

BUYING AN INVESTMENT PROPERTY WITH LITTLE OR NO MONEY DOWN!

“One of the comments I hear most often in our Real Estate Company is ‘I plan to buy an investment property one day, but I don’t have enough for a down payment right now,’” Says Loren Keim, President of Century 21 Keim Realtors with offices in Eastern Pennsylvania. “Many buyers just don’t realize how many funding sources exist to help them invest in real estate!”

“There are literally hundreds of different loan programs available through Mortgage Bankers, Mortgage Brokers and Investment Groups. The trick is to find the loan program that best suites your situation,” explains Bob Wilfinger of Homestead Funding. In these hundreds of loan programs, a prospective investor can find everything from great rates with 20% down payment or equity in the property, all the way to 100% mortgage sources that may require a higher interest rate. For those with credit issues, there are even some “hard money lenders” who loan money at high interest rates.

IMPORTANT POINT 1: THERE ARE CLOSING COSTS WHEN BUYING REAL ESTATE

When you’re buying Real Estate in Pennsylvania, there are 3 things you must pay for in order to settle. The goal of a good real estate broker or mortgage lender is to assist you in getting into the property with as little cash as possible (or no cash if it can be done for your situation).

The first money you need when using typical financing is the down payment. Depending on the loan type, this can be 2.5% down, 5% down, 10% down or possibly 0% down.

The second group of charges is called Closing Costs. These are costs you pay in order to purchase real estate in Pennsylvania. These can range between 4% and 8% of the purchase price of the property. Typical Closing Costs include Transfer Tax (1% to the Buyer typically), Title Search and Title Insurance Costs, Points to the Lender, a Credit Application Fee, an Appraisal Fee and Notary Fees. Although all loans have closing costs, there are sometimes ways to build them into the mortgages or to have the seller pay some of them on your behalf.

The third group of expenses (which is often forgotten when you get a typical closing cost estimate over the Internet) are Pre-Paid items. These include the first year's property taxes and the first years Home Owners or Fire Insurance.

The primary reason we start this article explaining the fees is that many buyers believe that if they find a Zero or Low down payment loan, they don't have to come up with any money. Investors and their Real Estate Brokers have to be creative to get the amount of required down payment reduced because there are always closing costs as well. Even with a 0 Down Payment Loan, you could have 6% in closing costs, and that could be a significant amount of money to need in order to settle.

IMPORTANT POINT 2: CREDIT SCORES

You will see references throughout this article to credit scores that are needed for various programs. If you'd like to know your true credit scores, contact a good loan consultant. Patrick Ruddell from Homestead Funding explains "I can actually have your full credit history pulled in only a few minutes, and that allows me to figure out what programs you qualify for within minutes to an hour of your call."

IMPORTANT POINT 3 – Over 4 Units = Commercial Financing!

Lenders follow a set of guidelines called the Fannie Mae regulations. These regulations limit "residential" financing to properties that are between 1 and 4 units. Once you exceed 4 units in a building, you must obtain commercial funding, which can be more expensive and more complicated to obtain.

ZERO DOWN LOANS

Because of the easy access to money from a variety of sources, investors can once again find zero down payment on certain types of investment properties. The most common no down payment loan for an investment property is on a single family property. An investor can purchase an Easton city row home, as an example, for \$75,000 with no money down, and the seller can even contribute 2% of the purchase price toward the purchaser's closing costs, using a new Homestead Funding Program. The investor can then often rent the property to tenants for a higher monthly rent than the investor is

paying in mortgage payments. As an investor, you can possibly purchase the property for \$2000 to \$3000 out of pocket and receive a return on your investment.

Where is the great benefit, you say, in going through the hassles of purchasing a property with the bank's money, only to make \$50 or \$100 a month net income? You are leveraging your investment capital by using the bank's money. The tenant is paying down your loan over time, which is creating a savings program for you. And possibly best of all, as the property appreciates in value, your equity appreciates as well. Let's say the property appreciates by only 2.5% per year. In the second year, the property would potentially be worth \$76,875; and by the 5th year, the property would be worth nearly \$85,000. (As always, we're using this for example purposes, and this is in no way a guarantee of any performance of any particular property).

Again, earning a net income of \$50 to \$100 per month is a net income of \$600 to \$1200 per year. If we consider the initial investment to be \$3000, and you put that investment capital into a mutual fund at 8%, you would receive a check for \$240. By buying this property, you're receiving \$600 to \$1200 for the property. That's a return on investment of 20-40%!

Multifamily Properties

On 2 unit properties, this same loan program can be used with only 5% down payment, and the seller may still contribute to the buyer's closing costs. On a 3 or 4 unit, the buyer needs to put 10% down.

5 or more units require Commercial Financing, but some commercial financing allows the seller to hold a second mortgage. The lender may loan you 80% of the purchase price, and the seller may hold the additional 20%, allowing you to 100% finance the property.

80/15 Loans These are unique loans that allow a borrower to take out a first mortgage of 80% of the purchase price, and a second mortgage (or equity loan) simultaneously for 15%. On some of these programs, the seller can pay much of the closing costs for the buyer.

OTHER SPECIAL LOAN PROGRAMS

Special loan programs come and go quickly.

Keep abreast of the market by staying in contact with a good Mortgage Banker or Mortgage Broker that has their fingers on the pulse of different programs.

