

How to Own a Home with No Money Down

Whether buying a home as an investment property, a rental property or for personal ownership, there are a variety of different financial methods for acquiring that house. Although no-down payment mortgages and buying a home with no money down was nearly unheard of twenty years ago for the general public, they became more common in the 1990's. Following the increasing level of defaults and the collapse of the subprime mortgage industry, these loans have become more difficult to obtain.

One of the major reasons buying a home with no money down is has been so popular is the rising cost of owning a home. With increased market value, many first time homebuyers and investors are unable to put a full 20% down on a home. In response to this, most mortgage companies have begun creating options that allow investors and new homeowners more accessibility to real estate.

Of course buying a home with no money down will have both positive and negative aspects. Understanding these, along with what works best for the type of investment being made, will help a homeowner make the best choice when deciding to buy a home with no money down.

What is a no down payment mortgage?

As simple as it sounds, a no down payment mortgage is exactly that. Twenty years ago, the average homeowner would put 20% of the cost of the home down to secure the property and to prove to the mortgage company that they were serious about the financial investment of purchasing a home. This meant that a homeowner was only mortgaging 80% of the home and left the mortgage company with more security in the loan agreement, as the homeowner was also already investing a substantial amount of money into the property.

Since the market value of homes has substantially increased over the past twenty years and homeowners are moving more often, putting 20% down on a home just isn't feasible for many people. With this in mind, many mortgage companies began creating alternative loan programs so that investors and homeowners could put between zero and five percent down on a home. This allows for little risk from a first time homeowner and also from an investor.

Keep in mind, though, that a no down payment mortgage means that the homeowner is financing 100% of the home. This will mean an increase in interest and a heftier mortgage payment every month.

Private Mortgage Insurance may also be added to a mortgage payment when there is less than 20% put down on a house. Many times, mortgage companies will require the homeowner on a no down payment mortgage to pay PMI, which insures their money in case the homeowner defaults on payments.

Just because a homeowner or investor starts out unable to pay the full 20% down, this does not mean they are stuck with PMI for the entire life of the mortgage. Mortgage lenders are required by federal law to cancel PMI once the equity of the home has reached 22 percent. This only holds true if the loan was originated after July 1999. Even for those investors or homeowners who purchased a property before 1999, many lenders will cancel PMI once the equity has reached 20% if the homeowner asks. Since many homeowners are unaware that they can ask, many continue to pay PMI for the life of the loan.

With the increase of investors and homeowners buying a home with no down payment, there are now many ways around paying PMI. Although PMI may not be a concern for investors who are planning to purchase a home and immediately get rid of it once it is remodeled, those who plan to keep a home for personal use or for renting will be very interested in methods of getting around PMI.

Alternative Loans to Avoid Private Mortgage Insurance

Veterans Administration

Originally the VA loan was created to help WWII veterans get on their feet after returning home from the war. The VA loan has since expanded to a mortgage loan available to all current active duty, reserve or retired military personnel. Many young active duty or retired military personnel use the VA loan as their first home loan, but the loan can be used at any time. Although the VA loan does not require private mortgage insurance, all mortgage companies that offer the loan are required to charge a VA loan-processing fee. Usually this fee is a small percentage of the entire cost of the loan and can actually be folded into the loan or into the closing costs.

A small inconvenience that goes along with the loan is for loan applicants to prove their current status and for retired military to do the same. For active duty this is as easy as showing identification, but for retired military, this may mean pulling out old discharge papers or going through the government to have a certified set of discharge papers sent to the mortgage company.

Interest rates on VA loans, as well as many other no money down loans are usually higher than for a 20% down loan. Remember that only one VA loan is allowed per veteran at a time, although the loan can be reused time and again. For those investors who may want to use a VA loan, the loan is only good for one property at a time. Keep in mind, however, that a VA loan might be a great option for someone looking to flip houses, since many investors only flip one house at a time.

FHA Loans

A new contemporary alternative to the VA loan, which is offered to the general public, is the Federal Housing Administration loan. This type of loan was established by the federal government specifically to help first time homebuyers who have little down payment cash, bad credit history or no credit history. There is a catch with the FHA loan, though. Although they may be considered "no money down" loans they actually require new homeowners to put nearly 3% down on a loan at the time of closing. Of course this is much easier to come by than a full 20% of the cost of the home. Another catch to the FHA loan is that there is a mortgage insurance premium paid at closing. Before entering into a loan agreement with a mortgage lender, be sure to ask about mortgage insurance on FHA loans.

While FHA lenders will be more lenient about past credit history, they will still require homeowners to take care of past due bills or bad credit history before the loan is processed. This may add time between the date a contract is placed on the home and the date of closing. FHA loans have a maximum cap depending on location of the property; consideration is made for high cost areas, such as California, Washington D.C. or New York City.

80/20 Loans

In the last ten years as the market value of homes has gone up, many mortgage lenders have been looking for affordable ways for investors and homeowners to purchase a home. A creative way that financial lenders have opened up no money down loans is through 80/20 loans. Some lenders refer to these loans as combined financing or piggyback loans because they are often used for home improvement or refinancing as well. If the mortgage company cannot offer a VA loan or an FHA loan, they may be stuck with terms that require them to charge a homeowner or investor 20% down on the home.

In order for homeowners to avoid paying costly PMI, many mortgage lenders will instead combine two trusts. A trust of 20% of the loan value is added together with a first trust of 80% of the entire loan value. The first trust is set at 80% of the loan value because this will eliminate the need for PMI, which automatically comes out if the homebuyer requests 100% of the loan cost and cannot put any money down. The second trust will be the remaining 20% of the purchase price and will be used to pay the "down payment" on the home at (or before) closing.

Although a homeowner is taking out two different loans, more often than not the mortgage lender will combine the entire loan payment so it appears the property owner is only making one payment a month.

A catch that actually helps many mortgage companies make more money on 80/20 loans is that most mortgage companies charge a closing cost processing fee. Since the homeowner is actually financing two loans, they may be charged up to 3% of each loan cost. If this is the case, a homeowner or investor will end up paying huge closing costs. With this in mind, homeowners interested in the 80/20 loan should definitely discuss the specifics of this type of loan with a lender before agreeing on a loan.

For those interested in investing, the 80/20 loan is an excellent way to begin investing without putting personal assets down. This loan is also an excellent way to acquire extra money that may be needed for home repairs if an investor is interested in flipping a home or fixing up a rental property.

Other Ways to Acquire a Home with No Money Down

Monetary Gifts

If an FHA, VA or 80/20 loan does not sound appealing or affordable, some investors or new home owners may want to consider going about putting 20% down through the help of a relative or employer. Although not all mortgage companies or loan types allow for monetary gifts to be used as a down payment, there are many loan types that will allow for the use of monetary gifts to help make up a 20% down payment.

Remember that depending on the size of the monetary gift, many are tax deductible. So if there is a relative or employer who would benefit from giving away a monetary gift, consider discussing this option with them. If this is not an option, some investors or homebuyers may have a trust fund, retirement account, or other type of money market account set up in their name. While not all mortgage types allow for the use of these types of funds, many will. The catch with using one of these accounts will be the investor or homeowner may incur penalties or fees for an early withdrawal.

Non-profit Gift Programs

Many potential homebuyers are unaware of all of the possible routes available for acquiring a home with no down payment. Although the option of non-profit organization gifts is not great for investors, it is an excellent option for those first time homebuyers with a low income, no credit or bad credit history. Many of these gift programs will give a percentage of the down payment, usually between 2-6% to homebuyers in need. Although the gift programs do not require homebuyers to return the money, the home has to be listed with the gift program because the gift is usually given by the seller of the home.

Some of the non-profit organizations that help pair gift sellers with buyers in need include AmeriDream, Inc., Nehemiah Corp. of America, Home Gift Providers Association, and Neighborhood Gold. All of these organizations have websites that can provide interested homebuyers with more information and a point of contact.

Good Credit

If you are an investor or potential homebuyer who is lucky enough to have good credit, then you may be able to acquire a no money down loan without much hassle. A new alternative to a VA, FHA or 80/20 loan is the mortgage company simply offering incentives to potential customers who have excellent credit, usually with a score over 600 or more.

Having a good credit score is essential for those investors interested in purchasing a home because often times a credit score of over 620-650 means the mortgage company will allow for a loan at 103-106% of the sale price of the home. This will allow plenty of extra repair funding for a flipped house or a rental home that needs to be fixed up before renting out.

Government Programs

Aside from the VA and the FHA loan, there are many other government agencies that can help those in need acquire 100% financing. There are also many government agencies that can help with government grants to those who are income eligible. While many of these options may not be open to real estate investors, as many have the financial means that would eliminate them from the category of income eligible, these are great no down payment options for first time homebuyers or for families in need to help get on their feet.

Two major government organizations to consider include the Fannie Mae Foundation and the Freddie Mac Organization. Both of these organizations help set up finance plans that allow for homeowners to acquire a loan with as little as \$500-\$1000 to cover closing costs. Keep in mind that just because these organizations can help with no money down, they cannot really help with higher interest rates on 100% financing loans.

A few organizations that can help with government grants include the American Dream Downpayment Initiative and the Department of Housing and Urban Development. Again, these government grants are most often awarded to applicants with low incomes in areas of need, so the grants are only helpful in acquiring a no money down home if the homeowner fits into these categories. For those that are eligible, these government grants are an excellent way to help cover a full down payment, closing costs and to help acquire a reasonable interest rate on a home.

Why a home with no money down?

There are different reasons why a no money down purchase can be enticing to potential investors and homeowners. Depending on the reasons why financing with no down payment sounds enticing, it is important to consider both the positive and negatives involved in no down payment real estate purchases.

Of course the original advent of many no down payment financial options were for first time homebuyers or homebuyers with lower income that could not afford the purchase of a home otherwise. No money down financing has also become enticing to real estate investors because it involves less risk for them in the long run.

Investors interested in no money down purchases include investors interested in flipping houses, or fixing them up to make a profit, and those interested in renting. For those interested in investment, though, it is important to consider the pitfalls that may come with no down payment loans.

Rental Properties

For landlords, putting no money down will mean a higher mortgage payment each month. This may mean charging tenants a higher rent rate a month in order to make a profit off of the property. When looking into a no down payment loan, it is important to research the average rent charged for a similar property in the area. From here, landlords can determine if the mortgage payment and property taxes combined will still be low enough for them to put the house up for rent and still make a profit. If not, a no down payment loan may not be the best way to go.

Other additional costs that rental property owners will want to consider are homeowner's insurance on a rental property as well as warranties for appliances or repairs that may have to be made to the house over time.

Flipping Houses

No money down on a house is a great way for an investor to go about financing a house that needs fixing up and turning it into a great house to resell. Of course many investors do not want to put 20% of their own money down on a home that will not be their own personal living space, so instead they look to no money down or little money down mortgages. Since 100% of the mortgage

will be paid off once the home is repaired and resold, there is not much concern about a high interest rate or the life of the loan.

Keep in mind when considering flipping a house with a no money down mortgage that investors may want to ask for more than the purchase price of the house in a loan, to include an estimate of what the house will cost to fix up. One problem that an investor may find with estimating the cost of remodeling the home is finding more structural or cosmetic costs as the fixing up unfolds.

If remodeling costs become extensive investors may find themselves having to put the home on the market for a higher price than they originally planned in order to make a profit. If the market price is not competitive than the house may not sell for a profit. This could leave the investor having to make more mortgage payments than they originally intended, which will of course come out of the pocket of the investor. If the investor has gone with a no money down mortgage than the payment will be substantially higher than if they put 20% down on the loan.

When getting ready to invest in flipping a house, be sure the house has been well inspected for major structural problems to avoid these no money down pitfalls. It is also important to consider the resale value of a flipped house in the area the home will be purchased. First considering the resale value will allow an investor to determine how much to pay for the home before a remodeling and how much they can afford to invest into the property to fix it up for reselling.

Before Buying a No Money Down Home

Buying a home means taking a financial risk, no matter what financial means are used to acquire the home. Now that more financial options are available, the risk of purchasing a home or investing in a home is more readily available to the general public. Buying a home with no money down is an excellent way to get established in the real estate market, but before doing so homeowners or investors need to be sure of what they are getting into with the current real estate market.

This means doing extensive research on the current state of the market in the area an investor or homeowner is looking to buy. Being well informed on the recent sale of houses in the area and the appreciating or depreciating value of houses in that area will let a potential homebuyer know what ballpark they are playing in.

It is also important to take the time to research real estate agents and mortgage lenders. There are an abundance of agents and mortgage lenders available but it is essential to find the team that is willing to help a homebuyer succeed and not just there to earn an extra dollar. Finding a mortgage lender who is willing to discuss a series of no down payment financial options is the way to make sure the best loan agreement is made.

If you are looking to buy or sell a property, please contact the owner of the site where you obtained this eBook.

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