Occupancy

Whether or not and how you intend to occupy the property you are buying is an important part of your loan application. Your planned occupancy affects amount you are required to put down, interest rate, loan costs and even the availability of certain loan programs. Lenders recognize three types of occupancy:

Primary Residence

If you intend to live in the property, as your primary residence, it is (you guessed it) a primary residence. Amongst ourselves, lenders will often call this "owner-occupied" or "o/occ" for short. If you own more than one residence (lucky you!), your primary residence is the one in which you sleep at least six months and a day of the year. And your primary residence needs to be within reasonable commuting distance of your work or we'll have some explaining to do. You will get the lowest rates, costs and most flexible loan terms on your primary residence. At closing, you will sign a statement of occupancy — that you intend to move in within 60 days and occupy the property for at least a year.

Secondary Residence

If you intend to use a property exclusively for personal use but will not be sleeping in it at least six months of the year, it is a secondary residence (even if you rent your primary residence). Secondary residences cannot be a source of rental income. Most second homes are vacation property in a resort area, but so many other examples abound. I've had out-of-state clients buy a future retirement home, grandparents buy a condo near their grandkids, and more. Your plans just must make sense to the underwriter. Only a single-family dwelling, condo or townhome is eligible for second home financing. Although your down payment may need to be a bit larger, rates and loan costs are similar between primary and secondary residence loans.

Investment Property

If you intend to rent out the property you are buying, it is an investment property. This could be as a long-term rental or a vacation rental. Lenders refer to a loan on an investment property as being "non-owner-occupied" or "no/occ". Projected rental income, as determined by the appraiser, can usually (but not always) be used to offset the loan payment when calculating debt-to-income ratios. No statement of occupancy is required at closing. Down payments, rates and loan costs are higher on investment property purchases.

Special Cases

Cosigners: Many (but not all) loans permit an owner-occupied buyer to have a non-occupying cosigner. A cosigner can be used to give a buyer who wouldn't qualify on his or her own a leg up in the loan process, most often by adding additional income and improving debt-to-income ratios. After closing, all loan activity will show up on the cosigner's credit report and the cosigner is

Julee Felsman • VP of Mortgage Lending
juleef@rate.com • (503) 799-3711
NMLS#120831
CA - CA-DBO120831 • OR - Licensed • WA - MLO-120831

fully liable for the lifetime of the loan (although a few loans do offer the option of a release of liability through an assumption of mortgage). Loan guidelines vary, but fairly universally a cosigner must be a family member by blood, marriage or adoption. On the purchase of a 2-4 unit property, adding a cosigner requires underwriting the loan as an investment property. If you have the possibility of a cosigner, let us know and we'll guide you through the rules for your loan.

Family Opportunity: Fannie Mae offers an expanded definition of "primary residence" for buyers who purchase a property to be used as a primary residence for a parent or child. This program allows owner-occupied loan terms—lower down payments, rates and costs—under certain circumstances:

- A parent buying a one-unit residence in which a college-bound son or daughter will reside.
- An adult child buying a primary residence for an elderly parent without sufficient income or other financial resources to purchase a home on their own.
- A parent purchasing a primary residence for a disabled son or daughter who is unable to work or has insufficient income or funds to qualify for a loan.

A property being purchased under the Family Opportunity program must be a single-family residence, townhouse or condo, not a plex.

Julee Felsman • VP of Mortgage Lending
juleef@rate.com • (503) 799-3711
NMLS#120831
CA - CA-DBO120831 • OR - Licensed • WA - MLO-120831