Investing in Real Estate

With Little or No Money Down

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Budgeting Like a Boss

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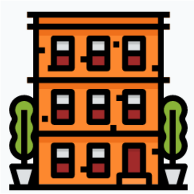

Real estate is a great addition to your portfolio for a number of reasons. Purchasing properties gives you access to a stable source of income, provides you with assets that are highly valuable, and protects you against inflation. Real estate also enables you to create a more diverse portfolio.

There are a few drawbacks when it comes to investing in real estate, though, including the fact that properties are not as liquid as other forms of investments. The market can fluctuate, and the initial investment is much higher than with other financial products.

However, there are ways to get around this last drawback. There are several strategies you can use to purchase real estate without a large down payment. It is important to gain a solid understanding of these different strategies and to persevere.

The first strategy or deal you look at may not work out, but you will eventually build a solid real estate portfolio if you work hard, look for profitable deals, and use creative financing strategies.

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> "The best investment on earth is earth."
>
> - Louis Glickman.

Things to Know Before Getting Started

Just like with any other type of investment, it is crucial to educate yourself before getting started. Investing in real estate without understanding what you are doing or being able to recognize good deals can be very costly. Before investing money in real estate, invest some time in researching the topic and educating yourself on creative financing.

These are the main things you need to be aware of before using creative financing to invest in real estate:

1. Creative financing works best if you can find great deals, since the potential for profit is greater. Remember that paying full price on a property will result in higher mortgage payments, even if you do not have to make a down payment.

   ✔ As a rule of thumb, always look for the best profit margin, put as little cash down as possible, and negotiate with the seller.

2. Be conservative when using creative financing. A number of things could happen to reduce your profit margin. You might have to pay several thousands of dollars to have tenants evicted. You might encounter costly repairs, or see taxes and interest rates go up.

- Always plan for the worst scenario so, if it should happen, you can avoid losing money on a deal.

3. Be ready to make sacrifices. It's possible to buy real estate with little or no money down, but this doesn't mean you can get into real estate without working hard.

- You'll be successful if you are highly motivated, ready to learn about real estate, and willing to put time and effort into looking for deals and negotiating.

4. Put some money aside. You can get started with little or no money down, but you'll still have expenses to cover in the long-term. You might have to pay for repairs or make up for a loss of income if a tenant isn't paying their rent.

- Save up some money, ask for a raise, or look for a second job so you can build a comfortable cushion that will protect your investment from unforeseen expenses.

5. Learn as much as you can about real estate. There are plenty of resources available to you, including books, classes, seminars, and online material. Take some time to learn about the market, how to recognize good deals, how to negotiate, and gain a better understanding of different creative financing strategies.

6. Should you invest in a property that's ready to move into, or look for one in need of repairs? This is an important question to ask yourself before you get started.

- A move-in-ready property is usually more expensive but you'll be able to start renting it right away.

- A property in need of repairs should be more affordable, but you'll have to invest time and money in repairs before you can even start renting it out.

> "You ought to be able to explain why you're taking the job you're taking, why you're making the investment you're making, or whatever it may be. And if it can't stand applying pencil to paper, you'd better think it through some more. And if you can't write an intelligent answer to those questions, don't do it."
>
> - Warren Buffett.

Borrowing Money

Buying real estate without putting any of your money down means you might have to borrow money.

Mortgages are a popular financing option for new homeowners, but consider these creative ways to finance a real estate purchase:

1. Traditional loans can be a good way to finance a real estate investment if you have a good credit score. Banks are currently offering low interest rates to individuals who meet their lending criteria.

    - It is possible to obtain a loan that covers most of the value of the property with interest rates between 5 and 7% if you can come up with a 10 to 20% down payment and have a credit score of 680 or better.

2. A two-step mortgage is a good alternative to a traditional home loan. A two-step mortgage typically lasts forty years. The interest rates are fairly high during the first five to ten years but rates are adjustable after that and the payment schedule is usually flexible.

3. Borrowing from a portfolio lender is a good option if you already have a few properties.

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While most mortgage providers simply resell the loan to a different company for a profit, portfolio lenders hold onto the loan and generate a long-term profit.

- ✔ These loan providers will finance your projects if you have a good track record of investing in real estate.

4. Look for low or no money down government programs. The USDA offers home loans with no money down as long as the property you are interested in qualifies and you meet certain requirements. The Veterans Administration offers no-money-down home loan programs for qualifying veterans. FHA loans require only 3.5% down.

5. Private money is a very popular form of creative financing. Private money refers to money you get from another investor, such as a friend or family member. This strategy is interesting if you can find an affordable home and can negotiate the right terms with the investor you borrow from. Ensure you get everything written in a detailed contract.

6. Hard money lenders can provide you with the money you need to invest in real estate as long as you are willing to pay high fees. The downside of hard money loans is that you do not have much time to pay the loan back. However, it is possible to make a profit by having your property re-appraised:

- ✔ Borrow enough to [purchase a home]() in need of repairs. Some hard money lenders will let you borrow 100% of the home value and enough to cover repairs on top of that.

- Pay for repairs, look for ways to make the property more valuable, and have it appraised.

- Look for a refinancing option now that the property is worth more.

- Use your refinancing option to pay back what you borrowed from a hard money lender.

- Plan a good exit strategy in case the appraisal is not as high as you hoped.

7. Using a line of credit is a good way to find creative financing for real estate deals. The best way to obtain a good line of credit is to use your home for credit. Once you are approved for a line of credit, you will be able to pull money at any time without explaining what you will be using it for.

8. Credit cards are ideal if you want to buy and flip a house in a short time-frame. Use credit cards to get cash advances to cover a down payment or repairs. Credit cards usually have high interest rates, but you can reduce costs by looking for another credit card that allows for balance transfer.

- This strategy will allow you to avoid paying interest for at least the first year. Look for cards with a good reward program to get the most out of this creative financing strategy.

> “People are living longer than ever before, a phenomenon undoubtedly made necessary by the 30-year mortgage.”
>
> - Doug Larson.

Using Equity

You can use your current portfolio or assets for creative financing. This means you are taking the risk of losing your current portfolio or assets but it can be worth it to take this risk if you come across a good deal.

There are different ways to use equity for creative financing:

1. With proceeds from a refinance. This strategy works if you have equity in your home and are willing to refinance it. You can then use the money to purchase an investment property.

- This strategy works best if you were able to purchase your home below the market value and if the market values are currently high and the interest rates low.

2. By borrowing against your family's equity. Find a family member who is willing to help you by letting you refinance their home. Make sure you fill out a mortgage repayment plan or the IRS will look at the transaction as a gift.

3. By investing through a self-directed IRA. If you have one of these retirement accounts, you can invest in property with it. Use the money you put away in your IRA to make a down payment and have the rent or sale money deposited in your IRA later. You can also do this with a self-directed 401K.

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4. By taking a loan against your 401K. The downside is that the money you borrow against your 401K will not be earning interest until you pay it back. If you lose your job, you will have to put the money back in the 401K within a short time-frame or face penalties.

5. By taking a security-backed loan. If you have a portfolio of stocks and other financial products, you can borrow up to 80% of its value. The interest rate should not exceed 5%. The downside is that you cannot sell your portfolio until the loan is paid off, but you will get your original portfolio back once you are done making payments.

> "Real estate investing, even on a very small scale, remains a tried and true means of building an individual's cash flow and wealth."
>
> \- Robert Kiyosaki.

Using Seller Financing

Finding sellers who are willing to help buyers with financing can be tricky. However, it is definitely worth it to put time and effort into looking for these deals. The seller will benefit from the transaction, thanks to fees and interest, but these creative financing strategies will benefit you as well if you want to buy a property with little or no money down.

These are the three most common seller-financing strategies:

1. Seller financing. Look for listings that specify seller financing is available. These are the main things to be aware of if you come across someone who offers seller financing:

- You will get the title once you purchase the property, but the mortgage will remain in the seller’s name.
- These transactions are considered private and you need to agree on everything with the seller. Make sure you get a legal contract that details the transaction.
- There is a down payment in most cases but it is usually lower than what banks require.
- This strategy is ideal for rental properties and long-term investments. Avoid seller financing if you do not

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have a way to use the property to generate a profit and cover the payments you will have to make to the seller.

- ✔ This type of creative financing is regulated by the Dodd-Frank Act. Take the time to go over it to ensure the terms you negotiate with the seller are legal.

2. Seller second. This option is similar to seller financing but it combines seller financing with a traditional loan. These are the steps to follow for this strategy:

- ✔ Get approved for a traditional mortgage that covers most of the value of the property. Look for a loan that allows for a second mortgage to be attached to the property.

- ✔ Find a seller who is willing to offer a loan for the remaining 20% or so that is not covered by your first mortgage.

3. Seller carry back. This is an ideal creative financing strategy if you are investing for the long-term, and will either live in the home or rent it. With seller carry back, a time limit is set to give you time to come up with a refinancing option to purchase the property. The seller owns the property but cannot sell it to anyone else until the time limit is up.

- ✔ The time limit usually lasts from one to five years, which gives you plenty of time to look for a refinancing option.

> "Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world."
>
> - Franklin D. Roosevelt

Additional Creative Financing Strategies

Buying "Subject To" Properties

"Subject to" is short for "subject to existing financing." A "subject to" property can be purchased as long as both parties agree that the existing mortgage will stay in place. Purchasing a "subject to" property means you will have to finish paying off the previous owner's mortgage besides making a small down payment in most cases.

The main advantage is that sellers offering a "subject to" property are usually trying to get rid of it quickly. This could provide you with the opportunity to negotiate a low down payment or even to buy a home with no money down if the remaining balance on the mortgage is important.

Look for pre-foreclosure properties, since sellers usually want to get rid of these properties as quickly as possible and will probably take the first reasonable offer you make.

Before purchasing a "subject to" property, go over the loan terms carefully. The loan terms should not include a due on sale clause, since this type of clause requires the remaining balance of the loan to be paid when the owner changes.

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Using a Lease Option or Rent-To-Own

A lease option, also referred to as rent-to-own, is a transaction that includes two agreements:

1. The first agreement, the lease, is a rental agreement between you and the owner. If possible, get the seller to agree on having a portion of the monthly rent go towards the balance you owe on the property.

2. The second agreement, the option, states that the owner agrees to sell you the property at a specific price within a certain time-frame. The owner cannot sell the property to anyone else until the time limit is up or change the price of the property.

Becoming an owner-occupant is a good option if you want to invest in a home you plan on living in before turning it into a rental property. You usually have to live in the property for at least a year before you can rent it to someone else. The down payment usually corresponds to 20% of the value of the property, but you might be able to negotiate better terms with the seller.

You can build a solid portfolio by purchasing a new rent-to-own property once a year. Revenue from your rentals will add up and provide you with the capital you need to make down payments on new properties.

Going Further with the Lease Option Sandwich

The lease option sandwich is similar to purchasing a rent-to-own property. However, with this strategy, you are the middleman instead of the buyer. This is an ideal strategy if you do not mind handling paperwork and are not interested in purchasing a property you will have to live in for at least a year.

Follow these steps to use the lease option sandwich strategy:

1. Look for a seller offering a rent-to-own property with the usual lease and option transactions.

2. Secure the option and the lease from the seller.

3. Look for a tenant who wants a rent-to-own property.

4. Charge the tenant a little more than what you have to pay the seller every month.

5. Collect the total balance on the property when the tenant is ready to buy, usually a few years after they moved in.

The lease option sandwich is ideal if you want a low risk strategy and are just getting started. Finding the right seller and tenant can take time, but this is one of the best ways to get started in real estate with no money down.

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Wholesaling

Wholesaling is somewhat similar to the lease option sandwich, since you assume the role of a middleman. This is another great way to get started in real estate with no money down, but you will have to put some time and hard work into putting this strategy in place.

Follow these steps to use this wholesaling strategy:

1. Look for someone who wants to sell their property. This strategy works best if the seller simply wants to get rid of their property and they do not want to invest time or get help from a real estate agency to find a buyer.

2. Sign a contract with the seller. The purpose of the contract is to get a specific price in writing and, ideally, to have the seller agree to not selling the property to anyone else.

3. Look for an interested buyer. Once you have found a serious buyer, sell them the contract you negotiated with the seller.

The downside of wholesaling is that looking for good deals and buyers takes time.

However, you can get started with wholesaling even if you don't have much experience. Wholesaling doesn't require you to invest any of your money and will help you develop excellent negotiating skills and connections.

Buying Off-Market Properties

Off-market properties can be attractive because there are no fees from real estate agencies. Finding off-market properties takes time, but you might be able to find owners who are interested in seller financing to get rid of their property right away.

Wholesaling and flipping are great strategies to use with off-market properties if you aren't interested in holding properties.

Becoming a Real Estate Agent

As a real estate agent, you will get to keep the commissions on the properties you buy besides having access to great deals. Using creative financing to purchase real estate means you will have to learn as much as possible about real estate.

You might as well apply for a license once you meet your state's requirements, which usually includes passing an exam. You could, for instance, work as a real estate agent on a part-time basis and use this additional income to invest in real estate.

Going Through a Turnkey Service

Turnkey services are a good option if you would like to invest in an out-of-state property. The expertise and network of a turnkey service are an advantage if you are just getting started.

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Most turnkey services will let you invest in a property as long as you can make a 5% down payment. However, most turnkey services offer fairly high interest rates and fees.

Partnering With Another Investor

Partnering with another investor will give you access to more capital, especially if you are just getting started. It is important to choose someone who is trustworthy and who has goals similar to yours.

Get everything in writing if you decide to invest in a property with someone else. You need to agree on everything with the other person and get a legally binding contract that details what you and your partner own and what your responsibilities are.

Put together a list of what you are bringing to the table to find the right partner. Assess how much you can invest and ask yourself what your strengths are. For instance, you could bring experience or negotiating skills to the table. You could bring something to the partnership by handling repairs, taking care of the paperwork, or being in charge of finding the ideal property.

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Conclusion

These are only a few creative financing strategies to invest in real estate. There are other ways to invest in properties with little or no money down. It is best to get started with a simple strategy and then use more advanced financing methods once you have more experience.

Always use common sense when looking at real estate deals and financing options. Stay away from deals that sound too good to be true and remember that knowledge is your best ally when investing in anything.

If none of these strategies work for the property you're interested in, look into combining different creative financing strategies. For example, you could use seller financing for a part of the property's value and rely on a partner to cover the rest.

Regardless of the method you use to finance your investment in real estate, remember the golden rule when selecting a property: location, location, location!

> "Ninety percent of all millionaires become so through owning real estate. More money has been made in real estate than in all industrial investments combined. The wise young man or wage earner of today invests his money in real estate."
>
> - Andrew Carnegie.