

25 WAYS TO ACQUIRE PROPERTY WITH NO MONEY DOWN

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25 WAYS TO ACQUIRE PROPERTY WITH NO MONEY DOWN

Buying real estate with no money down smacks of having your cake and eating it, too.

It seems almost too simple to work. The strange fact is, it can, for you. In practice, it serves as an effective strategy for investors at every level. By avoiding a hefty downpayment, you free up more of your investment capital for diversification, and you maximize your profit potential on each building.

Full financing gives you the added advantage of time. The average investor would have to save for years to come up with even 10-15 percent downpayment on a piece of property and accumulate the net worth necessary to satisfy a conventional lender. Meanwhile, a virtual fortune could fade unearned.

Borrowed money also means increased leverage. Essentially, you are using someone else's money

to control an income-producing property. Not only is the direct risk lessened, the upside potential is much greater. When 100 percent financing is well constructed, it can be the purest form of real estate deal-making. Even at this wheeler-dealer level, it may still prove easier to arrange than

traditional financing.

Unfortunately, many investors shy away from no-money-down plans because they fear the mechanics

will be overly complicated, or that they will be trapped by a gimmick. The case of no money down

dredges up memories of the 1930's and the fast-talking hucksters who pitched Florida swampland

to novice northern buyers. But these concepts are at least a half-century out of date.

Borrowing to buy real estate, even borrowing all of the purchase price, is now considered an intelligent business practice.

Part of the widespread acceptance of full financing programs was fostered by government programs

which insured or guaranteed mortgages held by families who bought their homes with little or no downpayment. Tax laws subsequently made interest on money borrowed to buy real estate an allowable

deduction a change that benefitted both prospective homeowners and investors. The success of these programs can be measured in the simple statistic that shows 65 percent of the families

here now own their homes. Even with these major shifts, most people are conditioned to seek financing

from a bank or savings and loan. Though traditional, this route to needed capital has a number of pitfalls. Conventional lenders expect the buyer to risk not only his or her financial reputation,

but also a substantial amount of his money. The terms of their charters generally prohibit them from

jeopardizing more than 75-80 percent of real estate, which translates in to bigger downpayment for

the buyer. Frequently, these conservatively oriented institutions will not look favorably on a no-money-down deals.

Literally dozens of other funding sources are avail-able to real estate buyers. At times, you will want to use only one source; in other circumstances, you will need to combine several.

The first step is to gather basic information, including:

- How much income the property will generate;
- whether part of it can be sold to raise cash;
- whether security deposits are required;
- why the owner is selling;
- and what he will do with the proceeds; and what kind of profit the seller really wants.

The more narrowly you can describe the deal, the better chance you will have to obtain the right kind of financing for the project.

Although there are a number of ways to buy property without front-end money, the following 25 methods have proved to be among the most successful.

1. **LEASE WITH OPTION TO BUY.** An often-used means of obtaining property without substantial cash outlays is by renting it from the owner with an option to buy. Under the terms of the lease/option agreement, the parties involved negotiate a sum to be paid at regular intervals for use of the property.

This agreement provides for the subsequent right to purchase the property at a predetermined price at some time during the term of the lease. Usually, a portion (and sometimes all) of the rental payment will be credited toward the purchase price.

To make this framework more effective, you should consider subletting the leased property, bank-ing the profits. Lease/options are particularly attractive to sellers with tax liabilities, who would prefer to spread their capital gains over a number of years. They would also appeal to sellers who want to postpone the capital gain. Perhaps the seller wants to wait for a lower tax bracket after retirement, or he may be looking for another piece of property.

This arrangement offers a steady stream of income in the interim, as well as a prospective buyer when the decision is made to sell. But the buyer also has benefits from this plan. In addition to tying up the property without spending any cash, you can begin improving it to make it more salable.

You may be able to cut your risks even further by considering selling your interest at an opportune time. You can also lease-option arrangement for any type of real estate, from unimproved land to large, multi-unit apartment complexes.

Depreciation rights can be assigned with the lease, giving the lessee the right to depreciate the property as if he owned it. Equally important is the fact that the lessee can write off most pertinent expenses, including im-provements.

Although many of the benefits of the technique are obvious, it has also some more subtle advantages. If carefully executed, the lease/option plan can be a means of circumventing a bothersome due-on-sale clause that could cancel an otherwise attractive low interest rate mortgage.

Due-on-sale clauses are often complex and should be reviewed by your attorney early in the negotiations.

2. **ASSUME THE EXISTING MORTGAGE.** Loans obtained through the Federal Housing Administration (FHA) or the Veterans Administration (VA), older conventional loans, and those that have been sold to government-backed mortgage pools frequently offer below-market interest rates.

In most cases, they are assumable by new buyers who meet the credit requirements, allowing for transfer of the property with a minimum of expense. However, conventional loans written in recent years are more likely to have a due-on-sale clause which effectively prohibits the new buyer from assuming the mortgage. But you can work around this.

Many lenders are anxious to rid their books of old, low-interest loans. They may be willing to negotiate a new interest rate somewhere between the existing rate and the rate of the mortgage, especially, if you make it clear that you will buy only under "favorable terms."

3. **SELLER FINANCING.** One of the easiest, least involved ways of acquiring property with no money down is with the help of the seller. The terms of these agreements can vary widely.

Some sellers may be amenable to forgoing the down payment in return for higher monthly payments, which will serve as income through their retirement years. Others may prefer to give some portion of the total financing.

If the mortgage is assumable, you may want it transferred and ask the owner for a second mortgage or note to cover the difference between the purchase price and the first mortgage. A variation would be to ask for a note in combination with something of value.

4. SHERIFF'S SALE. Forced sales, such as those ordered by the courts to satisfy liens, afford excellent buying opportunities for undervalued property. The stumbling block for most investors is that sheriff's sales usually require cash on the day of purchase.

To skirt that requirement, you can approach the owner's attorney prior to the auction and make an offer of 10 percent of a successful bid on sale day and the balance in 30-60 days. Not all attorneys will accept this kind of offer, but many will.

The next step will be ordering a title search. Properties sold in sheriff's sales are generally sold with quit claim deeds and may have title defects. The title search is usually a formality, but in this case, it serves as an inexpensive brand of insurance guaranteeing a marketable deed. If there are no problems with the title you will want to secure the balance of the funds needed to complete the purchase. The financial institution holding the existing mortgage on the foreclosed property is the best choice.

As you would expect, lenders holding foreclosed property may be more receptive to proposals that would be rejected outright under other circumstances.

5. BANK FORECLOSURES. These, too, are potential sources of no-money down deals and can be found before the property is seized by the courts. Although right-to-privacy laws prohibit release of the owner's name, some bank officials will contact the owner and seek permission to open negotiations for purchase. The primary concern of owners in this un-fortunate situation is to avoid the negative impact connected with foreclosure. Terms will be much more flexible for the buyers.

6. CASHING OUT. Sheriff's sale properties and other foreclosures frequently are deteriorated. You should expect to make some improvements, whether simply cleaning and painting, landscaping, or actual repairs - whatever it takes to make the property more marketable. The buyer who wants to cash out will make the necessary improvements or repairs quickly. Then, you can resell the property before the 30 or 60 day agreement with the attorney expires, or secure a new appraisal which recognizes the value added by the refurbishing. In the later case, you could apply for a long-term mortgage equal to or greater than your total investment.

7. SWAP PERSONAL PROPERTY. Anything you own and can spare may be useful as a cash substitute for a no-money-down deal. For example, the seller may be planning to retire and travel. Your unused motor home would probably be much more valuable to a footloose retiree than a cash downpayment. Cars, boats, campers, tools, furniture, and appliances may all be acceptable stand-ins for cash. This under-scores the importance of gathering information about the seller before becoming deeply involved in negotiations.

8. BARTER YOUR SKILLS. If a downpayment is a necessity, offer your skills instead of cash. Take the time to find out what type of work would be available to the seller. Accountants, bricklayers, carpenters, auto mechanics, plumbers, doctors, lawyers, housekeepers, and computer operators certainly have tradable skills that would be useful as cash.

9. **OPTION.** Basically, an option gives you the right to purchase property at some future date for an agreed-upon price and/or terms. In exchange for that option, you give the owner something of value - cash, personal property, or even a partnership in your planned development. This strategy is especially useful on farm property that is significantly undervalued and can be sold at a profit before the option period expires. But it is also suitable for favorably vacant ground that would require a large outlay to develop.

The option buys time to work out your plan, giving you control of the property without heavy interest charges.

10. **SELL OFF PART OF THE PROPERTY.** Occasionally, you will find property that lends itself to partitioning. You may find assets or surplus ground that can be sold to raise the downpayment, decreasing the mortgage of both.

11. **COMBINATION MORTGAGES.** One way to provide a seller with cash at closing without using your own money is to combine a conventional mortgage with secondary financing. On an asking price of \$50,000, you might arrange for a \$25,000 loan which would pass to the seller at the closing, and a second mortgage from the seller which would provide income in the form of monthly payments. The seller gets cash plus collateralized security which pays interest, while you gain control of the property without risking your own cash.

12. **RENTS AND SECURITY DEPOSITS.** In a transaction involving income-producing property, security deposits and pro-rated rents pass to the buyer. Depending on the income from the property, you may want to time your closing for the day rents are collected and apply that cash as a downpayment. Suppose that you agree to pay \$50,000 for a building and \$3000 as a downpayment. Rents and security deposits total \$2200, and rents are collected the first of every month.

Your first mortgage payment is due 30 days after

closing on the second of the month, collect about \$2200 from the seller, and return it as the majority of the downpayment. Your first mortgage payment will not be due until the following month, by which time you will have collected another round of rents.

13. **PICK UP THE SELLER'S DEBTS.** At some point you may find a seller who needs cash to pay off other debts, perhaps loans on a car, furniture, or appliances. As part of your negotiations, you can offer to assume those debts instead of making some or all of the downpayment.

You would use the revenue from the property to fulfill those obligations along with the mortgage and any other debts you have undertaken to purchase the building. This is actually a more effective method of acquiring property than you might suppose, and it underscores an important element in highly-leveraged real estate deals - you're doing it for either income-producing property or for resale profits.

14. **LOAN FROM THE REAL ESTATE BROKER.** Commissions represent a sizable portion of the costs involved in any deal handled through a professional real estate agency. Depending on the seller's agreement with the agency, the commission can total as much as 10 percent of the selling price. You might try to arrange to borrow the broker's commission for a short time, say two years, and pay only the interest in the interim. Those funds could be used for the downpayment. This technique works best when you can work directly with the listing broker, who will not have an obligation to split the commission with any other agency.

15. **HAVE THE SELLER BORROW AGAINST THE PROPERTY.** Often, a seller wants all or part of his or her equity in cash. The no-money-down buyer can suggest that the seller place a second mortgage on top of the first and keep the cash. The buyer will then assume both loans upon taking title to the property.

16. **LONG TIME TO CLOSE.** You may be able to arrange with the seller to take title at some later date - maybe as much as a year later, though more likely 90 to 120 days. A delayed close is better suited to a piece of property that has proved difficult to move and would need renovation to sell. Your contract, which may be bound with a modest deposit of earnest money, permits access to the property to do the improvement

work and show it to prospective renters and/or buyers.

With renovations completed, you can rent out the

building and go to the closing with security deposit and

rents to apply as the downpayment.

Using only the small deposit of earnest money, or in some cases, no money at all, you will have had control of the property for a given time without having to deliver even a mortgage payment. This lag may be worthwhile to the seller who otherwise would still be looking for a buyer.

17. **INSTALLMENT DOWNPAYMENT.** Though accepted procedure, there is no regulation that the full downpayment must be tendered at closing. You could ask to spread it out over time, whether in monthly installments or as a balloon payment at the end of the year. Despite its advantages, this plan will not work for everyone. It is an alternative for the high-income buyer or one who is anticipating a large chunk of cash, like a year-end bonus, at a later date. Without this kind of financial base, you will have to try to squeeze the downpayment out of property revenues.

18. **HIGHER PRICE, BETTER TERMS.** Some owners are more concerned with the selling price than the terms of the transaction, and many may be willing to accept a higher price, even if it comes in install-ments.

19. **TAKE ON A PARTNER.** You can syndicate the deal on a small scale by bringing in one or two more people. In return for their front-end cash, you will take on the responsibilities of putting together the deal and managing the investment. Anyone interested in regular income plus major tax savings is a potential investor in this kind of program. You may also try to work out a similar deal with the current owner.

20. **COLLATERAL PLEDGE.** Usually, a collateral pledge involves a negotiable financial instrument, such as a certificate of deposit, stock, bond or savings account, which is pledged as security for a mortgage loan along with the real estate itself. It can be an extremely effective tool for the no-money-down buyer working with a seller who has considerable equity and intends to reinvest the proceeds for income.

Suppose that you are interested in a \$50,000 piece of property and the bank agrees to 100 percent financing if the seller will buy a \$12,500 certificate of deposit and leave it with the bank as insurance against default

by the buyer. Of course, the property itself will also function as collateral.

Under this arrangement, the seller collects the regular interest from the CD. The only drawback is that the seller cannot withdraw the principal until the buyer has repaid 75 percent of the loan amount - in this case \$37,500.

21. COLLATERALIZING YOUR OWN HOME. The equity in your own residence can help you acquire additional property with 100 percent financing. You can use a second mortgage from your bank, or you may decide to refinance with a new mortgage. Another option is a "blanket" mortgage that ties your home and the newly-purchased property into one package, making the equity in your home a "downpayment" on the new acquisition. This may also come into play when negotiating directly with the seller. You can offer your home as a collateral in return for the 100 percent financing.

22. LAND CONTRACT, INSTALLMENT PURCHASES. Technically, a land contract is a contract for the deed. While the courts have ruled in recent years that such a transaction is a sale, the deed of ownership does not transfer until certain conditions in the contract have been met. There is always the risk that they may not be fulfilled on time. The benefits of this plan still make it worth consideration.

23. FHA/VA SALES AND OTHER GOVERNMENT-SPONSORED PROGRAMS. Despite the appeal of low downpayment or no downpayment, the now FHA and VA programs do not have broad application for investors. You should be aware that even though interest rates may be slightly lower than conventional financing, the points paid by the seller are often added to the purchase price, resulting in an asking price unfeasibly high for most investors.

However, in addition to the interest rate, these loans feature low downpayments; three to five percent for FHA and, frequently, no downpayment at all for VA. You also have a guarantee that the mortgage will be assumable when you sell.

Because the seller bears so many of the closing costs for these loans, the out-of-pocket expenses for the buyer will be very low. The majority of FHA and VA loans are used to purchase residences, but they can also serve as financing for income-producing

property, as long as it is four units or smaller and owner-occupied.

The first choice for buyers would be FHA or VA-financed property that has been held for a long time. The interest rate on older mortgages will be in single digits. Even if the loan is paid down to a very low level, there will be room for negotiation to acquire the seller's equity. FHA rules prohibits second mortgages at the time of sale. you may have to opt for trading personal property for equity or borrowing the real estate agents commission. Second mortgages are sometimes available in VA programs, but not always.

Some better opportunities are available through FHA/VA repossessions, which are advertised regularly. Usually offered at a minimum price and/or with a maximum mortgage, these properties often sell at prices that would easily provide cash flow or capital gains opportunities.

Other government programs available at the country, state, and federal levels could be useful. These range from low-interest loans for restoring historical-important structures to free land in exchange for commercial/industrial development that provides jobs. Some state and federal agencies have large inventories of farms and homes acquired during the recent recession, which may be sold on attractive terms.

24. **PROPERTY EXCHANGE.** If you already own property, you may want to swap it for another. Perhaps you have undeveloped land with commercial zoning but would prefer an apartment building offering regular income. You could simply exchange the parcel with an interested buyer, or use it in combination with some amount of cash to obtain the property you want.

25. **UNSECURED CREDIT.** Bank cards can be a quick, though expensive, source of ready cash. It is possible to have Five or even 10 accounts with as many banks extending credit lines from \$500-5000. Though the interest on credit cards would constitute a heavy burden, they would enable the no-money-down buyer to move fast and leave refinancing to a later date. If the deal is good enough, the new mortgage will supply sufficient funds to pay off the credit card loans and cover 100 percent of the purchase price.

THE DOLLARS AND CENTS OF NO

MONEY DOWN

To understand the practical benefits of no downpayment, you have only to look at a typical deal. Suppose that a seller is offering an eight-unit apartment building for \$200,000. He says he wants cash. The existing loan is \$90,000 with 15 years left to run and a due-on-sale clause.

A little research shows that the seller needs about \$14,000 to clean up current debts. Since he is close to retirement age, he wants to invest the building's proceeds for income to supplement his pension.

A look at the building itself shows three vacant apartments, all of which need renovation. The other units are bringing in \$200 a month - well below the market.

You offer 180,000 which would be payable as follows:-

- A four-month lease at \$900 a month, \$250 of which will apply toward the purchase price

for a total of \$1,000.

You pay all operating expenses during the leasing period.

You renovate the three vacant units, using your credit cards for ready cash, and rent them out at \$350 a month.

You immediately raise the rents on the other five units.

- You negotiate with the mortgage company for an assumption of the existing \$90,000 mortgage at a new, higher rate that is still

below the market, generating \$90,000 of the total \$180,000.

- You ask the seller to arrange a second mortgage of \$25,000 with a bank that will take effect when you assume ownership.

- You agree to make payments on the owner's \$14,000 debts.

- You ask the seller to carry a \$35,000 note at eight percent interest only, payable monthly for seven years.
- You offer your motorhome valued at \$15,000 to complete the deal.

By combining a variety of financial techniques, you would be able to structure a deal that would satisfy the seller and give you control of the property without a hefty downpayment.

Basically, the seller gets \$25,000 cash via the second mortgage, the motor home, \$233 a month extra income without any extra work, his debts assumed, and a \$35,000 nest egg. In return, you are getting a building which will produce a positive cash flow without any cash outlay.

During the four-month lease, you should get enough surplus income to cover the charges on the credit cards.