

Financing Investment Property

The rules are different in the current environment

By Christopher Doyle

Everyone knows that home prices have dropped, inventory is way up, and sellers are willing to deal. The time may be right for purchasing additional investment property. But how are mortgage lenders who finance investment properties reacting to current market conditions?

Mortgage lenders continue to tighten their guidelines on transactions that are perceived to carry the most risk, and investment properties fall under the additional risk category. Many of the “lite doc” programs, such as no ratio and no documentation loans, have left the marketplace and are no longer available. There are some “stated income” programs still available, and they carry higher credit score and reserve requirements than they have in the past.

To qualify for the best programs available, the bank will want to see the applicant’s personal cash flow (i.e., the documented ability to repay the loan). Most programs require the equivalent of six months of payments in reserve; some require additional reserves. Maximum financing for Fannie Mae and Freddie Mac type loans in Maricopa and Pinal counties is 85%, due to the area being considered a “declining market.”

Down payment can still be a draw against a home equity line on another property or cash, but it must be documented. Single family homes and townhomes are still viable properties, but condos have become increasingly more difficult to find lenders to lend on and manufactured homes are even more difficult to place.

Rates on investment property are still low by historical standards. Both Fannie Mae and Freddie Mac have rolled out “risk based” pricing, which means that a borrower’s credit score is now being used as one of the components in establishing an interest rate. Rate adjustments now exist for those buyers with credit scores less than 720 and less than a 40% down payment (this is also true of mortgages on primary residences).

Now may be a great time to jump in and purchase an additional property, with prices dropping substantially and existing homeowners being displaced. Those investors who are well qualified will still be able to purchase and obtain excellent terms. Those more marginal investors may find the mortgage process a little more difficult to navigate than they have in the past.

Programs and products change quickly in our current market. If you have specific questions please call me to discuss.

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