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Two-Unit Information Guide

Borrowers purchasing two-unit properties using PHFA financing are required to review this guide prior to closing, sign page 10, and submit it to their PHFA-participating lender.

This Two-Unit Information Guide is designed to provide information to assist buyers who are purchasing a two-unit residence. However, the information contained in this guide is not to be considered as all inclusive; it is only intended as one source of information. It is recommended that, as a prospective homebuyer, you obtain as much information regarding the purchase of a home and landlord responsibilities as possible to guide you into homeownership and ensure your success over the long term. The materials presented in this workbook are for informational use only. The completion of this worksheet does not constitute qualification for a Mortgage or any other financing.

HOME SELECTION

There are pro's and con's to homeownership. Now that you have selected the duplex you wish to purchase, there are several items that you need to consider. This guide is designed to give you some insight to homeownership and becoming a landlord. It will be up to you to do the rest.

Some of the advantages of purchasing your own home are:

- Having a place of your own—a permanent place to raise a family.
- Financial incentives—homes usually increase in value as long as they are properly taken care of and the economic situation in your community remains strong.
- Stable housing costs—if you receive a fixed rate mortgage, except for increases in Real Estate taxes and insurance, your monthly mortgage payment will remain constant compared to rent, which usually increases year after year.
- Tax benefits—interest paid on the mortgage is tax deductible to homeowners who itemize expenses on their tax returns. This is not available when you rent.

Some of the disadvantages of purchasing your own home are:

- Decreased mobility—homeownership limits the freedom of moving from one place to another. Therefore, it is essential that you have considered this issue and are sure you are ready to stay in one spot for a long period of time.
- Recurring expenses—such as property taxes and hazard insurance.
- Repairs and maintenance—you will be responsible for the costs of repairs and maintenance for your property. You can no longer call the landlord to do the repairs/maintenance.

BECOMING A LANDLORD

There is more to becoming a landlord than just collecting the rent and receiving special tax benefits. You will have numerous responsibilities. There are Federal disclosure items that you will be responsible to provide. You will also need to know what your rights are as well as the rights of your tenants under the local housing laws. If you are not familiar with these rights, it would be in your best interest to check with your local government office that handles landlord/tenant relations to find out which laws apply to you and your area. An attorney may also help you in this effort.

In the state of Pennsylvania, The Fair Housing Council located in Harrisburg, handles landlord/tenant issues. They would be able to help with general questions and problems. They have free brochures explaining the basic as well as a landlord/tenant booklet which is available that provides more detailed information on lease agreements and your rights and responsibilities.

Should you become a landlord and if you are interested, there are also local and state landlord organizations. In order to find out if there is a local organization in your area, you should contact the state organization “Pennsylvania Residential Owners Association” (PROA) located at 2205 Strawberry Square Harrisburg, PA. 17101 or you may call 717.238.1503. Emails can be directed to e-mail.info@PROAssoc.org.

LEASE AGREEMENTS

Although leases are not required, they are highly recommended. A lease will provide a legal basis which you can use to enforce rental policies, including but not limited to collecting the rent. What you put in the agreement is generally up to you, however, keep in mind that there may be some items that are illegal to reference. Therefore, it would be in your best interest (as mentioned above) to check with your local government agency that handles landlord/tenant issues for guidance.

Once you know the do's and don'ts, you can begin to prepare the lease/rental agreement. In this document, you can establish the rights and obligations of you and your tenant. You will find that many of the leases being used today contain the same basic information. The following list represents some of the most common provisions referenced in a lease:

- The address of the property being rented;
- The date on which the lease is signed;
- The term of the lease, the beginning and the ending dates for which the tenant is to rent the property whether it be on a month-to-month basis or yearly;
- The amount of the security deposit collected and conditions for return of the security deposit;
- The amount of rent the tenant is to pay, and where the rent is to be sent;
- The date in which the rent is due by, and if there are any penalties for late payments or bounced checks;
- The amount of notice you require in order for them to terminate the lease without penalties;
- The possibility of whether or not the tenant may sublet the property;
- The circumstances, if any, under which the tenant must allow access to the property for repairs and maintenance;
- The circumstances under which you as the landlord may enter the premises (within compliance of any local law);
- Any policy you may have regarding pets, using the property as a business, etc.;
- What, if any, utilities the tenant is responsible to pay for;
- Any maintenance do's and don'ts like painting, remodeling, etc.

As stated, the above list is for reference only. There may be items on this list that you may choose not to use and there may be items not mentioned that you feel are important, and that is okay. This list is only to give you some insight on what you may or may not want to include in your lease. As mentioned earlier, it is best to begin your process by first checking with your local government office or the Fair Housing Counsel.

LOOKING FOR TENANTS

When looking for and screening tenants, you want to be sure to find someone who is willing and capable of paying their rent on time. When screening applicants, you should always demonstrate fairness, therefore, it would be beneficial for you to set up a procedure to follow each time you interview a potential tenant. This would help ensure equal treatment to everyone that applies. There are a variety of ways in which to do this. One way would be to have each applicant complete a written application. This application would give you some basic information about

the person or persons wishing to rent your apartment. Information to help you in your evaluation could include questions such as:

- current address, telephone number, and length of time at current residence;
- current and past landlord names, addresses, and phone numbers;
- name, address, and phone number of current employer;
- current income from all sources;
- the names of any personal and credit references.

You should also provide the applicant with a statement to be signed that authorizes you to contact the references they have made available to you. You can accomplish this by adding a statement at the bottom of the application stating: “the above referenced applicant gives me the authority to check the references listed on this form and is acknowledged by their signature(s) on this form”. This is just an example. You may want to use your own wording or obtain wording from another reference guide.

Every landlord has certain rules they want their tenants to abide by. It may be in your best interest to place these rules in your lease. For instance, there may be things that you will not allow, such as pets, waterbeds, and motorcycles. Or you may want the tenant to be responsible for the cost of some repair items up to a certain dollar amount. You may also require the first and last months rent in advance. Whatever they are, put them in the lease and then at the interview, go over the rules by reviewing the lease with them. If the prospective applicants do not like your rules or they disagree with them, you can then eliminate them from your list of prospective tenants. But remember, you must treat everyone the same and, by having the rules in writing and following them for everyone, there is less of a chance for discrimination. There are two federal laws that must be followed when selecting tenants. First is the Civil Rights Act, which prohibits discrimination based on race and second is the Fair Housing Act which prohibits a landlord from discriminating due to race, sex, color, family status, national origin, disabilities, and religion. Once again, the Fair Housing Council may be able to help you with any questions you may have on this issue.

SELECTION PROCESS

It is important to keep in mind that being a landlord is like running a business. In order to ensure that your business will run smoothly, it is essential that you take certain steps to verify the willingness of the prospective tenants. Call and verify the information they have supplied to you on their application. Do not just give the apartment to the first person you like. When you're calling their previous landlord for a payment history, you may also want to ask how they treated the property, their neighbors, and if they followed the rules. This information may be as important to you as their credit information. If they did not follow the rules and regulations of their previous landlords, it is probably safe to assume they will not follow yours, even if they verbally told you they will. Definitely something to think about. When evaluating their ability to pay the rent, you could use the formula a lender would use in qualifying a prospective homebuyer. Take the rent payment they would be paying you and divide it by their gross monthly income that was verified by their employer. This ratio should fall somewhere around 33 percent of their income or less. This is not something that is etched in stone, but would give you an idea of the tenant's ability to pay the rent. There are compensating factors to consider should

that ratio be a little high. For instance, if they are currently paying and have been paying a higher amount for rent than what you will be charging and their current landlord states they pay on time, you may want to take that into consideration when evaluating their ability to pay.

Now that you have researched all of your prospective tenants, you should be able to fairly evaluate each one in order to make your decision. Remember, if you reject someone for a specific reason you should reject other applicants for the same reason. Should you find that you have more than one applicant that you would feel comfortable renting to and do not know how to make your final decision, you could use the first-come, first-serve rule. Choose the one that you interviewed first. When you have made your decision, be sure to contact the applicant immediately so that they do not find another property to rent. This will eliminate you having to go through the selection process all over again.

RESPONSIBILITIES OF BEING A LANDLORD

As mentioned previously, it is your responsibility as a landlord to know your rights and the rights of your tenants according to the Federal, State, and local housing laws. A landlord who is not familiar with these laws is just as responsible for non-compliance as a landlord who knows their rights but ignores them.

As a landlord, many of the responsibilities that you once took for granted will now be yours. Meaning, now when something goes wrong or breaks, you will have to make it right or hire someone else to fix it. If there is a cost involved, it will be yours to pay. Budgeting and regular preventative maintenance can save you many future problems and headaches. You just never know when that roof will leak, the furnace will quit, or the plumbing springs a leak. Therefore, think smart, and begin by first preparing a budget.

BUDGETING

Budgets are an effective way of helping to alleviate future money problems. It is recommended that you prepare a new budget every year. When designing your budget, the first thing you need to do is sit down and figure out where your money is going on a daily basis. For the next couple of months, write down everything you bought and what it cost. Include things like gas, tolls, charges for parking, lunches (if you eat out), entertainment, groceries, children's allowances, etc. Then take the total cost and divide it by the number of months you have done this. For instance, say you have kept track of all your expenses for the last three months. You would then take the total dollar amount spent and divide it by three. Then take your current monthly income (based upon take home pay) versus these expenses. Are you saving or are you just getting by? Once you have made this determination, you will need to sit down (preferably with the entire family so everyone is involved) to see where you may cut costs. Some suggestions might be: cut back on the number of days you eat out, reduce the amount of times you go to the movies, or join a car pool-- things like that. We are not suggesting that you stop or cut out everything (that's no fun); just cut back in some areas, the choice is yours.

Because you are purchasing a two-unit property (living in one half and renting out the other) you can take the monthly rental income you will be receiving into consideration when preparing your budget. Rental income can be considered as part of your income. However, let us offer a piece of advice-- do not include the entire monthly rent in your budget. One cannot be 100 percent

positive that the unit will always be rented and that you will always have that source of income available. If you set up your budget relying on a regular monthly income from rent and you lose a tenant and cannot replace them immediately, you could be setting yourself up for a fall. Therefore, when including monthly rental income as income in your budget, it is best to consider only a portion of it. This way you will be prepared for vacancies. Although there is no set formula, one rule of thumb has been to only consider around 75 percent of the monthly rent as income. And, in reality, this is a good rule to follow. Meaning, if you charged \$400.00 a month rent, you would only consider \$300.00 of it as income ($\$400.00 \times 75\% = \300.00) in your budget. This way you are less likely to run into major financial problems. The remaining \$100.00 (in this scenario) should be tucked away in the bank so that you have something to fall back on should you lose a tenant and no longer have this regular monthly income to rely on. Also, make sure that the current owner/landlord transfers to you any security deposits that he/she has collected at the time you close on the loan. Eventually, these deposits will have to be returned to the existing tenant and you will be responsible for their return. Once you have concluded calculating what your monthly income will be, it is time to figure out your expenses.

Expenses such as: your mortgage payment, insurance, property/school taxes (if not escrowed in your mortgage payment), your personal taxes, utilities, and maintenance are some of the items you will need to prepare for. When purchasing a two-unit property, it is in your best interest to obtain a copy of the current owner's yearly expense information. This will give you some insight as to what it has cost them over the past couple of years for utilities (at least what they were responsible for), property maintenance, and any other miscellaneous expenses they incurred. This will put you in a better position to adequately complete your budget.

Other items that you should take into consideration and inquire about are whether or not there are any appliances included in the rental unit such as: refrigerator, stove, washer, dryer, etc. If they have been supplied by the current landlord for the tenant, you may end up repairing or replacing them (as long as the current landlord doesn't take them). Also, you don't want the current tenant to take them when they leave if they actually belong to you. It would also be beneficial to find out the age of these items as well as items such as the roof, furnace, plumbing, and electrical systems (but do not feel limited to just asking about these items). More than likely, these will be your biggest expenses in the future and, if you do not budget properly, you could run into problems coming up with the funds needed to replace them and make your mortgage payment. Obtain all the information that you possibly can and for as far back as you can. You will only be protecting yourself and your future investment.

Once you have determined what your monthly income and estimated expenses will be, you need to check to see if your income will cover these expenses. If you feel that you have created a realist budget and your expenses outweigh your income, you will have problems meeting your financial commitments. It is at this point, that you will need to re-evaluate your situation. Should you still feel you have created a realistic budget and there are no items that could be eliminated, it may be in your best interest to wait to purchase the home until you have additional resources.

MAINTAINING YOUR PROPERTY

When looking at purchasing a home, it is extremely important that you pay close attention to what improvements or repairs it may need in the immediate future. Because once you purchase a

home, it will be your responsibility to maintain it in good repair. You will no longer have the option of calling your landlord to have the items taken care of. It will be your responsibility to make the repairs or pay someone to make them for you. Because the level of knowledge of the home buying process varies among borrowers, we believe it is important to mention that you, the buyer, have the right to have a Home Inspection completed on the property by a professional inspector. This service is not free and it is usually the borrower's responsibility to pay. However, we believe that it is an option well worth its investment.

Should you decide not to order a Home Inspection report and do it yourself, you will need to have some idea of what to look for. Therefore, the purpose of the following information is to give you a general idea of some of the items you should be concerned with and why.

Let's begin with what would be classified as some of the major items on the outside of the home. Please note however, the following information is provided only as a reference and is not to be interpreted as a complete list of inspection guidelines.

- Walkways (Sidewalks) and Driveways -- look to see if they are cracked, crumbling, or have large sections missing. These items could create safety hazards for people walking by or visiting you. If something would happen to someone due to the deteriorated condition of these items, it could cost you extensively.
- Roofs -- inspect the roof for damage due to rain, wind, and/or snow/ ice. Are all the shingles there, are they flat and smooth like they should be, or are they swollen and/or curling? This is a sign of a potential problem. Also check the flashing in the valleys and around the chimney. If it is missing or in poor condition, it will need to be replaced. Some items may be fixed to provide you with some additional time before replacement, but before you make that determination, you should have a professional roofer give you that opinion.
- Rain Gutters -- look to see that they are there and attached properly, that they are clear of debris and holes so that water can drain properly. Check the downspouts to be sure that they are directed away from the property to help eliminate a wet basement.
- Chimney -- if it runs up the side of the house, check to see that it is attached properly to the home. Check the chimney for any cracking or missing mortar around the bricks and blocks.
- Windows and Doors -- check to see that they fit tight and that there is ease of movement when opening and closing. Check the caulking to be sure that it is in good condition and not pulling or chipping away. Check to be sure they are not broken and that the latches fit snugly (inside and outside condition is important).
- Siding -- check for chipping and peeling paint. Are there bare exposed areas that could cause rotting and will need to be replaced? Look for cracks, holes and nails popping. These problems could allow moisture to penetrate the walls and eventually cause structural damage.

- Year Home Built -- if the home was built prior to 1978, the landlord is responsible to disclose any known Lead-based Paint and provide tenants with the pamphlet "Protect Your Family From Lead In Your Home". You can receive this information by contacting the "U.S Department of Housing and Urban Development" located at Office of Healthy Homes and Lead Hazard Control, 451 Seventh Street, SW, P-3206, Washington D.C, 20410 or by calling 202.755.1785 or 1.800.424.LEAD (5323),

Now, let's move to the inside of the home. The items that you should be concerned with are: electrical, plumbing and heating/cooling systems, appliances, floors, walls, attic's basements, and/or crawl spaces. One thing you should keep in mind when purchasing a duplex is that the property will more than likely have two sets of some items. Therefore, you should be concerned with the quality and efficiency of these items for both units. The following bullet points represent a list of some questions you should ask. As stated above, the following information and/or questions are intended to give you some idea of the things that you should be questioning when purchasing a property. However, it is not meant to be interpreted as a complete list of information and/or questions that one should obtain.

- Electrical system(s) -- ask where the main fuse box or boxes are located and the amount of amp's they carry. Check to see if the wiring is old or new and the shape it is in. Are the wires frayed, or hanging out of outlets, etc? Be sure to fix or replace any bad wires or fuses in order to reduce the chances of having future electrical safety problems.
- Plumbing system(s) -- find out what type of system or systems the home has. Are they hooked up to a public system or is it a private system? If it is public, you can anticipate a sewer bill. If it is an on-lot system, find out if there are one or two separate systems and their type. Also find out if it or they need to be pumped and if so how often. Be sure to follow a regular maintenance program in order to reduce the chances of having major problems in the near future.
- Heating/Cooling system(s) -- ask what type of system or systems there is. Also, how old are they and who the manufacturer is? Do they use gas, oil, or electric? How often does it need service and were they cleaned lately? Should you discover that these items are in pretty good condition, make an effort to keep them that way. Regular cleaning of the heating and air conditioning ducts throughout the home and at the unit itself will help prolong the life of the unit.
- Appliances -- are they included in the sale of the home, are they supplied to both units, how old are they, are they working properly and have they been serviced lately. Keep a tab on them in order to catch any problems before they escalate into bigger problems
- Floors and Walls -- are there holes in either of them? Does the floor have squeaky boards which could indicate a structural problem or just loose nails? Do you see any water stains on the ceilings or coming down the walls? This could indicate a leaky roof. Be sure to have any loose boards or water damaged walls replaced to eliminate the chances of having bigger problems arise due to unsafe living conditions.

- Attic -- again, look for water stains on the ceiling and walls. If any are observed, ask if the roof currently leaks or has it been replaced and when. Look to see if you can see through the roof or any of the walls. If there are holes in either of these areas, you could experience major problems with water seepage and trying to keep the home warm in the winter. Look to see there is proper insulation and ventilation. If you discover any problems, have that corrected immediately.
- Basements and/or Crawl Spaces -- look for cracks in the foundation, and signs of any moisture on the walls and floors. Does the basement feel damp or cold? Does the current owner have things stored up off the floor? If so this may be a sign that they have water problems. If it is a crawl space, is it accessible, where are the utilities located and is there easy access to them? Again, should you discover potential problems, have them corrected as soon as possible so they do not multiply on you.

Once again, this is just a small list of things that one should think about when purchasing a home. If you have already signed an agreement of sale for a home and you did not think to look at these types of things, we highly recommend that you now go back and do it before you settle on the loan. As mentioned earlier, these will probably be the most expensive items to repair or replace. It may also be in your best interest to see if the seller is willing to repair or replace any defective items. Remember, regular preventative maintenance can prolong the life of your home as well as help improve its value.

PROTECTING YOUR HOME AGAINST EMERGENCIES

As soon as you move in, you should familiarize yourself and your family with whatever safety features the home has. At a minimum, smoke detectors should be installed in your home even if they are not required by your state and local health and safety codes. Each level of your home should have at least one. The recommended places to install them are: at the top of the basement stairs, in a living room, at the top of the second floor stairs, and one outside of every bedroom. Also, it is a good idea to have one in the attic. All detectors should be checked on a regular basis to ensure they are working properly. It's better to be safe, than sorry. Another idea is to always keep handy the phone numbers of local emergency facilities such as police stations, fire departments, doctors, and the local hospital emergency room. When you have any work done or replace any appliances or utilities always keep any warranties, owners manuals, and/or other documents pertaining to the appliance.

Other things you can do to help increase the safety in your home is: not to store items near or in front of your furnace; replace any loose or frayed wires; purchase a fire extinguisher and store it in an accessible place; do not block the windows and doors so that you have sufficient escape routes if needed. Also, let your tenants know what they should do in case of a fire or emergency.

There are also things to do to help against theft. When you are going to be away, be sure all windows and doors are securely locked. When a tenant moves out, change the locks on the apartment door. If the home doesn't have any outside lighting, install some. When there are lights on outside, thieves are less likely to break in. Keep all important papers in a safe or rent a

safe deposit box at your local bank. A safe deposit box for the purpose of your rental may also be tax deductible.

INSURANCE

When you purchase your home, the lender will require that you purchase at a minimum, Hazard Insurance (Homeowners Insurance), this term may vary. If your home is in a flood zone, you will also be required to purchase flood insurance. And did you know that there are other forms of insurance available such as “Tenant relocation insurance”? This will provide your tenant with relocation assistance if your home/apartment becomes inhabitable due to a fire or other disaster. Then there is “Rent loss insurance”. This would protect you from the loss of rental income due to a fire or certain other disasters your home has become inhabitable for your tenants. Another type of insurance is “General Liability Insurance”. This insurance will help to protect you from lawsuits filed by persons claiming they were injured on your property due to negligence on your part. The amount of coverage for the General Liability Insurance is determined by you at the time you purchase the policy. Another form of insurance is “Bonding”. If you or anyone you employ after collecting the rent is robbed, you are protected against any loss you might experience. This form of insurance is usually only obtained by rental housing management companies. Someone who only has a two-unit would not really need it. The names of these different types of insurance policies may vary from one insurer to another. Therefore, if you are interested in purchasing any additional types of insurance, be sure to explain to the agent exactly what you are looking for. Insurance premiums always seem expensive when you have to pay for them, but if something would happen and you’re not insured, where are you going to get the money you need to repair or replace any damages? Plus, you will not have the benefit of any rental income if the rental unit of your home is uninhabitable.

FINANCING THRU PHFA

The purchase of a duplex under the PHFA Homeownership Program is available with Conventional, FHA or VA financing. This would also eliminate the use of the PHFA HOMEstead program for these properties. For a list of PHFA participating lenders as well as the income and purchase price limits for this program and others, you may call the PHFA hotline toll free at 1.800.822.1174 or visit us at www.phfa.org.

SUMMARY

Remember, buying a house is probably the biggest investment you will ever make. Take your time, use sound judgment and seek advice. The PHFA Homeownership Program is designed to help you make the difficult business of homeownership a little easier. If you use the program the way it is intended, you will be able to save thousands of dollars over the life of the mortgage. That’s money in your pocket that you can use to make the home you buy a better place to live.

There is a lot of satisfaction and comfort in owning your own home. There is also a great deal of responsibility, including paying the mortgage, taxes and insurance, and maintaining the property in good repair. Routine and preventative maintenance can help you reduce repair costs and keeps your property value increasing.

