Buying Properties for Zero Down Payments!

Remember the several billion dollars Savings & Loan bailout a decade ago? Well, it would appear that some lenders have forgotten about it completely, and are **back to making crazy loans**. Want some money? I know just where to get it.

Until recently, many lenders offered, as a minimum, down payments of 5%. Today lenders are offering loans with **down payments of ZERO percent.** In fact, some lenders are making **mortgage loans up to 125% of your home's value!**

This sounds crazy, and maybe it is, but let's fear not for the lenders, for they know what they are doing. First, if you are **the borrower who wants a zero down payment because you have zero down payment, forget it** (unless your credit and asset ratings are very high.) This program is only for the folks who can make the down payment, but prefer to borrow more (this actually makes sense, and we will discuss why and when, later.) Don't despair, there are several programs for people of limited cash and good credit, to receive very low down payment loans. However, they are so varied, I will need to cover them with you personally.

Zero down loans

Loans for new purchase include 100% and even 105% loans for those that want to finance closing costs too. Requirements are a relatively high credit rating and expect to pay a bit of premium in your interest rate, say, 3/4%. What is surprising to me, is that some of these loans <u>**do not**</u> **require mortgage insurance**, as do other loans secured with down payments of 5% to 19%!

These loans may be really well suited to those that wish to purchase a property and hold it on shorter terms. **If the property appreciates, you will have a marvelous return on a $0 investment**, with the bank holding the real risk.

125% loans

Generally offered for refinance, the loans for up to 125% of your home's value are tools that allow lenders to combine your mortgage, student loans, credit card balances, medical payments, etc. into one, **secured** loan.

For example, instead of a lender making a $80,000 mortgage loan on a $100,000 property secured by a first mortgage lien, and carrying another $45,000 in unsecured loans, the lender can make one loan of $125,000, secured with a first mortgage lien on your property, and insured. In the event of a bankruptcy, this lender holds a **secured debt**, as opposed to an unsecured debt. This puts the lender at the top of the creditor recovery list.

Why make a lower down payment than you can?

Many savvy financial minds choose to get a home loan even though they could pay cash. They have discovered that the interest paid on their mortgage is, after the mortgage deduction tax saving, fairly inexpensive. **An 8% mortgage really only costs 5.3%** to a person in the 28% tax bracket (5% state.) So, the question to them is simple really, if they could borrow money at 5.3%, could they reinvest it at an equal or higher return? Usually, the answer is yes!

In addition to making more with their investments, they also enjoy the liquidity of cash over equity in a property. Equity in a property is nice, it feels good, but it just sits there. Equity is like putting money under your mattress. Remember that a property will appreciate whether it is free and clear, or mortgaged to the hilt.

Another advantage to a high mortgage and retaining your cash for liquidity, is you may need your cash. If you have your cash tied up in equity, you can access it in only two ways. You can either take a loan against your property and borrow it out, or you can sell the property. This is fine when interest rates are low for borrowing, or values are high, and you can afford to sell. But the markets can change, and if you need the cash, it may be because of a negative market shift. By maintaining a high mortgage, you have chosen to borrow your equity, when the terms are to your liking.

These strategies will not be for everyone, every time. However, properly, and appropriately exercised, they can offer tremendous flexibility and control.