CHEAT SHEET: 5 WAYS TO BUY REAL ESTATE WITH (ALMOST) NO MONEY DOWN

Introduction: Get Your Financial House in Order

Is it true, that it takes money to make money?

Sort of.

We're going to go over some techniques and tricks that you can use to buy real estate without very deep pockets. And they work, as a way to get you started.

But you still need a foundation of strong personal finance habits and discipline. Without these, no one can keep their wealth even if they briefly score some. After all, most lottery winners go broke within a few years – *because they don't have the habits needed for financial success*.

Start setting aside a certain portion of your paycheck, as an automated transfer that happens on the same day you get paid. The higher the savings cutout, the faster you'll be able to invest and build wealth, so aim to put aside 10-30% of your take-home paycheck every two weeks.

As a property owner, you'll be hit with all kinds of unexpected costs: vacancies, repair bills, tenant defaults. You'll need a cash cushion, and the more investment properties you own, the higher it needs to be.

We're not your parents, we'll lay off the lecture and cut to the chase, but it's absolutely, 100% necessary that you start setting aside money every two weeks if you want to build lasting wealth.

Suggested Read: 10 Surprising Ways Your Subconscious Is Keeping You Poor

Technique 1: Buy a Duplex, Triplex or Fourplex & Move In

Fun fact: FHA mortgages allow owner-occupied financing for buildings with up to four units. That means you can get a cheap, "normal" mortgage, with little money down, for up to three rental units plus a new home for yourself.

Credit: Your credit matters, of course, with an FHA mortgage. The better your credit, the less money they'll ask you to come up with for a down payment.

LTV: The maximum loan-to-value ratio that FHA loans allow is 96.5%. That means a minimum down payment of 3.5%.

Mortgage Insurance: If your down payment is less than 20%, be prepared to pay mortgage insurance every month! See the FHA's loan calculator for exact monthly costs.

Rental Income: You can count 75% of the rents from the other units toward your income, for qualifying for the loan. But...

Warning: If you buy a triplex or a fourplex, the projected rents from the building must be able to cover the mortgage payment (including principal, interest, taxes and insurance).

Pro Tip: Negotiate a seller concession, so that the seller covers your closing costs at the table. FHA allows a seller concession of up to 6% of the purchase price!

Technique 2: Find a Senior Partner

Who says you need to go it alone? For their first few deals, new investors should be partnering with an experienced partner regardless, because they'll show you so many shortcuts.

Benefits of Teaming with a Senior Partner:

- Discover local investment property lenders
- Gain contacts among contractors, realtors, appraisers, home inspectors, etc.
- Avoid expensive mistakes
- LEARN!

Drawbacks: You'll be the gopher, doing all the grunt work, and you'll make a much smaller portion of profit. Understand that you need to bring something to the table here. If you're not bringing experience, and you're not bringing much money, then you'll have to bring labor and hustle.

Where to Find a Senior Partner:

- Local real estate investing associations (AKA real estate investing clubs). *Want a directory of them? Email us and we'll email you a nationwide directory that we don't publish on our website.*
- Local informal real estate investing Meetup Groups
- Facebook groups for local real estate investors
- BiggerPockets online community
- Network! Someone that you know will already know an experienced real estate investor

Word to the Wise: Your senior partner may expect you to collaborate with them on a certain number of deals, because in your first couple deals you'll be more hindrance than help to them. But at a certain point, you'll gain enough skill to start bringing real value to the table.

Family & Friends: You can partner with family or friends, to ease the cost burden or to qualify for a loan, but one of you should have real estate investing experience. Remember the cliché about the blind leading the blind.

Technique 3: Cross-Collateralize Your Home

Own a home with some equity? Before going through the hassle of refinancing or getting a HELOC, consider offering your home as a second piece of collateral to the bank.

Ditch the Down Payment: Instead of making you bring a 20% down payment to the table, the bank protects itself by putting a second lien on your home, and gives you full 100% financing.

Willing Lenders: Many conventional loan programs won't allow this. But hard money lenders are usually open to this idea, and some community banks allow it as well.

HELOC over Refi: Can't find a good lender to cross-collateralize your home? You can always get a HELOC (home equity line of credit) to pull some quick money out of your home. Avoid a refinance or second mortgage – they're expensive and inflexible (read more about why to avoid refinancing). Even better, HELOCs are a rotating form of credit, so you can pay the balance down and then pull money out again later when you need it!

Buyer Beware: If you add your home as collateral for your investment property loan, and then default, the lender may foreclose on your home, too.

Expense: The only extra expense is the extra title work – the title company will need to do a full title search on your home and place a second lien against at. They won't do that for free, but think costs in the hundreds, not the thousands.

Technique 4: Move in for a Year, Then Rent It Out!

This is the oldest trick in the book. You find a good deal on a home that will make a great rental property, you move into the property, and shortly afterward you move out and lease it to tenants.

One Year Rule: Most mortgage lenders require you to live in the property for at least a year before pulling the old switcheroo on them.

Penalties for Premature Evacuation: If they find out you vacated and rented the property out within the first year, they'll start sending you unhappy letters. They probably won't foreclose, but they could call your loan.

Benefits: As an owner-occupied mortgage loan, the rate will be lower and the loan-to-value ratio (LTV) will be higher. Forget the standard 20% down required for investment loans, you could score a 3-5% down-payment loan. There's something to be said for the simplicity, too.

Drawbacks: While an easy and affordable way to buy your first rental property or two, it's inherently slow. And who wants to move every year?

Last Word: It's a cheap and simple tactic to nab that first income-producing property or two. Don't count on it as a long-term strategy though.

Technique 5: Borrow Money from Your Retirement Account

"Borrow" is a funny word, since it's your own money in the retirement account, but just because it's yours doesn't mean you can pull it out.

Loan Limit: You can borrow up to about $50,000 from your 401(k).

LTV: Most 401(k) administrators only allow you to borrow up to 50% of your total 401(k) balance.

Quick & Easy: No credit report, no lengthy underwriting period, you just borrow the money from your 401(k) administrator and it comes out of your own account.

Amortization: Usually the "loan" is amortized on a five-year loan schedule.

Short-Term Pickpocketing: You can, without penalty, take out money from your retirement accounts for up to 60 days. If you don't pay it back, the IRS will come for your arm, leg and firstborn child.

Distribution Penalties: Did you pull out money unofficially, for more than 60 days? Distribution! Now you owe taxes on that money. And penalties. And late fees. Expect no mercy, for ye shall receive none.

Job Loss: Your 401(k) is set up through your employer. If you lose your job, you owe the money back, right away, when you're least able to pay it.

IRAs & Other Retirement Accounts: You can't borrow against IRAs the same way you can from 401(k)s. If you have an alternative to a 401(k), such as a 403(b), you can pull similar maneuvers.

Pro Tip: If you have a self-directed IRA or 401(k), you can actually choose to invest in real estate instead of securities, as your investment of choice. It gets complicated though, so talk to your accountant before you talk to anyone else.

Outroduction

Most new real estate investors worry too much about the money and not enough about education.

The techniques outlined above are just a handful of ways to buy real estate without bringing much of your own money to the table. There are many others – to read up on a few, check out our series on Unconventional Financing for Rental Properties.

But what's more important is to develop an investing strategy, to learn from other experienced investors, to become an expert on a specific real estate market. Understand CapEx and use our rental property ROI calculator to, well, calculate potential ROI! With knowledge and expertise, you'll figure out the money part of the equation.

Email Denise at denise@sparkrental.com or Brian at brian@sparkrental.com to chat with us about your investments. We love hearing from readers, and use the resources at SparkRental.com to make even faster progress on your rental investments!