

FINANCING YOUR PARKED RESIDENTIAL REPLACEMENT PROPERTY: 3 SCENARIOS

PERMANENT FINANCING APPROACH

USE A REVERSE-EXCHANGE ADAPTED MORTGAGE THAT CAN BE PAID DOWN BY THE EXCHANGE, WITHOUT PENALTY, AND WILL AUTOMATICALLY ADJUST THE MONTHLY PAYMENTS.

- Ideal when there is insufficient equity in the relinquished property(s) to retire the purchase mortgage on the replacement property. Use this if there is expected to be residual debt on the replacement property at the close of the exchange.
- Loan to value of 80% or more is available for the transaction. Also, 100% is often available by pledging owner equity in the relinquished or another property as collateral, instead of taking out an equity line of credit (ELOC). This is fast, usually only requiring an appraisal of the relinquished property's value, and it won't add another loan to your credit report.
- The mortgage is written with the LLC or Special Purpose Entity (SPE) holding title to the replacement property, and will remain in place after the exchanger becomes the owner of the LLC/SPE. This eliminates the need to refinance the property after the exchange, by keeping your investment property titled under your LLC or Special Purpose Entity.
- If the relinquished property does not sell in time, your replacement property already has a fixed rate, interest-only permanent mortgage in place.

SHORT-TERM-HOLD APPROACH

USE EQUITY LINE(S) OF CREDIT TO TOTALLY FUND THE PURCHASE.

- Ideal for an even exchange or when permanent financing on the replacement property is not necessary. An ELOC is tied to the Prime Rate, which is higher than mortgage rates. It is also the fast alternative if the time before settlement is short.
- Remember that a second mortgage precludes the creation of an ELOC on a property.
- The Exchanger has adequate owner equity in their primary residence and/or other properties to allow the exchanger to pay cash for the replacement property.
- This approach provides an efficient short-term financing vehicle for EAT acquisition of the replacement property. Check with your exchange specialist and tax advisor for specific guidance before obtaining an ELOC on your relinquished property.

MATCHING-THE-EQUITY APPROACH

USE A COMBINATION OF AN EQUITY LINE AND A PERMANENT MORTGAGE.

- Consistent to all lenders is the desire to keep the loan to value (LTV) ratio at 80% or less. Providing the 20% down payment from personal sources or via an equity line on another property will generally allow the lender to offer their best rates, and can lead to a faster approval and settlement.
- This is particularly effective when you have a good idea of the owner equity you will clear upon the sale of your Relinquished Property, and that amount equals or exceeds the desired 20% down payment. Check with your tax advisor first if you are considering an ELOC against your Relinquished property.
- If there will be any improvements made to your Replacement property during the 180 day exchange, a sufficiently sized equity line of credit can offer tremendous flexibility.

COMPLIMENTS OF REVERSE 1031 FINANCING SOLUTIONS (RFS)

- Frank Haentschke, President of RFS provides nationwide coverage for the benefit of clients of professional 1031 Exchange Accommodators who wish to finance the purchase of their replacement property inside of a Reverse Exchange. RFS maintains working relationships with a proprietary selection of mortgage lenders who are comfortable with, and regularly finance, residential and commercial properties in Safe-Harbor Reverse 1031 Exchanges and certain Non-Safe Harbor Improvement Exchanges.

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