BLACKACRE
PROPERTIES LLC

MEMO

To: **Client**

From: **Gregory V. Kanarian, Principal/Broker**

Date: **May 2020**

Re: **Buying a non-owner occupied condo for investment**

Mortgage Details:

- Non-owner occupied properties have different terms than traditional owner-occupied homes
- Generally, a larger down payment is required; interest rates are higher; the amortization period is shorter; and the rate is variable
- Bank will require 6 months of PITI in reserves (principal, interest, taxes, and insurance)
  - This doesn't have to be cash in a bank account, a 401(k) balance is often acceptable
- Typical loan:
  - 20% or 25% down
  - 25 or 30 year amortization period
  - Rate variable after 5 years
  - Rates 0.5% to 1.0% higher than owner-occupied mortgage
- Bank will reduce rental income by 25% for vacancies and collection loss, cleaning and maintenance, management fees, repairs, and capex
- Bank will require debt-to-income ratio below 45%
  - Debt is your monthly debt obligation
  - Income is salary and commissions and bonus
  - The bank will run a pro forma on the new property and if it produces positive net rental income they'll add to your income and if not, they'll increase your debt obligation by the shortfall
  - In Massachusetts, most properties will increase your debt obligation because they won't produce net rental income after the 25% haircut and PITI
- Bank will require debt service coverage ratio of 1.2x of higher for the subject property
  - (Rent – expenses) / (principal + interest)

Financing Considerations:

- Federally-backed mortgages for non-owner occupied properties require at least 50% of units be owner-occupied

    - How many units are not used as the owner's primary residence? The Boston assessor's department makes this information available publically
    - If this purchase results in more than 50% of the units being owned by investors, it would mean the condo is "non-warrantable"
- A non-warrantable property would make it difficult to get a mortgage and potentially sell any of the units in the future because the mortgage doesn't fit the typical Freddie/Fannie guidelines (about 70% of all mortgages)
- Local banks and credit unions who are "portfolio lenders" would be more likely to finance a purchase for a non-warrantable condo but it may not be easy

Next steps:

- Check your condo documents for restrictions on non-owner occupied units
- Call a bank or two and inquire about mortgages for investment properties
- They might say they don't do them in which case as for a commercial mortgage lender
- Ask about their terms – loan-to-value (i.e. how much you have to put down), term (i.e. fixed or variable), amortization period (i.e. 25 or 30 yeasr), DTI ratio, and DSCR
- Ask about how they treat rental income if you're a new landlord
    - Banks don't like lending to first time landlords and want to see at least 2 years of rental income on you tax returns
    - Because of this, going to a local bank where you have an existing relationship can be helpful
- Don't worry about the interest rate for now…better terms usually overpower better rates and rates are usually comparable among banks