

YOUR HOME LOAN ADVOCATE

FINANCING AN INVESTMENT PROPERTY

A practical guide to making the numbers - and the financing - work together.

THE ADVOCATE DIFFERENCE

The financing should support the investment strategy.

TOM ENGLISH

Your Home Loan Advocate | NMLS #210394

A Good Property Isn't Necessarily a Good Investment

The purchase price may look attractive. The rent may sound great. And the financing may be available.

But none of those things, by themselves, tell us whether the property makes sense for you.

When I'm helping someone finance an investment property, I'm looking beyond whether I can get the loan approved. I want to understand the property, the expected income, your cash investment, your financing options, your reserves and what you're trying to accomplish over the long term.

“Can I finance it?” is only the first question.

“Does this investment make sense?” is the better one.

— Tom English, Your Home Loan Advocate

1. Start With Your Investment Strategy

Before we talk about loan programs, let's talk about what you're trying to accomplish.

- Monthly cash flow

- Long-term appreciation
- Retirement income
- A property you may eventually move into
- A long-term rental
- A short-term or vacation rental
- Your first investment property
- Another property for an existing portfolio

Those goals matter because they can affect everything from the property you choose to the financing structure we consider.

START WITH STRATEGY

There isn't one "best" investment-property loan. The financing should support the investment strategy.

2. Run the Property Like a Business

It's easy to look at a potential rental and think:

Rent: \$2,800 • Mortgage: \$2,100 • Profit: \$700

Unfortunately, real estate usually isn't quite that simple. 😊

- Property taxes
- Homeowners insurance
- HOA or condominium fees
- Property management
- Repairs and maintenance
- Vacancy
- Lawn or pool care
- Utilities you may be responsible for
- Capital improvements
- Leasing expenses

If it's a short-term rental, there may be additional operating expenses as well.

REMEMBER

Gross rent isn't cash flow. I'd rather make conservative assumptions on the front end than discover later that the property doesn't perform the way you expected.

3. Your Financing Options May Be Broader Than You Think

Investment-property financing isn't one-size-fits-all.

Depending on your circumstances, we may consider traditional conventional financing or an investor-focused loan such as a DSCR loan.

There can also be different approaches depending on whether you're purchasing, refinancing, taking cash out, financing one property or building a larger portfolio.

MY JOB

It's not to steer you toward whichever loan is easiest to explain. It's to help you understand the choices and determine which structure makes the most sense for what you're trying to accomplish.

4. Conventional Investment Financing

For many investors, conventional financing can be an excellent option.

The lender generally looks at you as the borrower as well as the property. That can include:

- Income
- Employment
- Credit
- Assets
- Existing debts
- Other financed properties
- Reserves

The property's expected rental income may also be considered according to the applicable guidelines.

Conventional financing can be particularly attractive when you have strong qualifying income and want competitive long-term financing.

But it isn't always the best fit - especially when an investor has substantial assets or a strong property but traditional income documentation doesn't tell the whole story.

5. What Is a DSCR Loan?

DSCR stands for Debt Service Coverage Ratio. It sounds more complicated than it really is.

A DSCR loan is generally designed to focus more heavily on the income-producing ability of the property rather than qualifying primarily from your personal employment income.

“Does the property's rental income support the required housing payment?”

- Self-employed investors
- Investors with complicated tax returns
- Investors with multiple properties
- Borrowers whose taxable income doesn't fully reflect their financial strength
- Investors who prefer a property-focused qualification approach

DSCR loans have their own requirements, pricing, down-payment expectations and property rules. They're not automatically better than conventional financing. They're simply another tool.

ADVOCATE TIP

Don't choose DSCR because it sounds easier. Choose it when it makes sense.

6. Understanding the DSCR

At its simplest, a debt service coverage ratio compares qualifying rental income with the property's required monthly housing expense under the program.

For example:

$$\begin{aligned} &\text{Qualifying monthly rent: } \$3,000 \\ &\text{Qualifying monthly housing expense: } \$2,500 \\ &\text{DSCR} \approx 1.20 \end{aligned}$$

In simple terms, the property's qualifying rent is 120% of the applicable monthly housing obligation.

Different lenders and programs may calculate the ratio differently and have different minimum requirements. Some programs may also permit ratios below 1.00 under certain circumstances, usually with different pricing or other requirements.

USE THE ACTUAL PROGRAM

Don't shop for a property based on one universal DSCR rule. We'll run the actual numbers for the financing we're considering.

7. Down Payment Matters - But So Does What You Keep

Investment properties typically require more money down than a primary residence.

Putting more down can reduce the loan amount, lower the monthly payment, improve cash flow and potentially improve financing terms.

But every additional dollar you put into the property is a dollar you no longer have available for repairs, vacancy, improvements, another investment, emergencies or reserves.

Sometimes liquidity has value too.

The right down payment is the one that creates the appropriate balance between financing cost, cash flow, return and reserves.

8. Don't Forget About Reserves

If the air conditioner quits at your primary residence, that's inconvenient.

If it quits at a rental property in August while you have a tenant, it's still inconvenient - except now somebody is calling you about it. 😊

Investment property ownership comes with surprises. That's why I like investors to think beyond the money needed for the closing table.

- A major repair
- A vacancy
- An insurance deductible
- An unexpected assessment
- Several months without rent

Lenders may also have specific reserve requirements depending on the program and number of properties owned.

THINK BEYOND CLOSING

Getting into the investment matters. Staying financially comfortable after you own it matters too.

9. Your Rental Income May Not Be Treated Dollar-for-Dollar

This is important, particularly with traditional financing.

Just because a property rents for \$3,000 per month doesn't necessarily mean the lender will give you \$3,000 of qualifying income.

Guidelines may require adjustments for vacancy or operating considerations, and the documentation used can vary depending on whether the property is already rented or newly acquired.

- A lease
- Appraisal rent schedule
- Tax returns
- History of rental income
- Other supporting documentation

DSCR programs may use a different method.

KNOW THE DIFFERENCE

The rent you collect and the rent we can use for qualifying purposes aren't always the same number.

10. Property Taxes and Insurance Can Change the Deal

This is particularly important in Florida.

The seller's current property-tax bill may not reflect what you will pay after purchasing the property. Insurance can also vary substantially based on the home itself.

- Roof age
- Wind mitigation
- Flood zone
- Construction type
- Property location
- Prior claims
- Property use

That matters because taxes and insurance don't just affect your monthly payment. They affect your cash flow. For a DSCR loan, they can potentially affect the qualifying ratio as well.

USE REALISTIC NUMBERS

I'd rather estimate those costs realistically before you get emotionally attached to the investment.

11. Short-Term Rentals Require Another Layer of Analysis

A property that works as a traditional annual rental may look very different as a short-term rental.

- Local rules
- HOA or condominium restrictions
- Licensing
- Management costs
- Cleaning costs
- Utilities
- Furnishings
- Seasonal occupancy
- Financing restrictions

Projected Airbnb or vacation-rental income isn't necessarily the same income a lender will use for qualification.

MAKE THE PLANS AGREE

A beautiful projected-income spreadsheet doesn't help much if the financing program can't use those numbers. Let's make sure the investment plan and financing plan agree with each other.

12. Rate Is Important. Return Is More Important.

Investors naturally pay attention to mortgage rates. They should. Financing cost affects cash flow and return.

But I don't want an investor making a \$400,000 or \$500,000 decision based solely on whether one lender's rate is an eighth of a percent lower.

- Loan costs
- Down payment
- Monthly cash flow
- Expected return
- Reserves
- Prepayment provisions
- Holding period
- Exit strategy

Sometimes paying a little more for financing preserves cash that can be used more productively elsewhere. Sometimes putting more money down creates better cash flow and less risk.

THE BIGGER PICTURE

The lowest rate isn't automatically the best investment strategy.

13. Think About the Exit Before You Buy

You don't have to know exactly what you'll do with the property ten years from now. But it's worth thinking about.

- Hold it long term
- Sell if it appreciates
- Use it for retirement income
- Move into it eventually
- Exchange it for another property
- Refinance later
- Leave it to your family

Your likely holding period can influence how we think about financing today.

THINK AHEAD

Good financing should consider how you eventually plan to get out - not just how you get in.

14. Your First Investment Property Doesn't Need to Be Perfect

I've seen people spend so much time looking for the “perfect” investment that they never buy one.

I've also seen people get so excited about becoming an investor that they overlook obvious problems.

Neither extreme is particularly helpful.

You don't need a home run. You need a property whose numbers make sense, that fits your risk tolerance and financial goals, and that you can comfortably own.

KEEP IT SIMPLE

A boring investment that works is still a good investment. 😊

Your Investment Property Checklist

Before You Start Shopping

- ☐ Decide what I'm trying to accomplish with the investment
- ☐ Establish my comfortable purchase-price range
- ☐ Determine available cash for down payment and closing
- ☐ Decide how much liquidity I want to keep afterward
- ☐ Review conventional and DSCR financing options
- ☐ Understand reserve requirements
- ☐ Determine how rental income may be calculated
- ☐ Talk with Tom before assuming a property will qualify

When Evaluating a Property

- ☐ Estimate realistic market rent
- ☐ Estimate property taxes after purchase
- ☐ Obtain an insurance estimate
- ☐ Review HOA or condominium fees
- ☐ Check rental restrictions

- ☐ Estimate maintenance and repairs
- ☐ Allow for vacancy
- ☐ Consider property-management expenses
- ☐ Identify immediate improvements needed
- ☐ Calculate realistic monthly cash flow

Your Investment Property Checklist

Before Making an Offer

- ☐ Review the numbers with Tom
- ☐ Confirm financing strategy
- ☐ Confirm expected down payment
- ☐ Estimate cash to close
- ☐ Confirm expected monthly payment
- ☐ Review DSCR if applicable
- ☐ Make sure I understand the property's rental restrictions
- ☐ Keep adequate reserves after closing

Once Under Contract

- ☐ Send Tom the contract
- ☐ Complete the loan application
- ☐ Provide requested documentation
- ☐ Obtain insurance
- ☐ Complete appraisal and/or rental analysis as required
- ☐ Review the Loan Estimate
- ☐ Avoid unnecessary changes to credit or finances
- ☐ Prepare for closing
- ☐ Keep some money in the bank after I get the keys. 😊

My Investment Property Worksheet

Planning Item	My Information
Purchase price	\$ _____
Estimated down payment	\$ _____
Estimated loan amount	\$ _____
Estimated closing costs	\$ _____
Estimated cash to close	\$ _____
Cash reserves after closing	\$ _____
Expected monthly rent	\$ _____

Mortgage principal & interest	\$ _____
Property taxes	\$ _____
Insurance	\$ _____
HOA / condo / CDD	\$ _____
Property management	\$ _____
Maintenance allowance	\$ _____
Vacancy allowance	\$ _____
Other monthly expenses	\$ _____
Estimated monthly cash flow	\$ _____
Expected holding period	_____
Primary investment goal	_____

7 Questions to Ask Before Buying an Investment Property

1. What am I trying to accomplish with this property?
2. What is the realistic rent - not simply the advertised or hoped-for rent?
3. What will the property actually cost me each month?
4. Should I use conventional financing or consider a DSCR loan?
5. How much cash should I put down - and how much should I keep?
6. What happens to my numbers if the property is vacant or needs a major repair?
7. Does this investment still make sense using conservative assumptions?

One Last Thought

Real estate can be a very good way to build wealth over time. But simply owning a rental property doesn't make it a good investment.

The numbers have to work. The financing has to work. And most importantly, the investment has to work for you.

I don't need to convince you to buy an investment property. And I don't need to convince you to use one particular type of financing.

I'd rather look at the property with you, understand what you're trying to accomplish, compare the available financing and help you make an informed decision.

If the numbers work, great. If they don't, there will always be another property.

Sometimes walking away from a deal is a very good investment decision.

Thinking About Buying an Investment Property?

SCHEDULE A CONVERSATION

Choose a time that works for you. If you don't see a convenient time, just give me a call or send me a message.

If you already have a property in mind, send me the address, expected purchase price and estimated rent.

We'll start with the numbers and work backward from there.

START MY APPLICATION

Ready to move forward? You can start securely online from the Digital Office.

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To the Closing Table...and Beyond.