



What Every Investor Should Know About Financing Investment Properties

As lending guidelines continue to become more stringent, real estate investors continually face new challenges. It is now more important than ever to team up with a professional mortgage consultant that has an in depth understanding of lender guidelines and specializes in financing for investment properties. Rein Mortgage Company understands the intricacies of these guidelines as this is our primary business.

The lending world is much different than it was several months ago. Some of the most prevalent changes and guidelines that every investor should be aware of are:

1. Loan to Value Changes

Some lenders have recently reduced their maximum loan to value guidelines. Rein Mortgage Company can still offer up to 90% financing for stated income investors, however as market conditions continue to deteriorate; this could soon become a thing of the past. With today's favorable interest rates, we recommend not waiting any longer to take advantage of these programs.

2. Title Seasoning

There are two main issues when it comes to title seasoning. The first involves refinancing an existing property to appraised value. Most lenders require 12 months on title in order to refinance a property based on current appraised value, however, there are still some products available for non-seasoned refinances. Second, the length of time the seller has been on title needs to be taken into consideration when purchasing a new property. Lenders will typically require that the seller has been recorded on title for at least 90 days; however, no seasoning is still available on a limited basis.

3. Declining Markets

Foreclosures are one of the driving forces behind most declining markets. There is no standard industry definition of what constitutes a declining market, and is within the lender's discretion to determine if the appraisal accurately reflects the current market value. If the lender determines the property is located in a declining market they may reduce the maximum loan to value.

4. Appraisal Comparables

Many lenders are now requiring up to two closed sales within three months and one closed sale within six months. They may also require comparable pending sales validating the market is stable. Rein Mortgage Company will gather comparable data to support value prior to having you pay for an appraisal.

5. Stated Income

Lenders are becoming increasingly cautious regarding stated income borrowers. Many lenders want to see three to four times the monthly stated income in reserves. Although these are unwritten guidelines and typically only six months PITI is required, it is the underwriter's discretion. This is especially relevant when stating income as a full time real estate investor.

6. Holding Title in the Name of an LLC or Corporation

Although there are benefits to holding title in the name of an LLC or corporation, few lenders will allow it. Some lenders now require the property be held in an individual's name for a minimum of 90 days before it can be refinanced. This is something to be aware of when purchasing property in a company name with the intent of refinancing it immediately. You should always consult with a qualified attorney or CPA regarding holding real estate in an LLC or corporation.

7. Property Flipping

Purchasing an investment property under market value and immediately selling it to another investor for profit is considered flipping. Although this is a legitimate and legal strategy, it must be structured correctly for lenders to allow this. It is important for the end buyer to know how much the flipper purchased the property for, how long they have owned it, and what upgrades or rehab work was completed. These are all factors that will determine what loan programs, if any, are available.

8. Subject To Sales

A subject to sale refers to acquiring real estate while leaving the existing mortgage in place. The current owner deeds a property to a buyer, the buyer then takes over making the existing mortgage payments. The buyer owns the property and holds title, but ownership is "subject to" the existing lien(s).

Many investors intend to purchase a 'subject to' property and immediately refinance the existing lien(s) to lower the monthly payment or pull equity out. However, lenders require the investor make the existing mortgage payments for a minimum of 12 months (providing proof through cancelled checks) before they will allow a refinance.

9. Single Family vs. Multi Family

Although every type of property has its advantages, lenders have drastically changed their guidelines for 2-4 unit investment properties. Loan to value limits and credit score requirements have changed, especially for stated income borrowers. Investors should take into account their overall investment strategy, financing options, and available liquid assets when considering multi family properties.

10. Landlord Experience

An increasing number of lenders are requiring a minimum of 1-2 years landlord experience to qualify for some loan programs. Landlord experience (owning rental property) is commonly proven through mortgage history on a credit report, the schedule C and/or E of a tax return, or a letter from a licensed CPA.