Your REALTOR:

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Real Estate Update™

"An educated prospect makes our best client"

What Is House Hacking and How Does It Work?

With house hacking, you set yourself up to earn rental income by renting a portion of your main home. Typically, you'll rent out part of your house or a unit while you live in the other. You put your income towards your mortgage payments and other housing expenses. Even if you don't make a profit from your property every month, the benefit can come from the fact that you're reducing your expenses related to it. As an owner, you're also building equity while keeping a property.

Some of the ways you can house hack and develop a stream of income include:

• Buying a multifamily property. For example, you could buy a duplex or triplex. Then, you can live in one unit while renting out the others.

• If you don't have a multifamily property or can't find one to buy, you can also rent a room in your home as a short-term rental.

• If you own the house, getting roommates is a version of house hacking. You can not only get a monthly rent payment, but you might also be able to split other expenses, like utilities.

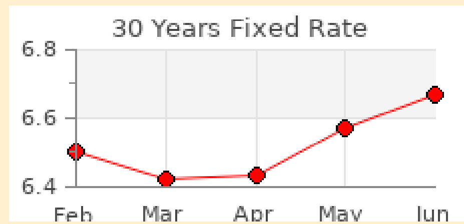
• You can add an accessory dwelling unit to your property or an ADU, also known as an in-law suite. You'll have a separate living unit that you can make available, in addition to a sleeping area.

• If you have a larger property, you can rent part of it for something less conventional, like letting someone park an RV on it.

Even if you're a first-time buyer, house hacking can be a viable option.

Mortgage Rates
U.S. averages as of July 2023:

30 yr. fixed: 6.67%
15 yr. fixed: 6.03%
5/1 yr. adj: 6.08%



How Does the Prime Rate Affect Homebuyers?

The prime rate is the mortgage rate that's the best possible rate that a lender will offer a borrower for any amount of money. That said, the prime rate is typically unavailable to the everyday buyer or consumer.

Usually, only corporations and institutions are actually eligible for the prime rate because they're seen as the lowest-risk clients for a financial lender.

While you might not get the prime rate, it's often described as an underlying index used to determine consumer rates and the costs of borrowing money through credit cards, mortgages, home equity loans, lines of credit, and more. If you apply for a financial product, the current prime rate will ultimately affect your rate. It's like a starting point for lenders to set their rates and decide on the profit margin they'd like to see.

Another relevant term here is the mortgage margin in real estate. It's the difference between the index, the prime rate in this situation, and the interest rate charged on a loan. The rates are noted as the annual percentage rate (APR).

What Happens After a Missed Mortgage Payment?

It's unlikely that you've intentionally come to a situation where you're missing a mortgage payment. You might have missed your due date accidentally, or you could be facing financial challenges. There can be serious consequences that come with a missed mortgage payment, though.

If you're just a few days late, you can still make the payment. After just a few days late, it’s unlikely that it will negatlively affect your credit score. Mortgage lenders usually have a 15-day grace period on late payments, but you might have to pay fees.

After you've gone past 30 days late, your lender will report the late or missed payment to credit bureaus. This is inevitably going to lead to a drop in your score.

After your payment is 90 days late, the lender is going to send a demand letter. This is a notice that your payments are late, and unless you make up for the missed ones and get current, the lender may start the proceedings for foreclosure.

If you don't notify your lender about your situation or talk to them about an arrangement before missing a payment, the situation can lead to foreclosure. The notice of default you might receive is considered the first stage of foreclosure, which doesn't mean the foreclosure is definite.

If you get a notice of default, even with three or more missed payments, you might still be able to fix the situation with your lender. It's usually once you've reached 120 days without a payment where a lender actually schedules a foreclosure sale.

Equal Housing Opportunity

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How Do Non-Owner-Occupied Mortgages Work?
By Ashley Sutphin

Non-occupied-owner mortgages are mortgages for investment properties, with different considerations from a loan used to buy your personal home. Getting a mortgage on a rental property is, in some ways, not that different from a primary residence mortgage, but the differences that do exist can be significant. These include higher interest rates, shorter loan terms, and larger required down payments.

A non-owner-occupied mortgage is also called an investment property mortgage or a rental mortgage. The mortgage is intended for residential properties with one to four units, and it's a specific loan product for borrowers not intending to live in a property. If you're a real estate investor not planning to use your property as a primary residence, you'll get a non-owner-occupied mortgage. If you're an investor who wants to buy a more expensive property, like an apartment building, this isn't the right type of mortgage in that scenario.

These loans have a higher interest rate than a traditional mortgage because lenders see an investor as having a higher risk of default. The lender sees it as a generally riskier type of financing to extend. Lenders might also want a larger down payment for this reason—it protects against the higher risk level of properties not occupied by the owner. Along with the higher interest rates, if you're applying for a rental property mortgage, you will see these loans have shorter terms. When you buy a home you plan to personally live in, you might have a 30-year term on your loan, and your terms with a non-owner-occupied mortgage will be much shorter. Your down payment requirement will usually be 20-30% as well. Most of these loans are adjustable-rate mortgages (ARMs), potentially costing you much more if interest rates increase.

A lender will require a higher credit score and expect that you have at least a 620 FICO score in most cases. Your lender will want you to prove that your debt-to-income ratio is manageable, and you'll need cash reserves that will cover vacancy rates or unexpected costs that might come up.

So what are the alternatives if you want to invest in real estate but don't like the idea of a non-owner-occupied mortgage? One option is to live in one of the units on the property you plan to buy. This makes it easy for you to maintain the property, plus you can pay off your mortgage faster on the home where you live if you use this strategy.

There are also FHA loans for investors considering buying owner-occupied multi-family homes with up to four units. If you meet the one-year owner-occupancy requirement from the FHA and this is the type of loan you have, you can then rent out your unit and move somewhere else. Additionally, you could lease your current main home or make it a second home and still be able to satisfy the occupancy rules set by the FHA.

By contrast, if you already have a demonstrated track record in real estate investing, another option is a Small Business Administration (SBA) loan. Loans are available for landlords who want to turn investing in real estate into a career. The SBA loan application focuses on your business plans and track record more so than your credit score and DTI ratio, but these factors are also considered.

Finally, if you have a rental investment property, you likely can't get a home equity loan or line of credit. These are only available to owner-occupied properties, but you can use your equity with a cash-out refinance on rental properties. Overall, a non-owner-occupied mortgage is for people who want to invest in real estate, but it comes with higher costs and less favorable terms because investors are seen as higher-risk borrowers.

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Why Does Marital Status Matter?
By David Reed

Seems like a funny question. Especially as it relates to getting approved for a home loan. Seems kinda personal, right? And it is. After all, shouldn't a lender care about my credit and if I have enough income to qualify? Certainly. And those are two of the most important factors lenders review. But your marital status does matter. Not whether or not you'll be approved, though. For other reasons.

Single: This means you're unmarried. Obvious, right? It also means that any items that appear on your credit report are yours and yours alone. Fairly cut and dried. Add up your income and add up all your credit obligations and there's your basic qualifying criteria.

Married: If you're married, lenders will add up your income and your spouse's income. In addition, all your monthly credit obligations and any joint accounts you might have are lumped together when calculating debt to income ratios. One note here though, most people have credit accounts before they tie the knot and own the account individually. In this instance, the cumulative totals in income and debt are essentially treated the same as being single. It might only matter when getting married.

Separated: Okay, now we're getting a little deeper. First, there are two types of separation a lender will consider. When two people decide to live apart and let things cool down a little before heading straight for divorce court, even with an agreement between the couple as to who is responsible for what debt, a lender wasn't a part of that agreement. If you both took on credit accounts jointly lenders will still hit up debt ratios regardless of any personal agreement.

The flip side is a formal separation agreement, one that is reviewed and approved by attorneys and a judge. Here, there is a legal document, approved by a judge, clearly stating who is responsible for various debts. Still, if one of the spouses pays more than 30 days past the due date, it could still be chalked up as a late payment on the other spouse's credit report, regardless of the formal agreement. In this instance, when someone is separated and applying for a mortgage individually, the formal agreement will likely need to be reviewed by the lender.

Finally, in the unfortunate instance of a divorce, the divorce decree will clearly state who is responsible for each individual credit account. Even in this instance where the decree clearly states that one party is responsible for a credit card account, some lenders want to see a timely payment history by that individual. Sometimes for as much as two years.

If you're wondering whether or not any of these situations, especially a separation or a divorce apply to you, it's time to pick up the phone and talk to your loan officer about the proper steps you'll want to take to avoid any speed bumps along the road to an approval.

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What to Know Before You Change Your Home's Layout
By Ashley Sutphin

When you're planning a home renovation project, there is one of two categories it's likely to fall into. The first is a simple cosmetic refresh. For example, maybe you're going to reface your cabinets and change out the light fixtures, but there's no major work to be done. Changing floors is another example of a cosmetic project. Then, there are those large-scale projects that involve taking out walls and changing the layout of your home. Big projects involving layout can be intimidating, so what should you know?

Is Reconfiguration the Right Choice?

Before you start hiring or knocking down walls, are you sure that reconfiguration is the right choice?

Think about what your current limitations are with your layout and think about if you're better off with an addition, a change in floorplan, or maybe both. As you're weighing the decision, don't start thinking about finishes and furniture just yet. Those are largely superficial elements of home design. You need to get the logistics right first, and then the other things come later.

Think about what challenges you currently face and the solutions most likely to address those.

Opening Up Your Floorplan

One of the primary reasons to change a home's layout is to open up the main living areas. For example, you might want an open-concept kitchen, living area, and dining area.

If you're going to open up a floorplan, you're likely going to be taking out at least one wall. If so, you should talk to an architect to figure out which walls are load-bearing and what you can do to make up for the loss of those. For example, you might use beams or pillars. Maybe you need both. You'll also probably need a permit if you're changing a load-bearing wall and plumbing or electrical work that might be required.

If you're planning to create an open floor plan, the cost is usually anywhere from $8 to $15 per square foot of affected space, and you might be able to get a return on your investment of anywhere from 54 to 60%.

What About Making Rooms from Open Spaces?

While most people prefer open concepts, some people want to go in the opposite direction. They want to create more enclosed rooms out of open spaces. For example, maybe you want to create a formal dining room. Adding a wall will also probably require you to get permits, especially if the changes will involve electrical work. You'll probably work with a contractor, but not necessarily an architect if you're adding rooms.

Creating a Master Bedroom

If you have a master bedroom now that's small and you want to expand into another bedroom, for example, you will again need an architect if you plan to take out walls. What a lot of homeowners will do is reduce the size of a connecting bedroom and then add a master bathroom suite and perhaps a large closet. In a project like this, a general contractor can be valuable because they can keep your workflows moving along efficiently, and they can manage subcontractors so you don't have to.

Adding a Bathroom

Finally, if you want to add a bathroom, you may choose to use space that's already connected to an existing bedroom. You might also turn a bedroom, back-to-back closets, storage area, or walk-in closet into a bathroom. As with the circumstances above, you will need full permits. You also will want to hire a general contractor. It will be more expensive, time-consuming, and generally a larger headache if you try to hire everyone on your own unless you already have people you know and trust such as a carpenter, electrician and plumber.

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Buying a Property with Tenants: What to Know
By Ashley Sutphin

When you decide to buy a home, it's not something you take lightly. There can also be numerous complications that arise as part of the process, especially if you buy a house that has tenants. If you're buying a house as an investor, choosing one that already has tenants can be a win-win or an ideal situation, but if you're planning to use the home as your residence, it's different and can be inconvenient at a minimum. Regardless of being in either situation, you should understand the implications for you as a buyer and potentially as a landlord.

If you buy a house, whether it's single or multi-family, and it has existing tenants, the rental income already being generated may help you get a loan if you're purchasing it as a rental. You're buying someone else's home at this point, so the tenant has all the rights they were granted as part of their lease. You agree to take on these obligations as their landlord, so you want to ensure you fully understand all state and local laws before you jump into this situation.

Tenants' rights can vary a lot between states, and there are some states where the laws favor the tenant, and others favor the landlord. Buying a house in a state that favors tenants is doable but something to be aware of. The most important individual thing you can research beforehand is the existing terms of the lease. The current owner and tenant more than likely signed a lease agreement, which at its core states the tenant can live there if they pay their rent.

You may be able to ask them to leave, dependent on your state and the terms of the agreement, but there’s also the potential that you can’t. If you become a landlord, a lease guarantees the tenant has the right to live in a safe and healthy environment. If you decide to take it on, you'll have to keep that up as the new owner of the property. Along with inheriting the lease terms, you'll also have to adhere to whatever the other landlord obligations are in your state, such as complying with building and health codes, ensuring the systems are functioning properly, and responding to repairs promptly.

As a buyer, one particular risk you could face with a tenant-occupied property is that it might not be up to code currently. You could be liable if the past owner didn't maintain the home properly. The pros of buying a property occupied by tenants, if you're going to be a landlord, include that you don't have to find them and you have a source of immediate rental income. The cons are the legal risks you're inheriting, the fact that you have to honor the lease terms, and the fact that it can be tricky to remove a tenant. Property rights attach to a property rather than an owner, so again, if you become the new homeowner, you still have to honor whatever the lease terms are.

If you're buying a house with tenants but hope to live there, you can't use that as your sole reason to remove them. You have to wait until the lease comes to an end, and from there, you have to ensure you're compliant with laws that require you to notify tenants you won't be renewing their lease. Eviction of a tenant is expensive and tough to do.

If you plan to buy a home to live there, it's almost always best to avoid choosing one with current tenants. The exception might be if you include terms in your purchase contract with the current owner that require them to end the lease before you close the sale. They'd have to have a lease allowing them to do so, or they'd have to incentivize the tenants to leave. Some states can use a move-in eviction, allowing property owners to retake possession of a tenant-occupied home if they're going to live there.

The best thing to do when you're buying a property or thinking about it, especially with tenants, is to research and understand your potential legal responsibilities and liabilities. Tenants can be valuable if you're buying a multi-family property or one you plan to rent. When buying a home you plan to live in, avoiding homes with tenants is optimal.

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