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1-4 Family Investment Property Loans

Investment property loans have similar application and approval processes as a retail residential mortgage, but rates may fluctuate depending on the product you choose. When financing an investment property, banks require a higher percentage for downpayment, typically 20% - 25%.

There are several reasons a borrower might be looking to finance an investment property. The bottom line of whether it can be financed as a commercial portfolio loan, is that the purpose for the loan is business related. The qualifying borrower does not need to be an entity itself, but again, the purpose of the loan must be business related.

While typical downpayments or loans range between 20% - 25% of purchase price or value, terms can vary based on several factors such as the property type, condition, repayment capacity, the borrower's or guarantor's credit history, repayment history and current debts.

Among loan terms are fees. Standard fees a lender would collect are for origination, appraisal, flood certification, credit report and recording. Depending on the loan's purpose or conditions, there may be other fees associated with the closing.

Much like the terms above, structure can vary on 1-4 family investment loans. When loans are financed as a commercial portfolio loan within the bank, rather than in the secondary market, the structure is typically set up as a balloon loan versus fully amortizing.

How Does a Commercial Balloon Loan Work?

Loans with a balloon feature are not fully amortized. The monthly payments are calculated based on a longer period than the balloon maturity, typically 15, 20, 25 or 30 years in real estate. That is the amortization period, while the balloon period is typically much shorter, such as 3 – 5 years.

In many instances, the lender will make the original mortgage loan eligible for renewal at a renegotiated interest rate for additional balloon period, remaining on the same amortization period, provided the borrower has met certain conditions, such as the loan is not in default and the borrower has been compliant with loan terms and any covenants. At the time of renewal updated financials are to be provided by the borrower and guarantor(s) to the bank to determine their eligibility for renewal.

A financial institution may add a pre-payment penalty as a term of the loan. These are not unusual and vary by institution.

Because of the increased risk associated with investment real estate, escrow is usually required on these types of loan. The borrower will be required to establish escrow at origination, and continue to fund the escrow through monthly payments, in addition to the regular monthly principal and interest payments. The financial institution will make the applicable distributions on the borrower's behalf, which are usually for county property tax installments and hazard insurance premiums.

Similar financing options are also available for other real estate types. To ensure your client is qualified and the property is acceptable to the financial institution, checking with a local lender is recommended best practice.

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