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How to Buy an Investment Property Using Home Equity

By: **Luke Babich** | Nov 8, 2023
www.rentecdirect.com



If you bought a house during the last decade or so, you've probably built up a nice bit of home equity. A recent report found that just under half of all mortgaged U.S. homes were "equity rich" by the end of 2022.

You've probably also noticed that, despite the highest mortgage rates in years, the real estate market is still booming. Many existing homeowners are living out the American dream, passively building up wealth as their property values rise.

But how can those homeowners convert the on-paper wealth of home equity into real money that they can invest in the market? Using home equity to buy an investment property is a pretty straightforward process — but it's not without potential drawbacks. Let's go over how to use home equity to buy an investment property, and the pros and cons of doing so.

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Events

Christmas Party

Dec 14th starting @ 5pm
Coach House Restaurant
604 6th Ave., Coos Bay

* Register online at
www.roa-swo.com/events

Make a Contribution TODAY!

Oregon Rental Housing
KEY PAC



RENTAL OWNERS ASSOCIATION OF SOUTHWESTERN OREGON

Who is the ROA?

Rental Owners Association of Southwestern Oregon is an organization that's been around for over 30 years and consists of landlords who care about practical, legal and profitable land lording practices. Through the association, they share problems, solutions, and ideas with other landlords and find information that comes from similar organizations in Oregon and around the country.



Our Association is currently comprised of over 200 landlords!

Advertise Your Business in the ROA Newsletter!

The monthly newsletter reaches over 200 landlords who need your products/services to manage their rentals.

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- and much more...

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Book your spot today! Space is limited.

Half Page Ad

7.5" W x 4.5" H = \$60

Outside Back Cover = \$100

Quarter Page Ad

3.5" W x 4.5" H = \$35

Business Card Ad

3.5" W x 2" H = \$20

Full Page Ad

7.5" W x 10" H = \$100

(example not shown)

10 Steps To Winterize Your Rental Property

Nov 28, 2023

www.rentalhousingjournal.com

Record freezing temperatures recently can be a challenge for property managers and tenants so here are 10 steps to winterize your rental property.

Dealing with ice, snow and frost will be a common occurrence for many Americans this winter, which is why it is important to make properties safe for tenants, aiming to minimize slipping hazards and annoyances resulting from weather-damaged or malfunctioning amenities. Winter-proofing for the safety of tenants is just as important as Winterizing vacant rental properties.

Why winterize vacant rentals?

Whether tenants are on vacation or a property is simply waiting to be rented out, planning to prepare it for vacancy should be made a priority for safety reasons – and even more so when freezing temperatures and harsh weather also become a concern.

Snowstorms can become a frequent occurrence and bring along the burdens of snow buildup, drops in temperature can cause entire systems to freeze and become compromised, while the cold season itself makes it that much worse for both property managers and tenants to experience the discomforts of failing systems and amenities.

10 Steps To Winterize Your Rental Property

1. Shutting off the water supply system is ideal because it is most vulnerable to breakage and damages caused by freezing temperatures. To avoid pipe bursting and leaks that could happen while the property is vacant, consult a professional and have a full water supply shut-off procedure, which is designed to “seal” the water supply system to prevent cracking, bursting and other issues caused by water freezing. After this procedure is complete, it is a good idea to leave all faucets open to both drain leftover water and prevent pressure buildup, as well as adding antifreeze fluid to toilets after they are flushed of remaining water.



2. Servicing and setting up the heating system is important to save energy, prevent malfunctions and also supplement measures taken to protect the water supply system. Some older water supply systems are connected to the heating system, and particular circumstances might make completely shutting off the water supply system unsuitable: in this case, if a property is vacant indoor spaces do not need to remain warm and livable, but leaving the heating system on and setting temperatures to 55°F or slightly higher will make it warm enough to help prevent frozen pipes. Before the property is vacated, have a professional check both heating and water supply systems to ensure there are no pre existing damages or weaknesses that could be worsened by the harsh season.

3. Having the electrical and HVAC systems checked, especially when planning to keep heating running. An electrician should check wiring, outlets and the main panel to make sure no system failures happen while the property is vacant – especially if the heating system and water systems also depend on it. An HVAC specialist can ensure that it is performing efficiently during the cold months and check for potential issues that could worsen while the... property is vacant.

4. **Shutting off gas lines** to prevent incidents related to gas leaks while the property is vacant. Having a professional check the state of gas lines is also a good way to ensure the continued safety of the system.
5. **Unplugging all appliances** so they do not use unnecessary “phantom energy” while also keeping them from being the cause of a short out that could cause a fire.
6. **Having the gutters cleaned and the roof inspected** to avoid ice and snow buildups that could add strain to the roof and flood the space.
7. **Repairing cracks, openings and drafts** both prevents pests and wildlife from accessing the property as well as making sure that the indoor temperature does not drop, potentially leading the heating system to function inefficiently.
8. **Inspecting trees and surrounding vegetation** allows a professional landscaper to check whether any dead trees or branches could become hazardous in extreme weather conditions.
9. **Installing a security system** allows remote monitoring of the property, which helps prevent break-ins. Video, Bluetooth and sensor systems are able to send out real-time alerts that facilitate immediate responses following the detection of unexpected activity but also leaks and electrical faults. Even opting for a simpler system – such as automatic, pre-set outdoor lighting for the night time – can be helpful with making the property look occupied to potential burglars.
10. **Directing mail and packages to a new address** makes the property look occupied by avoiding overflowing mailboxes and busy porches to become a clear sign of vacancy to passerby’s, which again can be an invitation for break-ins.



You're invited to the Annual ROA

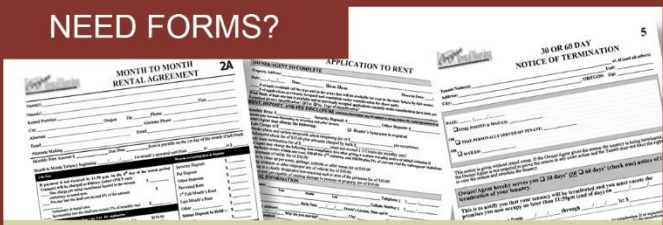
Christmas Party

Thurs, Dec 14th @ 5:00pm
Coach House Restaurant
604 6th Ave, Coos Bay

Meetup with your fellow ROA members for a fun-filled and festive no-host dinner at the Coach House Restaurant's outdoor patio.



NEED FORMS?



ORHA Forms are Available Online!

Oregon Rental Housing Forms are just a click away!

- 1 www.oregonrentalhousing.com
- 2 Click (top right): "Click to Get ORHA Forms Online"
- 3 Input your local association code in the field labeled "Enter Your Member ID" to receive ORHA forms 1/2 PRICE
- 4 Choose a form
- 5 Click on the form
- 6 Input your information
- 7 Click "Generate PDF"
- 8 Click "Check Out" – This will direct you to PayPal
- 9 Follow payment directions. Once complete, PayPal will return to the ORHA Forms page to "Print Link." This link will also be sent to your email address.

Forms Are Also Available to Pick Up!

Two convenient locations. Stop by and purchase updated forms.

2707 Broadway Ave. - OR - 161 Central Ave.
North Bend, OR 97459 Coos Bay, OR 97420



The Oregon Rental Housing Key Political Action Committee strives to elect state legislators who will work for the best interests of rental property owners.

Contribute to the Oregon Rental Housing KEY PAC and you may qualify for a Tax Credit.

oregonrentalhousingpac.org

Make a Contribution TODAY!

ROA
Helpline
(541) 435-1492

- Need help?
- Have a question about landlord/tenant law?
- Looking for advice on how to deal with a tenant?

Call the Helpline! Speak to a Property Manager who knows the law inside and out and who can speak from personal experience. FREE to all ROA members of the Southwestern Oregon Chapter.



Calls are returned within one business day between the hours of 7am and 8pm. Helpline is closed weekends and Holidays.



Form of the Month

SMOKE AND CARBON MONOXIDE ALARM AGREEMENT

M6

Tenant(s): _____
 Tenant(s): _____ et al (and all others)
 Address: _____ Unit: _____
 City: _____ OREGON Zip: _____

All Rental Units are required to have functioning Smoke Detectors/Alarms.

☐ **This Rental Unit is required to have a Carbon Monoxide Alarm.**

(Where the word Alarm is used, it means a Smoke Alarm or Detector and/or a Carbon Monoxide Alarm.)

Tenant(s) hereby acknowledge the presence of Alarm(s) in good working condition in the Rental Unit. Tenant(s) are aware that they are responsible to test and clean the Alarm(s) at least once every six (6) months, but preferably once a month.

The undersigned are aware that the Owner/Agent is not liable for loss or damage due to failure of the Alarm(s) to operate.

THE ULTIMATE RESPONSIBILITY FOR FIRE AND LIFE PROTECTION RESTS WITH THE TENANT.

Removing or tampering with a properly functioning Alarm, (which includes removal of operable batteries) is punishable under Oregon Law with fines up to \$250.00 per Alarm, per occurrence and may subject the Tenant(s) to penalties under the Rental Agreement and could result in the termination of the tenancy.

By signing, all parties acknowledge having read and understood this Agreement.

_____ Tenant	_____ Date
_____ Tenant	_____ Date
_____ Tenant	_____ Date
_____ Owner/Agent	_____ Date

_____ Tenant	_____ Date
_____ Tenant	_____ Date
_____ Tenant	_____ Date
_____ Owner/Agent	_____ Date

All Rental Units are required to provide Smoke Alarms/Detectors and Carbon Monoxide Alarms (where applicable) and provide a Written Notice containing instructions for testing of the devices, this Agreement satisfies those requirements.

TESTING AND CLEANING

Testing should be done at least once every six (6) months by pushing the test button and/or using simulated smoke. The Alarms should be cleaned with a vacuum cleaner at least every six (6) months. In battery-powered Alarms with removable batteries, chirping occurs when batteries are failing. Tenant(s) must replace dead batteries with 10-year lithium batteries, as required by law. Tenant(s) shall immediately notify the Owner/Agent in writing of any operating deficiencies as described in ORS 479.



M6—Smoke and Carbon Monoxide Alarm Agreement



What this form is for:

When someone dies in a fire and it's a Rental, lots of people immediately point fingers at the Owner/Agent as somehow culpable. To protect yourself, you need to be able to prove that you had smoke and carbon monoxide alarms as required by law, that your Tenants knew about them, and knew their responsibilities regarding them.

A law was enacted in 2009 requiring carbon monoxide (CO) alarms in residential housing as well as smoke detectors. The state fire marshal has adopted rules explaining where and when smoke alarms and CO alarms need to be installed. The state fire marshal has useful information regarding smoke alarms at: <https://www.oregon.gov/osp/programs/sfm/pages/default.aspx>.

The laws around both say Owner/Agents must install and maintain alarms and tell Tenants what their responsibilities are. This form helps you do that.

When this form is used:

This form is used during the move-in procedure. It is listed on the *Rental Agreement (Form M1, M2 or M3)*. Some forms are optional, this one isn't.

This Agreement accomplishes several things: protecting you, telling the Tenant about their responsibilities under the law, and telling them you take this seriously (hence the language about the fine that is reiterated in the Agreement).

How the form is filled in:

While this form has little more to complete than name and address information and signatures, it is very important. Give the Tenant(s) a copy so they have the testing and cleaning instructions. Be sure you keep a signed original.

1. Fill in the Tenant(s) name(s) and the Property Address.
2. Check this box if your property requires a carbon monoxide alarm.
3. Tenant(s) sign and date.
4. Owner/Agent(s) sign and date.

Older editions:

- The most recent edition is "Rev. 12/21"
- Do not use older editions

How to Buy an Investment Property Using Home Equity

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Converting Home Equity Into an Investment Property

First, let's quickly touch on how to calculate your home equity. To put it simply, it's the amount of your mortgage that you've paid off. Take your home's value, subtract your outstanding mortgage balance, and what's left is the amount of home equity you have. In general, the longer you've owned your home, the more equity you'll have.

Of course, just because you have a certain amount of equity doesn't mean you should cash it all out. The larger your home equity loan, the more risk you'll be exposed to — for reasons that we'll touch on below. And in a hot market like today's, enthusiasm can quickly turn to remorse. One recent study found nearly 60% of recent home buyers thought they overpaid for their home.

The two most popular ways to access your home equity are the home equity loan, or the home equity line of credit (HELOC).

The home equity loan works like any other loan, except you're putting your home up as collateral. You'll get a lump sum cash payment, a fixed interest rate, and a predetermined repayment term. Every loan is unique, so make sure you ask your lender any questions you might have before you sign.

The size of that lump sum depends on how much home equity you've accumulated, along with a few other variables. Lenders will generally require a credit score of 620 or above, although this can vary between lenders. As with any other loans, the better your credit score, the better interest rate you'll get.

You can't simply cash out all your equity, though. Lenders generally let you tap into no more than 85% of your equity, or 80% of your combined loan-to-value ratio, meaning your home equity loan plus your primary mortgage must be 80% or less of your home's appraised value.

Some lenders will allow you to exceed that 80% loan-to-value ratio, with select lenders allowing you to borrow up to 100%. Generally, it's best to only borrow as much as you need. If you're buying an investment property, even the best lenders usually require a 15% down payment.

ADVANTAGES AND DISADVANTAGES OF USING YOUR HOME EQUITY TO BUY AN INVESTMENT PROPERTY

While using your home equity to buy an investment property can be incredibly convenient, it also comes with some significant risks and drawbacks. Let's compare and contrast.

THE ADVANTAGES YOU HOLD ONTO YOUR CASH RESERVES

When you buy an investment property, lenders will likely require you to put at least 15% down. Even if you have that in cash, you might prefer to use your home equity to secure your new property, allowing you to maintain your financial flexibility.

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How to Buy an Investment Property Using Home Equity

continued from page 1

HOME EQUITY IS AN UNUSED ASSET

Your home equity is real wealth, but until you put it to work, it's not doing anything for you. Leveraging it to buy an investment property gets that money working for you, and potentially bringing in another income stream, not to mention a potentially appreciating asset.

BETTER INTEREST RATES

Because it's secured by your home, your home equity loan will have a much better interest rate than your other financing options. Many investors turn to personal loans or hard money loans, or to more esoteric options like peer-to-peer lending platforms or small business invoice financing, but those come with fairly high interest rates, as well as other drawbacks.

Hard money loans generally come with a very short repayment term, and higher down payment requirements, not to mention interest rates that can range as high as 15%. On the other hand, hard money loans are secured by the property they're being used to purchase — so your primary residence isn't at risk.

THE DISADVANTAGES MORE DEBT

Although home equity is an illiquid, non-earning asset, it's still an asset. Once you take out a home equity loan, you've converted that asset into more debt, which could affect your entire financial profile. That's not even taking into consideration the interest and fees you'll have to pay. Even if you cut costs when buying your new home, you'll still have to pay closing costs on your new loans, which can be substantial.

YOU NOW HAVE THREE LOANS TO PAY BACK

Yes, three. You have your original mortgage on your primary residence, you have the new mortgage on your investment property, and you have the home equity loan. You've gone from one monthly payment to three, which is going to require a lot more cash flow.



YOU'RE EXPOSED TO MORE RISK

If home values fall, you could find yourself underwater on both of your properties, meaning you owe more than the home is worth. This is even more of a risk if you're carrying a very high loan-to-value ratio. And owning two properties doubles your potential exposure.

YOU COULD LOSE YOUR HOME(S)

Remember, your primary residence is collateral on your home equity loan. So if you fail to make those payments, you could lose your house.

HIGHER INTEREST RATES

While the interest rate on a home equity loan is generally lower than other options, like hard money loans, it will still be higher than the mortgage rate on your primary residence. This also applies to your investment property: Lenders charge higher interest rates on your second property since you're taking on more risk.

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to manage their rentals.

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541-756-0347 -or- info@roa-swo.com

Welcome New and Returning ROA Members!

Jennifer Ryan, Debbie Alexander,
Dennis Bowman & Dennise Hughey

Your ROA Board of Directors

President: Cindy Colter
coltercindy@gmail.com (541) 404-8609

Vice President: Regina Gabbard
regina@eledwardsrealty.com (541) 756-0347

Secretary: Jessica Webber
jessica@advancedpropertymgmt.biz

Treasurer: Dahla Allen
dahlaallen@icloud.com

Past President: Regina Gabbard
regina@eledwardsrealty.com (541) 756-0347

Position #1: Maria Menguita
malumeng@gmail.com

Position #2: Rebecca Jennings
parksidevillagecoosbay@gmail.com

Position #3: Joan Mahaffy
mahaffyje12@yahoo.com (541) 269-6562

Position #4: Danielle Eastwood-Swanner
danielleswanner94@gmail.com

Position #5: Michelle Cantrell
michelle@orbpm.com (541) 808-9040

Position #6: Vacant

2024 Slate for Board Officers

President - Cindy Colter
Vice President - Rebecca Jennings
Secretary - Jessica Webber
Treasurer - Dahla Allen

***NOTE:** Voting will take place online via email ballot.

Ever wonder what goes on at ROA Board meetings? Have any suggestions to share? Interested in joining the board? Bring your thoughts and/or ideas. Or just listen in and see what we're all about.

The ROA Board of Directors meets every month. Meetings are always open to members. Contact us for more information.



roa-swo.com

Contact us at:

PO Box 1712
Coos Bay OR 97420

info@roa-swo.com
(541) 435-4376

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Code of Ethics

Excerpt from the Bylaws of the Rental Owners Association of Southwestern Oregon

The objectives of this Association shall be:

- A. To unite, for their mutual good, rental housing owners, managers and/or their agents in the Southwestern Oregon area.
- B. To strive to maintain those standards of the residential rental industry which are of a high ethical and up-to-date business level.
- C. To stimulate cooperation among rental owners to the end that the best possible service will be rendered to the owners and renters.
- D. To provide appropriate information and educational opportunities on state/federal laws, rules/regulations, policies/procedures and rental housing management.
- E. To cooperate with other organizations having similar goals.

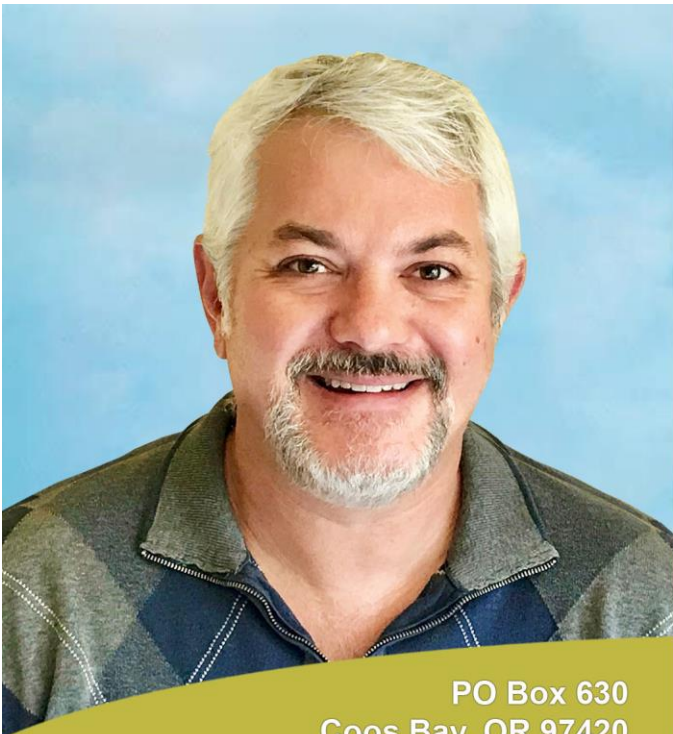




**RENTAL OWNERS
ASSOCIATION OF
SOUTHWESTERN
OREGON**

PO Box 1712

Coos Bay OR 97420



**PO Box 630
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Phone: (541)756-2056
assistant@pmtlaw.net**

Patrick M. Terry Attorney at Law

**Representing Landlords on the
Southern Oregon Coast since 2002**

As a landlord of 11 rental units, Patrick understands the needs of his clients and is eager to help.

He specializes in:

- Landlord/Tenant Law
- Real Estate
- Collections
- Estate Planning
- Business
- Probate

*Free 1-hr consultation only covers landlord/tenant matters. All other matters are subject to hourly charge. Inquire for details.



ROA SWO's attorney on retainer.
Current members receive a **FREE**
1-hour consultation annually, plus
discounted rates for representation.