Want an Investment Property? It Will Cost You

credit.com By Scott Sheldon | Credit.com – Wed, Jul 3, 2013 8:00 AM EDT

Own an investment property? Thinking about buying a property for income producing purposes? It's going to cost you. For years, Fannie Mae and Freddie Mac have charged premiums for individuals purchasing property for the purposes of generating income, higher than for primary residence homes, and rightfully so — the higher the risk, the higher the cost. Conversely, the opposite holds true — the lower the risk, the lower the cost. In mortgage financing, perception creates reality in the eyes of the bondholders who hold the securities tied to homes not occupied by the owners of record.

A mortgage banking institution looks at an investment property this way: "In a foreclosure situation, which property will the owner more than likely give up — the primary home or the investment property?" This sole reason is why investment property financing costs more.

An investor purchases an income-producing property as an investment. Investors understand there is always some degree of risk associated with an opportunity. Because the emotional concerns are not as prevalent as they are when buying a primary home, the transaction becomes more of a numbers decision. With the higher risk of an investor walking away, non-owner-occupied loans cost more.

Investment Property Mortgage Rates

While it varies based on market fluctuation, you can generally expect investment property financing to be at least 0.5% higher in rate when compared to primary home financing.

In mortgage finance, pricing adjusters are added to a loan, which can change the structure, and/or costs associated with taking out the mortgage.

Typical loan pricing factors:

- occupancy, i.e. investment property
- credit score
- loan-to-value ratio of the property
- loan program
- property type; single-family residence, multi family, etc.

The biggest pricing adjuster is occupancy, with an adjustment of 1.75% of the loan amount. In other words, a lender prices a mortgage by raising or lowering the interest rate based on any applicable adjusters like loan-to-value and credit score in addition to property occupancy. Let's say, for example, that you're looking for the lowest possible rate on an investment property loan, paying discount points. Assuming you had excellent credit and extremely low loan-to-value — such as a loan of 60% of the property value or lower — you'd pay 1.75% of the loan amount in the form of discount points to secure the lowest possible interest rate. Want to avoid the premium? Take a higher interest rate and the lender can absorb this percentage by raising your interest rate upwards of 0.5%.

What You Need to Qualify for Investment Property Loans

Mortgage financing for income property is certainly tighter than primary residence home financing. The financial markets want to promote homeownership and have a larger appetite in originating primary residence loans then income property

The Essentials

- Consumers financing investment properties typically have excellent credit — at least 740 or above.
- Fair market rents can be used to offset the housing payment: On a **purchase**, 75% of gross rents can be used to offset housing payment liability. On a **refinance**, if the property has been rented for the past 12 months, 75% of gross rents charged can be used to offset the house payment.
- Gift money cannot be used to acquire an income property, but cosigners, *aka* multiple investors, can all apply for the mortgage at the same time.
- 80% financing for single-family residences/ condos/ planned unit developments.
- 75% financing for multi-family properties.
- No loan-to-value restriction on HARP 2 fefinances.

Final Tip: Two credit characteristics carry the most weight of reducing cost than any other facet: An excellent credit score combined with a very low loan-to-value can help offset the inherent higher cost of financing an income property.

More from Credit.com

- The First Thing to Do Before Buying a Home
- How Fast Can You Buy a Home?
- Can I Get a Mortgage After Credit Problems?

1. 3.25% No Closing Refi
GreenlightLoans.com
Call Now Before Rates Increase. 3.25APR, 10 Yr Fixed, No Closing!
2. Download State Tax Rates
TaxRates.com
Get free sales tax rate tables for each state. Free to download.
3. 2.7% HARP Refinance Loan
HARP-Loan.FreeRateUpdate.com
No Appraisal, No MAX LTV, 3.1 APR*. 1 Bank, Low HARP Rate, Get a Quote.

Ads