AD Mortgage

NMLS# 958660

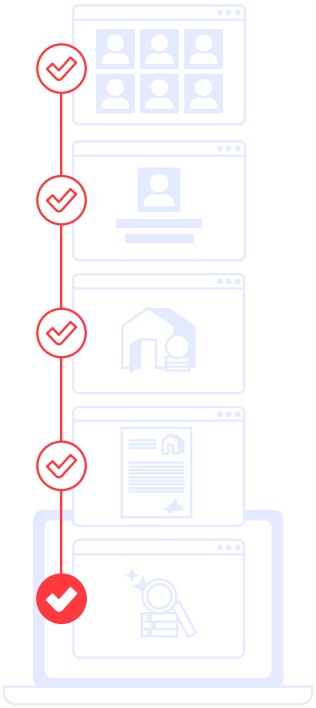
How to Pitch DSCR Second Mortgages to Real Estate Investors

Broker Guide to Close DSCR Second Liens Efficiently



Not legal advice. Licensing requirements and fees are subject to change.

How to Pitch a DSCR Second Mortgage to Your Borrower in Five Steps



Pitching a DSCR Second Mortgage to a real estate investor requires shifting the conversation from ‘getting a loan’ to ‘strategic capital allocation’. Investors do not just get mortgages; they buy leverage, speed, and yield.

To pitch this product effectively, you must position it as a ‘wealth-building tool’ that solves the specific pain points investors face in today's market (high rates, strict DTI limits, and trapped equity).

Here is a comprehensive sales strategy, including target clients, pitch angles, mathematical rebuttals, and compliance guardrails.

Important note: a DSCR Second Mortgage is a serious financial commitment – encourage your investors to weigh the risks carefully.

Table of Contents

Step 1. **Identify the Ideal Client (Who to Target)**

Step 2. **Check the Loan Purpose**

Step 3. **Choose the Right Sales Angles**

Step 4. **Break Down the ‘Blended Rate’ Math**

Step 5. **Handle the Prepayment Penalty Objection**

Bonus. **Tips for Your Marketing**

Step 1.

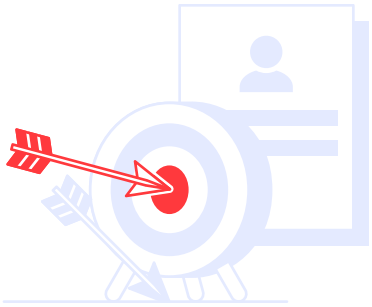
Identify the Ideal Client (Who to Target)

Don't waste time pitching this to traditional W-2 homebuyers. Target these specific investors instead:

The 'Rate-Locked' Investor: Bought or refinanced between 2020–2022 with a 1st mortgage rate between 2.5% and 4%. They have massive equity but refuse to do a full cash-out refinance because they don't want to trade their 3% rate for a 7.5% rate.

The 'Paper-Poor' Investor: High-net-worth individuals or self-employed flippers who write off all their income on their tax returns. They have great assets but terrible Debt-To-Income (DTI) ratios on paper, making them ineligible for traditional bank HELOCs or Home Equity Loans.

The 'BRRRR' Scaler: Investors doing the Buy, Rehab, Rent, Refinance, Repeat method who need fast bridge capital for the down payment on their next deal while waiting for seasoning on their current portfolio.



Step 2.

Check the Loan Purpose

Because this is a Non-QM / DSCR product, you must protect your license and your investor by strictly adhering to the 'Business Purpose' rule found in the guidelines.

Rule: Cash-out proceeds on an investment property must be used ONLY for a business purpose.

How to Sell It Correctly

Ask the investor: 'What is the capital for?'

- ✓ **Valid answers:** 'Downpayment on my next rental', 'Renovating the kitchen on this flip', 'Paying off hard money lenders on another project', etc.
- ✗ **Invalid answers (DO NOT CLOSE THE LOAN):** 'Paying off my personal credit cards', 'Buying a boat', 'Paying for my kid's college tuition', 'Paying off IRS personal tax debt', etc.



Step 3.

Choose the Right Sales Angles

Angle A: Rate Retention (The Strongest Hook)
The Pitch: 'Mr. Investor, you are sitting on $150k of trapped equity, but your first mortgage is locked in at 3.5%. If you do a traditional cash-out refi today, you are resetting your entire balance at 7.5%. Let's keep your cheap first mortgage exactly where it is and just grab a second lien to fund your next deal'.

Angle B: No Tax Returns / No DTI
The Pitch: 'I know your CPA does a great job minimizing your taxable income, but that can make it harder to qualify for traditional financing. For this DSCR second lien, the underwriter doesn't even look at your personal tax returns, W-2s, or DTI. The property's rent pays for the loan. If the property cash-flows, the chance is higher that you'll get approved'.

Step 4.

Break Down the 'Blended Rate' Math

The #1 objection you will hear is: 'Your second mortgage rate is 11%? That's too expensive!'
You must teach the investor how to calculate the Blended Rate. Keep this exact math handy to show them why a DSCR second can be cheaper than a full cash-out refinance.

The Scenario:
Property Value: $500,000
Current first mortgage: $250,000 at 3.5% (annual interest: $8,750)
Cash needed: $100,000 for a new investment property down payment.

Option 1: Traditional Full Cash-Out Refinance

New Loan Amount: $350,000 at current market rate of 7.5%
New Annual Interest Cost: $26,250

Result: They lost their 3.5% rate and are paying interest on the whole $350k.

Option 2: DSCR Second Mortgage

First mortgage stays: $250,000 at 3.5% ($8,750/yr)

New second mortgage: $100,000 at 11.0% ($11,000/yr)

Total Annual Interest Cost: $19,750

Result: The investor saves $6,500 a year in interest by taking the 'expensive' 11% second mortgage.

Illustration only. Actual costs and savings will vary based on the loan terms and the borrower's circumstances. Consider all relevant factors when determining which option may be more beneficial.

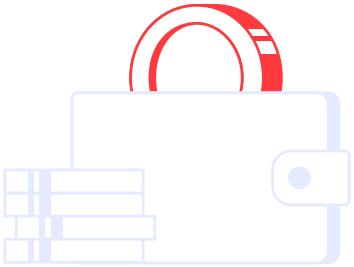
Step 5.

Handle the Prepayment Penalty Objection

The Pitch Framing:

Highlighting AD's '20% rule' can help address this concern. The rule allows investors to pay down up to 20% of the principal annually penalty-free.

If a full early payoff triggers a penalty, help the investor weigh that cost against the benefit of accessing fast, non-income-verified capital right now to secure the next deal.



Bonus:

Tips for Your Marketing



1 **Pull a List of Target Borrowers**
Pull a list of investors who bought properties in 2020-2021 with high LTVs that have since appreciated (lots of equity).

2 **Use Catchy Email Subject Lines**
You can try to use subjects like:

- 'Keep your 3% interest rate. Unlock your rental's equity without refinancing.'
- 'Access your rental's equity – your 3% first mortgage stays as it is.'
- 'Want to tap your rental's equity and keep your 3% interest rate?'

3 **Make the Right Offer**
Try offering a free 'Blended Rate Analysis' comparing a full cash-out refi vs. a DSCR second lien.

Become a partner