

Financing Income Properties **February 9, 2014**

Owning an income property has 4 benefits – Appreciation, Depreciation, Cash Flow and Equity Growth (see Anchorage Daily News 19th January, 2014 or request a copy from windsor@alaska.net).

The financing of such properties is completely different if you go over 4 family units. In other words, anything up to a fourplex is one thing, over 4 units and you are dealing with commercial financing.

Duplex to Fourplex: If you can owner-occupy your income property for at least 12 months, your options include V.A. and F.H.A., just like you might be buying a single family home.

If you have VA eligibility, you may purchase your income property with zero down. If you are FHA eligible, you may purchase the same property with 3.5% down.

A VA buyer must be able to show some kind of landlord experience (or put in place a written property management agreement with a professional). With FHA, there is no such requirement. However, in both cases, there are strict ‘reserve requirements’ to demonstrate that you won’t go broke as a landlord in the first few months. See any of the traditional home lenders for details.

If you are not VA or FHA eligible, you may purchase the property with a Conventional Fannie Mae or Freddie Mac product with 25% down – and it matters not a hoot whether you owner – occupy the property or not.

Your lender may also be able to use Alaska Housing (AHFC) and here, provided you owner-occupy, you will need 20% down, though you might be able to manage with 10% down if it is just a duplex.

Greater than Four Units: Now, depending on your personal banking, you can negotiate directly with your own chosen Bank. However, it is likely that you will be directed to either a Fannie Mae or Alaska Housing ‘Multi-Family’ loan product.

Over the years, I personally have abandoned the Fannie Mae approach because Alaska has its own, less complicated, fair and balanced offering through AHFC (Alaska Housing Finance Corporation).

In order to go this route, you need to find one of the few experienced loan originators specializing in Multi-Family financing. First National Bank Alaska (Mike Scott 907-777-5622) or Alaska USA (Paul Hansmeyer 907-261-3438) can both assist you here.

The AHFC loan will require that you have a down-payment of 20%. It is a carefully formulated program that requires a full assessment of income and expenses that will produce a cash flow providing a result that equals 1.25 times your monthly mortgage repayment.

Now, actually, this is one of the best aspects of the program. You cannot obtain the loan until it is proven that a positive cash flow can be produced. This protects you as an investor.

The corollary to this is that your purchase price must make sense to both the Appraiser and the Lender before a loan will be approved. Inexperienced licensees listing such properties do not always understand this critical piece of the puzzle. Persons selling income properties need to know at what price the multi-family property can sell for, as opposed to what the owner (or licensee) pulls out of the sky for a 'list price'.

Alaska housing will also insist that you set up a 'Replacement Reserve' account, with them as trustors, to cover serious future repairs. Borrowers whine about this one, with some justification, but it does provide another safety net for the investor. You may draw on that reserve escrow account, for example, when the roof needs replacing.

The AHFC program is rigorous indeed but, if you qualify, you can be confident that you have made a good investment - and that you did not pay too much for it. The only way sellers can obtain more for a property than the value calculated by the AHFC formula is to provide Owner Finance.

Dear Dave: We are new arrivals in Alaska and looking for a home. We have noticed that some houses have icicles hanging off the eaves. My wife and children think they look so pretty, but I am wondering why some houses have icicles and others do not?

Answer: Icicles form when snow melts along the roof edges on a structure. The question is - "What made the snow melt?" Icicles are a warning signal because often their appearance indicates heat loss from the property.

Icicles on the eaves of a house immediately suggest either poor insulation, or poor ventilation, in the roof. The only exception to this is when temperatures outside are fluctuating around 32 degrees Fahrenheit, in which case snow can melt naturally, particularly if the roof line concerned is oriented towards the sun. In Alaska, the preponderance of icicles can vary winter to winter depending on the weather, but icicles should always alert buyers to a potential roof problem.

An inspection of the attic by a qualified roofer, engineer or home inspector can quickly tell you if the house is adequately insulated to prevent heat loss. All homes release a certain amount of heat and that is why ventilation of the attic is also critical. The object is to keep that space cold, and flowing with exterior air from soffit, gable and ridge vents to prevent any heat, lost from the house itself, remaining in the attic and melting roof snow. Icicles are a pretty sight to see, but may signal serious problems.