5 MINUTE BREAKDOWN

TYPES OF LOANS FOR RENTAL PROPERTIES

FLIPNERD®

MASTER CLASS

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PURCHASE TRANSACTIONS

Most widely used and understood.

These loans are for the initial purchase of an investment property, and generally, the property doesn't need much in the way of repairs. Down payment and closing costs are required and are paid outside of the transaction. A seller can pay up to 2% of the buyer's closing costs (this is specifically for investment properties).

RATE AND TERM REFINANCING

Rate and Term Refinancing is the most common method of refinancing a property. The only areas that are affected are the interest rate and/or term length. This is beneficial if you have a high interest rate loan and want to lower the interest rate.

You're allowed a max of 2% cash back.

CASH OUT REFINANCING

Just like it sounds, you're getting cash out of your property. You're able to pull out equity from the property as long as your name has been on the title for at least 6 months. Your loan will be higher and you need to speak with a loan officer to weigh the pros and cons. Keep in mind that as an investor, Fannie Mae allows this on a max of 4 financed properties (6 financed properties for Freddie Mac).

DELAYED FINANCING

Sellers love Cash Buyers. You use cash for the purchase of the property, but turn around (within 6 months of closing the deal) and do a cash-out refinance. If you have cash available, your offers will generally be more appealing (over offers with traditional loans) and at times, you may get a better deal if the seller knows you're a cash buyer that can close quickly. Your cash is temporarily tied up but has its benefits. During the cash-out refinance, you can get the amount of the purchase price back and roll in closing costs into your loan, freeing up your capital to do more deals.

Note Freddie Mac uses the Purchase Price for the Loan-to-Value and Fannie Mae uses Appraised Value for the Loan-to-Value

BRIDGE FINANCING

Bridge financing is ideal for investors who find a property that needs repairs, where the seller is looking for a quick close. You're often able to purchase properties like this well below market value. Given the need for repairs, and your likely need to fund the repairs with your loan, you need a fast, investor friendly loan.

Commonly, hard money is used for this scenario.

Once you've stabilized the property (done all repairs, added a paying renter), you can refinance with more permanent and long term rental financing (such as above), as the Hard Money "Bridged" the gap.