HELP I HAVE TOO MANY MORTGAGES!

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Real estate investors in the current real estate/mortgage market confront the challenge of maximum permissible mortgages in financing the growth of their investment portfolio. Let us examine the options for real estate investors from their first investment property to those who have in excess of ten mortgages, the loan options available, and other creative ways to keep on growing.

Having in excess of four mortgages limits or eliminates mortgage options for the real estate investor. Be aware that a first and second mortgage on the same property counts as two of the four mortgages permissible. For the first four mortgages all loan options for investment properties are available, including cash out assuming you have owned the property for 12 months or more. In general, for the best qualified buyer, the least they may be asked for is 20% down. Many **WILL NOT** meet the standards needed for 80% financing, but **WILL** qualify for 75% loan-to-value, so be prepared to function at that level on all deals. Anything better is a pleasant surprise. To qualify for 80% financing you need at least a 720 score, if not higher, and very strong reserves for Fannie Mae to approve the application. The biggest weakness for many investors when applying for a mortgage is failure to verify and emphasize **ALL** reserves accounts, including cash value life insurance and certain retirement accounts.

Mortgages five through ten still qualify for conventional financing, but at a limited number of lending institutions, and yes, the standards just got tougher. The credit scores move higher and verifiable liquid/semi-liquid reserves become mandatory at six months reserves for all mortgages. For instance, if you have five mortgages at $1,000 ("PITI") each, we would need to verify six months of $5,000, or $30,000 total to get an approval. Also, the mortgage product options for numbers 5-10 are limited to purchase loans or no cash out refinances only. Also, three and four family units are not allowed. There are several other "if then" details involving credit and income required to get mortgages five to ten.

Mortgage 11 on, what to do? First the options become very curtailed. There is hard money, figure 5-8 points, 50-60% loan to value, and 12 -18% interest on a three year interest only balloon. For that to work it must be a very strong deal.

Perhaps your local community banker who does not sell loans to Fannie Mae, Freddie Mac, or Ginnie Mae would do one or two for you. These are individual lending decisions made at the local ibank. Perhaps moving a depository account with some significant cash into their hands will help?

Still trying to grow? Think of split equity transactions, lease with options to buy, or land contracts. Also, if able, think of corporate borrowing in the name of a business entity that is not a sole proprietorship such as a Limited Liability Company, S-Corp, or partnership.

The reason that these methods do not count as "mortgaged properties" is that properties claimed for rental income held on land contract or lease option to buy are **NOT** mortgaged in the name of the borrower and are only counted for the income portion of the underwriting. Mortgages in the name of the business for property held and managed by the business meet the same test. They are not deemed mortgages in the PERSON'S name but instead are in the name of a business. Remember that under a lease option to buy or a land contract, you have effectively arranged for private financing, and in return control the usage of the real estate without taking titled ownership with the County Recorder's Office.

For the active investor, I encourage this mortgage arrangement. The best first mortgage you can find and the largest home equity line of credit (HELOC) you can arrange on your primary residence. However, the line of credit should be used as a "rainy day" funding source. **DO NOT USE THE HELOC TO PAY CASH** for a property unless you plan and want to hold that home for at least 12 months. The reason is the mortgage industry will only use the purchase price for establishing a lending value for the first 12 months of ownership. Keep in mind that you are using a consumer loan for business purposes. The high utilization rate on the HELOC could have a negative impact on your score.

If interested in cash flow, use mortgages 3 and 4, for three and four unit homes, maximizing your number of units under management and minimizing your cash investment.

Then mortgages 5 to 10 use the FNMA loans at 25% down on one and two family homes only.
Mortgage 11 forward, be very creative and look for new options that will permit you to control the real estate without having to take actual title and institutional debt.

If you have any questions about how to structure your next real estate secured financing, regardless of your number of mortgages, feel free to call me, **Graham Montigny CRMS, at 614-309-0427.**

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__ReCasa Financial Group, LLC__ specializes in providing loans to successful real estate investors for the purchase, refinance or rehab of one to four family, non-owner occupied residential properties. The rehab program offers 100% financing for the purchase, improvements and soft costs associated with rehab project. If you wish to learn more about ReCasa Financial Group and how they help investors please visit www.ReCasaFinancial.com or call 614-221-6770.