

An aerial photograph of a village with traditional European-style houses, including a prominent half-timbered house in the foreground. The houses have red-tiled roofs and are surrounded by green fields and trees with autumn foliage. The sky is blue with some clouds.

HOUSE HACKING YOUR WAY TO FINANCIAL FREEDOM!

WHO IS THIS FOR?



Are you sitting at your job right now, thinking of other ways of making money or minimize your expenses?



Are you frustrated that a large amount of your paycheck goes towards your rent?



Would you like to have extra money so you could take those trips you want and travel all over the world?



Are you hungry to start building wealth and tired of living paycheck to paycheck?



Do you have a full time job, maybe in corporate america, and you are wanting to design an exit strategy to do what you are really passionate about?



Do you want to invest in real estate but don't know what is the first step to buy your first property or what team you may need?



Are you thinking of investing in real estate but you think you don't have enough money for a down payment?

If you have answered YES to ANY of the questions above then HOUSE HACKING is for you!

WHAT IS HOUSE HACKING?

House hacking is the strategy that changed my life and is one of the least expensive ways to get started in real estate. This strategy has helped me keep my housing expenses low; and even live for free at times. How is this possible in a time when 11 million Americans spend half of their income on housing? Wouldn't it be great to reduce your housing expenses to almost \$0 and be able to spend that money on travelling, experiences or things you really like?

Here is how

Buy a single family home, rent out the rooms and have your roommate's rent payments pay for your mortgage (or more). Another option is to buy a multi-family property such as a duplex, triplex or quadplex, live in one of the units and rent out the other sides.

If you are getting your feet wet with real estate, this may be a bit complicated. As you not only become a home-owner, but you also become a landlord. There are multiple steps that you need to take when buying a home. I have great news for you!

I have created this guide to help you buy your first property and begin house

hacking. I will show you the pros and cons of doing house hacking, explain the team you need to successfully buy your first home and also give you real life examples of how I did it and how I have helped others do the same.

I have been house hacking since 2014 and living for free has helped me reduce my expenses and connect with other likeminded people. I now have a portfolio of 8 properties for a total of 12 doors and it's still growing. I make about \$5K a month from my rental properties. I love it!!!

WHY HOUSE HACKING IS A GREAT WAY TO GET STARTED IN REAL ESTATE?

House hacking is a great way to start getting your feet wet in real estate, especially if you are young. No matter where you live, you have to either rent or own. If you are renting, you are paying someone else's mortgage, so why not own?



Let me explain the benefits of house hacking:

- **Buying with little money down & low interest -**
Usually if you are buying a property as an investment, the banks require 20-25% down payment. The good news is that when you are a first-time home buyer or you are buying a property to live in it yourself (owner-occupant), there are bank lending programs where you can buy a home with 3.5-5% down payment, or 0% down if you use a VA loan or USDA loan. The 3.5% down payment is called FHA, while a 5% down payment will be a Conventional Loan. When you move out, you can keep it as a rental, and still have the owner-occupant loan. How cool is that?! I will explain more regarding loan programs later in this e-book.
- **Roommates / Tenants pay for your mortgage -** when you buy a home with a loan, there is a mortgage payment. It consists of the Principal, Interest, Taxes, Insurance (PITI). The good news is that if you have roommates living in your home or tenants on the other side of the duplex, their rent payment will be able to cover most, if not all, the mortgage payment. This will greatly reduce your monthly expenses, and you will be able to save more money in the long run.
- **Tax deductions -** One of the best parts of house hacking are the tax deductions you can take at the end of year. Property taxes AND the Interest that you pay every month is tax deductible. The first full year I owned my house, I was able to deduct over \$7,000 from my taxable income. The best part is that this was getting paid for by my roommates! It was amazing!
- **Easing your way into getting real estate -** A lot of people don't pull the trigger to start investing into real estate because they get overwhelmed with the unknown. They don't know, what they don't know. House hacking allows you to get your feet wet because you are buying a property for yourself, that just happens to have units or extra rooms that can make you money. Try it out and if you don't like it, then sell it or just keep and manage that one property. But... if you catch the bug and see the magic of passive income, then you will want to continue investing.

- **Drastically reducing your house expenses** - This is my favorite benefit! By having other people pay for your living expenses, you will have the opportunity to save more money and invest it on other assets or experiences. Did you know that the regular American spends 30% of their income on housing? How would you like to have an extra 30% increase in your savings account?

Case Study

MY FIRST HOUSE HACKING EXPERIENCE AT THE AGE OF 24

When I first decided to house hack by renting out rooms I decided that the best way to get it filled up would be to get a home that was renovated/ upgraded. I didn't want to take time to remodel the kitchen, paint, change floors, or put a new roof. I wanted

it to be move-in-ready so that I could start making money as soon as possible, plus I didn't have much experience in remodeling or doing property management. What I did know is I could market the property online through Craigslist while I was in the process of buying it just to see what kind of response I would get. And I got a lot! By the time I bought the house and had the keys in hand, I had 2 new roommates moving in with me and each paying \$550. Which meant, I was making money from day 1! Boom!

The Deal

I bought a 4 bedroom home, around 1,850 square feet in the north Austin, TX area. I used an owner-occupant loan program (5% conventional) so I didn't have to put a lot of money down. I realized it would better to buy a 4 bedroom home so that I could have 3 people paying most of my mortgage. Also, if I had a vacancy or wanted to use one of the rooms as a guest bedroom or an office, I was still making a decent amount of money.

I found all my roommates through ads on Craigslist. The ad consisted of:

- 1) Description of the property
- 2) Location & proximity to employers, shopping, highways, etc
- 3) What I was looking for in a potential roommate
- 4) About myself and best way to reach me



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Now... let's get to the fun stuff... the numbers!

Deal Breakdown

Sales Price	\$170,000
Down Payment	5% - Conventional Loan
Mortgage Payment	\$1,350
Gross Monthly Income	\$1,650 (Each room rents at \$550)
Monthly expenses/ Vacancies	\$100

Monthly Net Profit: 1,650 - 1,350 - 100 = \$200

I was making around \$200 a month, plus living for free! That \$200 paid for my car payment at the time.

It felt amazing to have erased my monthly housing expenses & also getting my car paid of by other people. It was at this time when I understood the saying: "Make your money work for you."

FREQUENTLY ASKED QUESTIONS



How do you Calculate Your Mortgage Payment?

Here in Texas, and I believe in almost every state, the mortgage payment consists of the Principal, Interest, Taxes, Insurance. I will refer to this as the PITI.

You can find a lot of mortgage calculators online, but when I am on the go, I use the Quicken Loan mortgage calculator. It allows you to plug in all the numbers and you can play around with the down payment, interest rate, etc.

What would be the ideal property to house hack and live with roommates?

From experience, I would say the ideal home to house hack and live with roommates is a 2 story 4 bedroom home, with at least 2.5 baths. Single Story homes usually have 2 full bathrooms, 1 in the master and the other one for guests, so if a roommate is taking a shower, and another roommate has to use the restroom, then they are out of luck. With a 2.5 baths, the roommate at least can use the extra half bathroom.

How long do I have to house-hack in order to buy my next property?

One of my favorite parts about house-hacking is that you can get a low-money down / owner-occupant loan every year. So as long as you can save for the down payment and you can rent out your current property you are living in and you can qualify for another loan... you can buy another property every year.

What are the potential disadvantages?

Now, there may be a few hassles with House Hacking but without sacrifice comes no victory, right? If it was easy and perfect, then everyone will do it and be financially free. This guide will simplify the hassles as much as possible and I am only an email away with questions.

So here we go...

Living with Roommates or living with tenants next door - Some people have had or heard horrible stories dealing with roommates and that sometimes can scare people from taking action and house-hacking. Some people may not want their tenants to knock on their door at night because something went wrong on their side. The good news is that with a good background check and asking the right questions to the applicants, you can minimize this hassle. Also, know that house hacking may be a temporary strategy that will get you towards a bigger goal of financial freedom.

Making sure the house is clean and taken care of - Not all roommates are perfect but...

Lease ending / vacancies - With a multi-family property, the leases are usually for 1 year. But when you do rent out by room, you can rent out them out which ever length you want. Sometimes you may have a room or side vacant for a few weeks while you find a new tenant, so you just have to plan accordingly for those expenses.

WHAT ARE MY MORTGAGE OPTIONS (OWNER-OCCUPANT LOANS)?

I am going to explain the 4 types of owner-occupant loans that you can qualify with regular mortgage lenders, credit unions, and major banks.

1) Federal Housing Association (FHA) Loan

According to Bankrate.com, "An FHA loan is a mortgage insured by the Federal Housing Administration. Borrowers with FHA loans pay for mortgage insurance, which protects the lender from a loss if the borrower defaults on the loan."

Pro: The borrower just needs a down payment of 3.5%, low interest rate, more lenient on debt to income ratio.

Con: The borrower pays Mortgage Insurance for the whole duration of the loan, unless you refinance after a few years. Closing costs can be higher than other programs, lenders can be a bit more strict on the condition of the home. Also at closing, you will pay an up-front funding fee. This funding fee will vary.

2) Veterans Affairs (VA) Loan

The VA Loan is a mortgage loan issued by approved lenders and guaranteed by the U.S. Department of Veterans Affairs (VA). This loan help veterans, active duty military members and their families purchase homes or refinance their mortgages.

Pros: \$0 for down payment, No Private Mortgage Insurance payment for the term of the loan, lower interest rate.

Cons: According to Veterans United: "All VA loans come with a mandatory VA Funding Fee charged by the VA. This fee goes directly to the agency and helps keep the VA home loan program running for future generations." This fee is added to the closing costs of the loan.

3) Conventional Loans

According to Lending Tree: “These loans are offered by private lenders, and because they do not have direct government backing, their requirements are generally more stringent than those for FHA mortgages.”

Pros: No funding fee and lower mortgage insurance payment. The mortgage insurance payments can be eliminated once you have 80% equity on your home. Low down-payment program starting at 3% - 5%. Low interest rate available.

Cons: Need a slightly higher credit score (minimum of 620 credit score). Higher debt-to-income ratio than FHA loan program.

HOW DO YOU FIND ROOMMATES?

There are multiple ways to find roommates. Of course word-of-mouth through friends may be the best but that may take a while. There are websites and applications that will make it easier to get roommates. One of them is Craigslist. I found most of my roommates through a Craigslist Ad. In the Ad, I put pictures of the house, a description of the house, a description of myself and my lifestyle and what the ideal roommate would be.

Roomster is an application I have used in the past to also find roommates. This app does have a monthly fee but you only needed it when you are looking for roommates. In the app, you will put info of the ideal tenant and you will be matched with people looking for rooms. Possible tenants can also see your profile and reach out to you. They will send you a message through the app, which is good if you don't want random people to see your phone number or email. From there you can have a conversation with the possible tenant and schedule a time to see the room.

So what happens after you show the rooms to a potential roommate and they seem like a good fit?

You will send them an application and do a background check. The best and easier way I found to do this is through a website called Cozy.co. Cozy.co allows you to send the possible tenant an application so that you can see their work history, where they have lived, and point of contact. Also, through the website you can have them run a credit check and criminal background check. THIS IS A MUST! I highly recommend doing a background check to make sure they are not hiding anything from their past. Also, since the tenants have to pay Cozy.co around \$40 to run do the background check, it shows that they are committed and really want to be your roommate.

Do you charge a security deposit to potential roommates?

For roommates, once you have accepted them through Cozy, you can request a security deposit from the website. You can also request that security deposit as a money order or cash or check. I usually request a fully refundable security deposit of \$500 so that I can reserve their room. Sometimes tenants move in 2 weeks after I have accepted them, so having the security deposit in-hand will make sure they are committed.

For regular tenants, if you decide to have them rent a side of a multi-family unit, I would recommend charging one month's rent, on the day of move-in.

How do you deal with utilities when you are renting to roommates?

When renting to roommates, you will also have to let them know if utilities will be split by the amount of roommates in the property or if it will be included on the rent payment. This is a decision that you will have to make. In my experience, it has been better to advertise a lower rent payment online and tell them that bills will be added to that rent every month. This may require a bit of extra work, but I think it is worth it.

How do you find tenants if you buy a multi-family property?

There are multiple ways to rent to families if you are renting out the sides on a multi-family property. You can post an Ad on Craigslist or Zillow. The Ad should contain description, monthly rent, how soon the side is available for tenant to move-in and pictures of the property. If you want to do less work, you can hire a realtor to find a tenant for you. This way the realtor will put a lockbox for other agents to show the property and they will do the background check for you. Hiring a realtor will be less hassle.

CONCLUSION

So are you excited? Are you ready to “House Hack” and live for free? This strategy will not be for everyone, but I highly believe it will help you get started in your real estate empire with the least amount of money.

The average millionaire has at least 7 income streams. Why not get started by adding a stream of income through house hacking in the next few months? 95% of the population focus on increasing their vertical income by climbing the corporate ladder. It is time to start building passive, horizontal streams of income.

I have a free video training that will explain House Hacking with a step-by-step process, visit <http://HouseHackingClub.com/training> to learn more and connect with the community of house hackers. Success leaves clues, so what better way to take the next step and learn from others who have done it before you.

I have been house hacking since 2014 and living for free has helped me reduce my expenses and connect with other likeminded people. I now have a portfolio of 12 doors and it's still growing. I love it!

If you have more questions, send me an email at Diego@FreeBy26.com and got to <http://HouseHackingClub.com/training> to learn more!

HOW CAN I GET STARTED? - ACTION STEPS

- 1) Read Rich Dad, Poor Dad
 - a) You have to get your mindset right.
 - b) Understand that 95% of the population is changing their time for money. In order to build wealth, you have to make your money work for you
- 2) Commit to the concept of house hacking
 - a) This is a long-term concept, not a get-rich-quick concept.

- 3) Secure your financing options with a lender
 - a) Talk to multiple lenders to see what owner-occupant loan programs they have.
- 4) Find an investor friendly Realtor
 - a) Create an account BiggerPockets.com and introduce yourself on the forums. Mention that you want to invest in your particular area and are looking for investor-friendly realtor or an investor who has done house-hacking. Invite them for coffee or lunch so that you can pick their brain and ask about their experience.
 - b) Send me an email to diego@freeby26.com and I will do my best to introduce you to a realtor in your area. I am part of different real estate networks and can find someone for you.
- 5) Study your market
 - a) In order to maximize occupancy and profit make sure that you are investing in an area where there is job growth.
 - b) What are areas where you would rent a room or half a duplex?
 - c) Is the property near shopping centers?
- 6) Start the buying process and close on the property
 - a) See homes.
 - b) Hire an inspector to inspect the property.
 - c) Negotiate terms.
 - d) Close on the property.
- 7) Find tenants & start collecting checks!
 - a) Find tenants/roommates.
 - b) Live for free.
 - c) Start planning for the second one!

Resource:

<https://www.lendingtree.com/home/fha/requirements/fha-vs-conventional/>

<https://www.veteransunited.com/>

http://money.cnn.com/2016/06/22/real_estate/rent-affordability-housing-harvard/index.html

About the Author



DIEGO CORZO

<http://HouseHackingClub.com>

Email: diego@freeby26.com



Diego Corzo is a 27 year old entrepreneur from Austin, TX. Diego was born in Lima, Peru and moved to the United States with his family when he was 9 years old. Diego's parent told him that the United States was the land of opportunity and that with hard work and determination all his dreams will be possible. Diego graduated top 1% from Florida State University with 2 bachelor degrees in less than 4 years and \$0 student debt. He started working in corporate america as a software developer for General Motors and soon discovered that he wanted a career shift. After realizing that corporate America wasn't for him, Diego pursued his passion in Real Estate. Now, Diego is a realtor for Keller Williams alongside an incredible team, and currently owns 8 rentals properties, both in Texas and in Florida. Diego is on a path to financial freedom and aspires to help others, especially millennials, become financially free and reach their full potential.

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