile, and to **keep a clean record for future investments**.

This guide hopefully provides a **comprehensive roadmap** for understanding everything an investor could ever need to know about the world of DSCR Loans, and provides a handbook to successfully solve and overcome any problems that inevitably come their way. While **DSCR Loans** will likely continue to evolve and change over time, it's pretty clear they are here to stay, and are **the key financing tool for investors to**