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1-4 Family Investment Property Loans & Lines of Credit

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.

Investment Property Mortgages

When financing an investment property, banks typically require 20% - 25% downpayment.

Maximum 1st mortgage loan can be amortized up to 30 years in most instances.

The maximum loan-to-value on a first mortgage is typically 75% - 80% of the appraised value of the property. Mortgage refinance for “cash out” purposes are normally reviewed on a case-by-case basis regarding loan-to-value,

Commercial investment property loans often employ the debt-service coverage ratio (DSCR) to determine eligibility. The DSCR measures a borrower’s available cash flow to pay current debt obligations. The DSCR shows lenders and investors whether a borrower’s property generates enough income to pay its debts. Some financial institutions will also consider the borrowers other sources of revenue, if applicable, as acceptable when measuring debt service coverage.

Investment property commercial loans typically include a balloon feature term between 3-10 years. The monthly payments are calculated based on a longer period than the balloon maturity, usually 15, 20, 25, or 30 years in real estate. That is the amortization period while the balloon period is typically much shorter, such as 3-10 years.

In many instances, the lender will make the original mortgage loan eligible for renewal at a renegotiated interest rate for an additional balloon period, remaining on the same amortization period, provided the borrower has met certain conditions, such as the loan in not in default and the borrower has been compliant with the loan terms and any covenants.

Investment Property Line of Credit

Property repairs, maintenance, unexpected emergencies, and future investment opportunities are some of the reasons that borrowers consider securing a line of credit.

In most instances, lines of credit are secured by investment property as collateral with the borrower holding an additional first mortgage on the property. Here the financial institution would secure a second mortgage on the property.

Interest rates on these lines of credit are usually variable and tied to an interest rate index. Such as, the Wall Street Journal Prime Rate + or – basis points.

Terms are often available between 3 – 7 years.

Minimum monthly payments are interest only on the outstanding principal loan balance monthly with the entire outstanding loan balance (if any) to become due at maturity.

Maximum loan-to-value for these loans normally range from 50% - 75%

Other Items to Consider

When considering an investment property loan, it is good practice to research and compare fees in the following categories:

Origination fee	Appraisal Fee	3rd Party fees
Title Company Fees	Insurance Escrow	Property Tax Escrow
	Loan Pre-payment penalty	

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