Realty Resource Connection

Zero Down: Too Good to be True?

One of the most interesting topics in residential real estate is buying a home with "zero down." Many homes are bought by purchasers using little or none of their down money. The majority of home sales go through a conventional lending process but these typically involve creative financing in one form or another and are a viable option for buyers or investors without traditional resources.

These purchases often do not involve a bank or mortgage company. Even so, such deals can be beneficial for both the buyer and seller.

There are many ways to buy a house with little or no money down. Here are some thoughts to get you thinking in the direction of a creative home purchase:

You are probably looking for a seller who owns his property free and clear of any mortgage and might be willing to accept monthly payments from you instead of all cash at closing.

It is estimated that 40 percent of American homeowners have no mortgage debt. Many sellers might be better off accepting payments of principal and interest from you rather than putting all their equity into low-yield certificates of deposit with today's low interest rate environment. You should focus on highly motivated sellers --- owners with strong desires to sell their houses. They are more likely to be flexible about financing. Maybe the owner wants to retire, just concluded a nasty divorce, someone in the family passed away or maybe they are a landlord who really hates dealing with tenants.

- Living in the house as your principal residence will make it easier to structure creative financing. Owner-occupants are considered safer borrowers than investors. Make sure they know that you intend to live there when talking to the seller.
- Patience and persistence are the watchwords of finding "nothing down" real estate deals. Most sellers can't offer owner financing because their existing mortgages can't be easily assumed. It could take some time, but don't get discouraged. Your next phone call may reveal an opportunity.
- Don't be unrealistic. You may have to consider houses that need cosmetic work. Plan on having a qualified home inspector examine the house before you buy; you probably don't want to get involved in serious structural or foundation problems.
- Flexibility is the key to creative financing. Often, sellers are willing to accept payments for only a few years. Even so, that can give you time to improve the property with your hard work --- that's called "sweat equity". When the loan becomes due you can either refinance the property or sell the property and probably get at a profit. Your capital gain may be tax-free under the new tax law. The loan process will be easier because you are an owner occupant if you decide to refinance. Your new loan amount will be based on the current appraised value of the home and not what you paid for it.