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## **Top 3 Bailout Strategies for Real Estate Investors**

Ann Arbor, MI June 2, 2009 – Real estate investors and vacation home buyers represented 35-40% of all residential property purchases in the years before the market downturn. Yet, many of these same investors are now experiencing serious negative equity and cash flow issues, and they are wondering if and when they will start seeing some relief. “Although the economic stimulus and housing rescue plans have not been specifically targeted at investors, there are three strategies that can be built around all these new laws that benefit real estate investors,” said Gibran Nicholas, Chairman of the CMPS Institute, an organization that certifies mortgage bankers and brokers.

### **Strategy #1 – Reverse Mortgage for Purchase Transactions**

“Until the end of 2009, an investor who is age 62 or older can purchase a 1-4 unit property worth up to \$625,500 with a 30% - 35% down payment, live in one of the units, generate income by renting out the other units, and never have to make a mortgage payment for the rest of their entire life,” Nicholas said. “This opens up a lot of options for seniors and investors who are wondering how to supplement their retirement income now that their house values and retirement accounts have taken such a huge hit.”

The reverse mortgage for home purchase transactions became available on January 1, 2009, and the higher loan limit of \$625,500 became available a few months ago as part of the 2009 economic stimulus plan. Investors who are trying to sell their duplexes, triplexes, or four-unit properties can utilize this strategy in their marketing as a way of stimulating potential buyers. “This strategy has been lost in all the noise of the last few months and very few people are aware that it can be done,” Nicholas said. “The \$625,500 higher loan limit really opens up a lot of options, but it expires at the end of the year so you need to take action now.”

### **Strategy #2 – First Time Home Buyer Tax Credit**

“The \$8,000 first time home buyer tax credit can also be utilized on 1-4 family properties,” Nicholas said. “The greatest thing is that not all buyers need to be first time home buyers. This means that an individual who qualifies for the credit can get their parents to co-sign on the loan and/or contribute to the down payment, and this would not disqualify the individual from taking the credit. A group of friends, relatives or investors could get together and buy a duplex, triplex, or four-unit property, and the credit can be claimed by any one or more of the investors as long as the individual(s) claiming the credit live in one of the units as their primary home for at least three years. They could claim the credit even though they are generating income by renting out one or more of the other units.”

The maximum FHA loan-limit on four-unit properties ranges from \$521,250 in low cost housing markets up to \$1,403,400 in the highest cost markets of the country. An investor who is trying to sell their 1-4 family unit property can also utilize this strategy to stimulate potential buyers. "This strategy just became a whole lot easier now that the FHA is allowing the credit to be utilized as part of the buyer's down payment," Nicholas said. "As of May 29, buyers are now allowed to borrow against the credit or sell it to their lender or another 3<sup>rd</sup> party as way of helping with their down payment."

### **Strategy #3 – Rent-to-Own or Sale-Leaseback Opportunities**

"There are a large number of distressed home owners who will not qualify for the mortgage modification plans announced by the government," Nicholas said. "These home owners still need a place to live, and many will not be able to qualify for conventional or government mortgage financing for at least another 3-5 years."

A rent-to-own strategy is where an investor or Realtor takes a potential home buyer house shopping even though the buyer can't qualify for traditional financing. The investor buys the house, rents it to the tenant who picked out the house and wants to live there, and gives the tenant the right to buy the home at a pre-determined price at some point in the future. A sale-leaseback strategy is where a home owner sells their current property to an investor and then pays the investor rent, with the option to buy back the home at a pre-determined price at some point in the future.

"While most real estate investors are scrambling to find tenants for their vacant properties, savvy investors could utilize either a rent-to-own or a sale-leaseback strategy to find tenants before they commit their investment dollars to a specific property," Nicholas said. "This is a fantastic opportunity for investors to work with the large population of people who won't qualify for the government foreclosure prevention plans."

Even so, there are a few potential landmines to avoid. "If the tenant defaults on their rent or walks away from the deal, the investor could be left holding the bag," Nicholas said. "Also, if the investor defaults on the mortgage and goes into foreclosure, the tenant may be evicted by the new owner," said Nicholas. The new federal housing law provides two minimum guidelines that protect tenants in these and other situations:

- Tenants are now allowed to occupy the property until the end of their lease term (even after the landlord goes through foreclosure) as long as the new buyer does not intend to occupy the new home as their own primary residence.
- If the new buyer intends to occupy the home as their own primary residence, the tenant must be given a 90 day notice before being forced to leave.

It is more important than ever before for investors, home owners and buyers to work with a Certified Mortgage Planning Specialist, especially with all the rapid changes that are constantly taking place in the mortgage and housing markets.

**About CMPS Institute:** CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors regardless of the diversity of specializations within the industry. Over 5,500 financial professionals have gone through the program since its launch in 2005. For more information or to find a certified professional near you, please visit [www.CMPSInstitute.org](http://www.CMPSInstitute.org) or call 888.608.9800.

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