

The AZREIA Advantage

Arizona Real Estate Investors Association Newsletter

"AZ Real as it Gets"

November 2019

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Investors Association**

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Follow the Money...

... in Residential Assisted Living & Typical Renovations

by *Gene Guarino*

How much can I make? That is a common question I get when people come to the Academy to learn about Residential Assisted Living. There are two directions that you can go.

- 1 Own the Real Estate and rent it to an operator
- 2 Own the Real Estate AND operate the Residential Assisted Living business as well.

If you own the home and lease it to an operator, you can get up to twice the fair market rent. As a real estate investor, that's going to change your positive cash flow from a few hundred dollars to potentially a few thousand dollars a month. Significantly better. In addition, your tenant will want a longer lease. 3, 5 or even 10 years.

They will not want to lose their lease. Typically, they will also be a lower impact tenant that will take care of the property better than the average tenant. They are generating income and they will want the home to be kept up and well maintained to generate that income.

You may be asking, why would someone be willing to pay you up to twice the fair market rent for your home? Simply put, they will be making a huge profit, so it works for them. Location is the key. If you have the right location and the home is the "right" home for operating this business, then it is a win-win situation. Many people can't or choose not to buy the location they operate their business in. Not everyone is a savvy real estate investor like you.

Zoning is one of the first considerations. Many people are surprised when they discover that this can be done in a residential neighborhood even with an HOA. Knowing the best locations and then knowing the terms and the questions to ask are critical. Without that knowledge you will most likely make costly

mistakes and get a simple response of "you can't do that" from the town or city that your property is in. Knowledge is power.

The amount of rent you charge will depend on many factors including: what improvements are you willing to do, what are you willing to allow the tenant to do, length of the lease, rent concessions etc. How much profit can the operator of the home make? The national average for a private room in an assisted living facility is \$3,750 per

month per person. If your home is licensed for 10 residents, that is \$37,500 in potential gross income. If the expenses and the debt service total \$27,500, which is conservatively high, you are still netting \$10,000 a month in profit. If you focus on a "nicer" home you can charge higher than average rent. The expenses are virtually the same with just the potential increase in the debt service. If your debt service increases by \$3,000 a month and you can generate an additional \$10,000 to \$20,000 a month, that's pretty simple math.

Typical Renovations for a Residential Assisted Living Home

The size of the home, the number of bedrooms and bathrooms and the layout are all major considerations when it comes to choosing a home for Residential Assisted Living. In general, bigger is better.

AZREIA's 17th Anniversary Meeting

November 11th – Phoenix

**Investor Social & Food Drive
Fun & Prizes**

**Market Update & Market News
Presentation: Massive Cash Flow from
Residential Assisted Living Homes**

**November 12th – Tucson
Structured Networking
Market Update**

**Presentation: Massive Cash Flow from
Residential Assisted Living Homes**

Continued on page 2

More bedrooms and bathrooms mean more revenue. Private rooms bring higher income than shared rooms. Private bathrooms can generate an additional \$500 to \$1,000 a month in additional revenue. Interior space can be reconfigured to create additional bedrooms. Adding bathrooms is significantly harder and more costly though. BUT adding bathrooms will create additional revenue that will typically pay for themselves in less than 1 year. Converting a large bathroom into 2 smaller ones is an alternative. Converting under-utilized rooms into bedrooms is typical as well. Consider converting garage space and porches into revenue generating bedrooms and bathrooms as well. Always use licensed contractors and get the proper permits when doing this type of work.

If required, you may need to install a fire suppression system in the home. This can cost \$10,000 to \$25,000 depending on many factors. Installing a smoke detection system that is monitored by an outside

service may be required as well. That is \$1,500 to \$3,000 to install and \$30-\$50 a month to monitor. If these types of improvements and costs "scare you" at this point, I understand but you have to look at the cost to benefit ratio. If you invest \$30,000 in these renovations and it allows you to make \$10,000 per month in net revenue, how long is the "payback" period? Just 3 months. That is simple math and answers the question, "is it worth the effort?"

If you add an additional \$30,000 in improvements that allows you to generate an additional \$5,000 a month, would that be a good investment? Many real estate investors will remodel a kitchen or add a pool or an addition or a deck, that could cost more than that and would only generate a fraction of the revenue that a Residential Assisted Living Home would generate.

The most common improvements to a home address the safety of the residents. Grab bars installed in the shower and around the toilet

are common. If you are 85 years old, it's harder to get up and to keep your balance. They are not expensive and they are pretty easy to install. Consider widening the doors as well. It doesn't need to be every door, focus on the doors they will be using the most. 36 inches wide is great. If a senior has a walker or a wheelchair, that's a real plus. If you can't widen the door way consider an offset hinge. For \$15 it gets the door out of the doorway about inch. An inch doesn't sound like a lot, but if you're a senior and using a walker or wheelchair, that inch is going to save your knuckles.

Smooth floors means less of a trip hazard. Carpet is softer but it also increases the potential for a fall because seniors may not lift their feet when they walk and they can actually increase the risk of a fall.

Good smooth surfaces to consider include: hard wood, tile, linoleum and vinyl.



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AZREIA Advantage: Insurance Resource

Legal Expenses Can Add Up – Are You Insured for these Costs?



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by
**Clark
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In most cases, when “Liability” insurance is discussed, the key topic of conversation is going to be the policy coverage limits. Does your rental property policy come with \$300,000 of liability coverage, or \$500,000? These days those amounts are considered to be low, and many investors actually have landlord policies that include lawsuit limits of one or two million dollars.

But something that is seldom discussed is, who is going to pay for the attorneys, court costs, and other miscellaneous legal fees? In one recent case involving a rental property, a lawsuit was brought that demanded \$5,000. By the time the case was settled, the landlord had spent \$9,000 for attorney and court expenses.

The landlord won the case, but the court did not award him his defense expenses. It is not uncommon for legal defense expenses to exceed the amount being requested as damages in a lawsuit. Your insurance policy gives your insurance company the

final say in the settlement of a covered claim. That is, they may decide that the damages being requested are a lot less than the cost to litigate, and therefore they can decide to pay the damages rather than stand on principle and go to court.

Most insurance companies pay all of the defense expenses whenever there is a covered claim. And, many companies do so without any deductible charges for the policyholder (a ‘deductible’ for a liability case is actually referred to as a ‘retained limit’ and not a ‘deductible’).

And there’s more good news: whatever the insurance company spends for the defense expenses, is in most cases, an internal expense for the insurance company and therefore does not reduce or lessen the liability limit of the insurance policy. In other words, if your policy has a \$1 million liability limit, and the legal defense expenses for a covered claim total \$300,000, the \$300,000 is not deducted from the \$ 1 million policy limit. You still

have \$ 1 million available to pay out if your side loses the case.

Lastly remember that Liability Insurance generally focuses on bodily injury and does not cover all situations. Technical issues or legal questions may be considered to fall in the area of professional property management and insurance coverage is only provided by an errors and omissions insurance policy that is specific to residential property management. Here’s another good reason to avoid doing your own property management and make sure someone you hire has property management errors and omissions insurance...with policy limits of at least \$ 1 million.

* * * * *

CLARK SANCHEZ has been an Arizona insurance agent for almost 40 years and has been a Vendor-Affiliate with AZREIA for over 17 years. You can contact Clark if you have any insurance related questions at:

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A-G



Value of Title Insurance

**Guest Author: Lisa Tyler,
National Escrow Admin
FNTG Title Group/National
Escrow Administration**

Title insurance is a valuable product that protects the title interest of property owners. Many consumers are not aware of the items they are being protected against. Here are a few:

1. Title insurance insures the title interests of property owners and lenders against legitimate or false title claims by previous owners or lien holders.
2. At Chicago Title, we access, assemble, analyze and distribute title information, in addition to handling the escrow and closing process.
3. Title problems are discovered in more than one-third of residential real estate transactions. These "defects" must be

resolved prior to closing. The most common problems are existing liens, unpaid mortgages, and recording errors of names, addresses or legal descriptions.

4. An owner's title insurance policy continues for as long as the owner has an interest in the property; and the premium is paid only once, at closing.
5. Title insurance is different from other forms of insurance because it insures against events that occurred before the policy is issued, as opposed to insuring against events in the future, as health, property or life insurance do.
6. Chicago Title relies on a thorough search of existing records to identify possible defects, in order to resolve them prior to issuing a policy. We perform intensive and expensive work up-front, to minimize issues that might

arise after closing.

As the largest title company in the nation and a Fortune 500 company, Chicago Title is committed to protecting you and we have the resources to do just that! If you would like to learn more about how we can help you, please do not hesitate to reach out!

This article offers a brief description of insurance coverages, products and services and is meant for informational purposes only. Actual coverages may vary by state, company or locality. You may not be eligible for all of the insurance products, coverages or services described. For exact terms, conditions, exclusions and limitations, please contact us.

Happy Investing!



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- Short Sale Processing
- Access to Online Foreclosure Data
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AZREIA Advantage: The Real Estate Investment Specialists

Comping Basics



by
**Laura
Leatherdale**

Laura Leatherdale

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So, you're looking for an investment property to flip? How do you analyze the potential of the property? You get comparable properties, right? But are they comparable properties? You must build your analysis from the ground up. Unfortunately, you don't have the luxury of time, you need to decide quickly and make a wise decision.

Having a reliable system for your analysis is critical. I recommend you start with a radius search of no more than 1/4 to 1/2 mile.

The further you get away from the subject property, the comparable properties are less like the subject property in a variety of ways. The comparable properties might be on the other side of a major street, which can add or subtract from the actual value. An appraiser will tell you that the further out the comparable properties are, the more adjustments they must make for offsetting factors; i.e. distance, different neighborhood, other amenities, etc. When you have a tight radius, the age, size and other characteristics tend to be similar like the subject property and will give you the best data about the subject property.

The next important step is to look at the square footage. At The Equity Finders, we analyze all properties on a price per square foot basis. This is

the great equalizer when you are analyzing properties. It will help you when you must make an informed and quick decision. The exclusive SmartMap software we use at The Equity Finders has a tight criteria of plus or minus 10% of the square footage to evaluate the comparable properties. This keeps comparable properties as close as possible to the subject property, which then allows us to use the average price per square foot to determine the value of the subject property.

But you ask, "We are talking about flipping a property, how do we calculate ARV (After Repair Value)?" Great question! This leads to my last point on comping investment properties for this article. In this scenario, you need to consider the following:

Everyone wants to buy low, renovate and then sell high, as well as move it fast. First, you need to know if you are buying properties in a transition area. This is critical; you don't want to be the canary in the coal mine. The comps will tell you this, if you are using the right system. The renovated comps will have a higher price per square foot, than the rest

of the comps in the area. Multiplying the subject property by the average higher price per square foot will let you know the subject property's after repair value. Second, the system you use should have all the pictures of the comparable properties. These pictures are invaluable. They give the details of what was done to the property to get the ARV price. My friend Adrien Burkhart, an AZREIA Associate, always says, "if the area is an 8 out of 10 you only want your property to finish out at an 8.5." One of the big reasons people fail at flipping, besides not having a good system, is they either over improve the property, using money they will never get back, or they don't spend the money required to move the property. Finally, the last piece of the puzzle, the average days on market. This will tell you what your marketing time will be.

As I mentioned earlier, you need a reliable system when analyzing investment properties. At The Equity Finders, we use our exclusive SmartMap technology, which gives all the data needed to help you make a smart investment decision.



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AZREIA's 17th Anniversary Celebration

AZREIA Phoenix Meeting
Monday, November 11
Celebrity Theatre

AZREIA Tucson Meeting
Tuesday, November 12
Tucson Assoc. of Realtors

AZREIA Prescott Meeting
Tuesday, November 5
Yavapai Title

Phoenix Real Estate Club
Tuesday, November 26
24th Street Conference Ctr.

This month we celebrate our 17th Anniversary and the start of our 18th year. So, come celebrate! Be sure you come early to enjoy the **Investor Social**. You better get plenty of **raffle tickets** because the winners will get to play for valuable prizes. It wouldn't be an AZREIA meeting without doing the business of real estate investing, so we won't skimp on the **Market Update** or **Market News** and our special featured speaker, **Gene Guarino**, will educate you on how to significantly increase your cash flow on a single family rental. **IMPORTANT! Our agenda times are different than a normal month, so check the schedule below!**

Investor Social

Always a great time and perfect for networking. Fill up on some fabulous food and sweets. Collect your raffle tickets. Visit our tradeshow. Get settled in for a super night of food, fun, prizes, information, education and entertainment! A major part of our Investor Social is the Food Drive. Once again, we are collecting non-perishable food for a local food bank. This is our opportunity to give back to our community, not only by providing quality, affordable housing but by putting food on the table, too. So, bring lots of food and get lots of raffle tickets. Non-members can get in FREE for just 6 cans of food. Bring more and get more raffle tickets.

Market Update & Market News with Alan Langston

The market doesn't stop or care that we are celebrating, so we will be sure you have all the latest information! You will receive the latest in trend analysis and important news for the US, Arizona and Greater Phoenix real estate investment market. This is must know information for the serious real estate investor.

Fun & Prizes – AZREIA's Way for Members & Guests to Have Fun & Win

Your raffle tickets could be your entry into this fun and valuable game. Do you have skill it takes to win? Don't worry, it's easy. Lots of valuable prizes. The more raffle tickets you have the better your shot to play and win! Each year we've had over \$20,000 in prizes given away!

Phoenix & Tucson Main Meetings – How to Turn One Single Family House into a Monthly \$5,000 - \$15,000 Cash Flow with Residential Assisted Living Care Homes! with Gene Guarino

Senior housing is the best opportunity for the next 20 years in real estate investing. You will learn how to step-by-step capitalize on this

mega-trend opportunity. You will discover how to generate substantial cash flow, how to get twice the fair market rent with long-term, low-impact tenants and how to get a secure ROI. With 77,000,000 baby boomers, this is an unstoppable tsunami of opportunity for you and your portfolio. In this session, Gene Guarino, President of the Residential Assisted Living Academy, will show you step-by-step:

- How to turn a Single-Family Home into a cash flow machine
- How to rent your home and get TWICE the fair market rent
- How to operate the business (if you want to) AND still collect the rent
- How to NET \$5,000 - \$15,000 per month from each house
- How to do it with or without your own money

Phoenix Agenda – Special

4:30 – Investor Social
5:15 – Market Update
6:00 – Investor Social
6:40 – Prizes
7:30 – Featured Presentation – Gene Guarino
9:00 – Adjourn

Tucson Agenda

5:15 – Open Networking
5:45 – Networking: Investor-to-Investor, I Have – I Want, Tucson Market Discussion
7:10 – Tucson Market Update & Main Presentation
9:00 – Adjourn

Prescott Agenda

5:30 – Market Overview & “Haves and Wants”
6:00 – Main Meeting
7:15 – Adjourn

Phoenix Real Estate Club

5:30 – Open Networking
6:00 – Networking: Investor-to-Investor, I Have – I Want, Market Discussion
8:00 – Adjourn



Special Meeting ~ Special Time ~ Different Agenda!

Don't Miss Out!

4:30PM – Investor Social & Food Drive

5:15PM – Market Update

6:00PM – Investor Social Continues w/Networking

6:40PM – Fun & Prizes

7:30PM – Residential Assisted Living with Gene Guarino

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Buying a Property – Who Gets Possession?



by
Mark
Zinman

Mark B. Zinman,
Attorney

**Williams, Zinman
& Parham P.C.**

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Every day of the week we are contacted by investors who purchase homes via assignments from wholesalers. It works something like this...the wholeseller secures a deal, and then assigns it to the investor, who buys the property directly from the seller. The investor never meets the seller and never inspects the unit. They then close escrow and quickly find out that the person in the property is not the former owner. What now? Can you get that person out? Are they a trespasser?

Investors often think of trustee's sales, when they consider what their rights are when they buy a property. With limited exceptions (e.g. bona-fide tenant paying fair market rent), when an investor buys a home at trustee's sale, they have a right to terminate the occupant's right to possession. This is because of two things: (1) it is often the former owner in the home and (2) there is a statute directly on point. Investors don't realize that it is because there is a statute that they can serve a demand and file an eviction against someone who is not a bona fide tenant paying fair rent.

This is not the same when an

investor buys a property in a traditional sale. There is no statute saying that the sale terminates the prior person's right to possession. The right to possession is controlled either by the purchase contract or the rights the occupant had before the sale. If an occupant is in the home and has a (not fraudulent) 10-year lease, the buyer must honor that lease. Even more extreme, if an occupant in a property has a lease and an option to purchase a property, the buyer has to honor that option – even if the option price is less than the price the new owner paid.

Now, that may seem unfair...how is it that the new owner has to honor such contracts? Arizona law provides that the new owner has constructive notice of the rights of the occupants because they had a chance, before closing, to determine what rights the occupant had. Any time you buy a property, you should go to the property, meet the occupants, and determine what rights they claim they have. While we understand that occupants may not always be honest, you need to understand what you are buying into. This

is the same in the case where the investor is getting an assignment from a wholeseller. The investor needs to go to the home and ask about what rights the occupant allegedly has.

It is important to note that under case law, it's not just contracts that investors must be aware of. If a person is in adverse possession of the land or property, their claims lie against the new owner as well. The Court of Appeals has held that, "A bona fide purchaser takes title subject to any adverse possession which commenced before the transfer of title." *Stat-o-matic Ret. Fund v. Assistance League of Yuma*, 189 Ariz. 221, 223, 941 P.2d 233, 235 (App. 1997), as amended (Apr. 3, 1997). Adverse possession means that a person can get title to the land of another, if they hold possession of it against the owners will for 10 years. Therefore, if an investor buys a property in the 9th year of adverse possession, the investor may lose title to a person that has held adverse possession. So, what is the lesson here? Before you close escrow, go meet the occupants of your property and determine what rights they claim.



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by
Andrew Augustyniak

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As the weather begins to get cooler, it will be interesting to see how the market trends going into the holidays. The last two months has been crazy for us in the mortgage world. Mortgage interest rates hit a three year low around September 3rd and many home owners and investors were able to better their long-term financing positions. I just read an article the other day that said over 8 million people can benefit from refinancing, the question will be if they recognize and take advantage when they can. Now, onto some updates happening in the mortgage world!

Subprime now known as Non-QM

Recently the Wall Street Journal ran a piece on the mortgage market re-opening to risky borrowers – is this true? The article specifically stated that risky mortgages are making a comeback, no longer called ‘subprime’ but now ‘non-QM.’ Non-QM loans are ones that don’t comply with post-crisis standards set forth by the Consumer Financial Protection Bureau (CFPB). These loans cannot be sold to Fannie, Freddie or to any other Government Sponsored

Enterprise (GSE) and are usually kept as portfolio loans or sold to specific investors.

While the name non-QM might conjure fears of the subprime mortgage mess of the mid 2000s, it’s crucial to remember that these loans are not subprime. In many cases they are non-QM due to the borrower being self-employed or due to reduced documentation, however the credit profiles of these borrowers tends to be strong with high credit scores and high down payments or levels of equity.

Another area where non-QM is gaining traction is with borrowers that have less credit history and low-down payment availability. This is common among first time homebuyers from diverse communities that may have multiple generations pooling money together to make a home purchase accessible. One statistic shows that 78% of new households being formed nationwide are formed in this manner and non-QM loans may be able to better serve this niche than traditional QM loans.

Citigroup and Chase have now thrown their hats into the Non-QM ring and are creating mortgage backed securities for non-QM products and funding Non-QM loans respectively. While these big players have entered the non-QM market, there is still room for much growth in this area as this market accounts for only a small portion of the total mortgage market. As the QM patch has been given an expiration date, the non-QM segment of the mortgage market is poised to continue growing. And while lending guidelines for non-QM loans are relaxing, we are still nowhere near the pre-crisis laxness in lending practices. Not only does non-QM serve underserved areas of the market, if one analytically reviews the characteristics of non-QM loans today, it’s clear a majority of these loans meet Ability to Repay requirements. It will be interesting to see how this plays out.

Make sure to let us know if you have any questions. We hope to see you at the next AZREIA meeting!



THE AUGUSTYNIAKTEAM



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AZREIA Calendar of Events

Check www.azreia.org for the current schedule.

NOVEMBER MONTHLY MEETINGS	SUBGROUPS An important benefit of AZREIA Plus Membership	
<ul style="list-style-type: none"> • AZREIA – Prescott <i>Tuesday, November 5</i> • AZREIA – Phoenix Special Anniversary Meeting – Food Drive – Prizes & Fun <i>Monday, November 11</i> • AZREIA – Tucson <i>Tuesday, November 12</i> • Phoenix Real Estate Club <i>Tuesday, November 26</i> 	<ul style="list-style-type: none"> • Income Property Owners <i>Thursday, November 7</i> • Burley <i>Tuesday, November 12</i> • Beginners <i>Thursday, November 21</i> • Notes <i>Thursday, November 21</i> 	<ul style="list-style-type: none"> • Fix & Flip <i>November/December date tbd</i> • Tucson New Investors <i>Tuesday, November 4</i> • Tucson Wholesaling <i>Tuesday, November 19</i> • Tucson Mastermind <i>Tuesday, November 26</i>
Residential Assisted Living with Gene Guarino		
Special Drill Down Session: Thursday, November 14 th 6pm-8pm Top 10 Myths in Residential Assisted Living Saturday Session: November 16 th 9pm-2pm Residential Assisted Living		
Launch Pad Session for those new to real estate investing: Saturday 11/2 or 12/7 9:00 am – 1:00 pm FREE to AZREIA members		
Tucson: Rehabbing Real Estate Properties Bus Tour Saturday, 12/7 9:00 am – 1:00 pm		
Negotiations with Maria Giordano: Saturday, 12/14 9:00 am – 4: 00 pm		
INFORMATION & REGISTRATION ONLINE AT WWW.AZREIA.ORG		

LEGALLY SPEAKING

Q: If someone is arrested in my rental home, does that automatically mean I can file an eviction for an immediate and irreparable breach of the lease?

A: Just because there is an arrest on property, doesn't necessarily mean that a landlord has grounds to pursue an immediate termination of the lease. The arrest and the underlying crime have to be connected to the property. For example, it's possible that your resident

had a guest on property and that guest had an outstanding warrant for unpaid parking tickets. If the police track the guest down and arrest him in your property, that is not grounds for an immediate as the arrest had nothing to do with your property and there was no crime committed there. On the other hand, if the guest was arrested on property because he caused damage to the home or did drugs on property, that is cause for an immediate eviction.

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Information contained in this article is for informational purposes only and should not be considered legal advice. You should always contact an attorney for legal advice and not rely on information published here.

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Meeting November 11, 4:30-9:00 p.m.

www.azreia.org



AZREIA Monthly Meetings at a Glance

Special 17th Anniversary Meeting

Investor Social Always a great time and perfect for networking. Fill up on some fabulous food and sweets. Collect your raffle tickets. Visit our tradeshow. Get settled in for a super night of food, fun, prizes, information, education and entertainment!

Annual Food Drive Once again, we are collecting non-perishable food for a local food bank. This is our opportunity to give back to our community, not only by providing quality, affordable housing but by putting food on the table, too. Non-members can get in FREE for just 6 cans of food. Bring more and get more raffle tickets. 2 tickets for every two cans you bring!

Market Update & Market News with Alan Langston The market doesn't stop or care that we are celebrating, so we will be sure you have all the latest information and news! Special time: 5:15PM!

Fun & Prizes - AZREIA's Way for Members & Guest to Have Fun & Win Your raffle tickets could be your entry into this fun and valuable game. Do you have skill it takes to win? Don't worry, it's easy. Lots of valuable prizes. The more raffle tickets you have the better your shot to win! Each year we've had over \$20,000 in prizes given away!

Phoenix & Tucson Main Meetings – How to Turn One Single Family House into a Monthly \$5,000 - \$15,000 Cash Flow with Residential Assisted Living Care Homes! with Gene Guarino

Senior housing is the best opportunity for the next 20 years in real estate investing. You will learn how to step-by-step capitalize on this mega-trend opportunity. You will discover how to generate substantial cash flow, how to get twice the fair market rent with long-term, low-impact tenants and how to get a secure ROI.

Prescott Main Meeting – Financing: Hard Money, Conventional and Private Money.