

A GREAT NEW SMALL RENTAL LOAN PROGRAM

The Cash Flow ARM

Several new loan programs are available for "residential" rental properties.

A "residential" property is one that does not exceed four units in size. Thus, a house, duplex, triplex or fourplex would qualify.

Basic Concept: The Cash Flow ARM

The lender makes a loan that has four repayment options. With each monthly payment, you get to select the payment option that makes the most sense to you.

Payment Option One: Make a monthly payment that would amortize the loan over 15 years. If you consistently select this payment option, you will own the property free and clear of debt in 15 years. Own enough of these rental properties free and clear, and you are the cash flow master of your own destiny! People will call you the real estate guru!

Payment Option Two: Make a monthly payment that would amortize the loan over 30 years. The size of the monthly payment will be less than that of a 15 year loan repayment term, but is still paying off the loan (if that is important to you).

Payment Option Three: Make a monthly payment that only pays the interest that has accrued since the last payment. This repayment option will result in an even smaller monthly payment than the 30 year loan repayment option. If you consistently use this payment option, you will still owe as much money as the day you put the loan on the property.

Payment Option Four: Make a monthly payment that only covers part of the lender's required yield. The remainder of the unpaid interest payment is added back to the loan balance. If you consistently use this payment option, the loan balance will increase with each passing month.

If the loan grows to 115% of its original amount, then the lender will require that the loan be re-amortized to avoid a potential financial catastrophe. However, it does allow you to own the property with the lowest possible monthly payment, and either the highest possible cash flow or lowest possible negative cash flow.

The Thought For The Day...

With Payment Option Four (the one that causes the loan to increase over time), what happens if the property increased in value by 15% and the loan balance increased 1% this year? I think you are the big winner in this game of equity growth!

This is a great option for those who are looking to buy fixer properties, and then hold them vacant while they are up-grading the property. You are a winning with this program!!

WHAT DOES THIS ALL MEAN?

1. Lower exposure to negative cash flow.

If you want to acquire a property using maximum leverage.... restated, if you wish to make your down payment buy as much property as possible, then this program may have high interest to you.

Buy a large property, but still have tolerable cash flows.

2. More property means more value appreciation.

Q: If property values increase at 10% to 15% or more per annum, then how much property would you like to own?

A: As much as possible.... if I can control my exposure to negative cash flow.

ARE THERE RISKS IN USING THIS PROGRAM?

ABSOLUTELY!

If you select the lowest allowed monthly payment plan, then you are trading off cash flow against equity growth.

This may not be a big deal if you only plan to own the property to capture its high rate of value growth. However, what if the value appreciation rate in your area starts to flatten or even fall?

You can find that an increasing loan balance is gobbling up your invested equity.

But, as you see this start to happen, you can still either refinance into a more conventional program, or even sell the property to someone else. Market changes do not have to produce a terminal result. Just keep your head down and your eyes open as you go.

THINK THIS MAY FIT YOU?

If this loan program has intrigue for you, then contact Rene' Nelson with Western Mortgage Brokers at (541) 341-1400.

Rene' is Bob Nelson's wife, and an extremely competent mortgage broker with more than a dozen years of small rental property experience.

Rene' can walk your through a specific application, and get you pre-approved for the loan program.

It pays to deal with the best... those who understand all available options.