FINANCE

No Money Down

The Path to Home Ownership Doesn't Have to be Paved in Gold

By Jeffery Hammerberg

Most first-time homebuyers share the same problem. They don't have enough accumulated savings to make a hefty down payment for the purchase of a house. And it doesn't seem entirely fair, especially to those who have worked hard to create and maintain good credit. As housing prices doubled in recent years, wages remained relatively stagnant, and a growing number of people found themselves locked out of their own potential homes because of a lack of available savings. A 20% (or greater) outlay of cash at closing is common, and can be a tremendous obstacle to overcome, even if interest rates on mortgages remain relatively attractive.

But there are alternative strategies to help get around the problem, and for many the "no money down" option is an increasingly viable solution. According to the National Association of Realtors, over 43% of first-time homebuyers financed the entire cost of their home. Others paid anywhere from as little as 5% to 1% down. So you may be closer to the closing table than you imagined, especially if you engage the help of an experienced and creative mortgage lender who thinks outside the box to get you into a workable loan package.

Here are some popular ways it's done:

Secure a loan that also pays your closing costs

With excellent credit you may qualify for loans over and above the price of the property you're buying. Some lenders offer loans of up to 104 or 107 percent of the selling price, to provide enough excess funds to pay all of your closing costs. Because the lender considers you a low risk borrower thanks to your high credit rating, they view this kind of loan as increased business for themselves, while it offers an added ease and convenience for you.

Apply for two separate loans that are used in tandem to cover 100%

Ask your mortgage lender about so-called "80/20" or "piggyback" loans. This type of loan is actually two loans packaged together to help you buy with no money down. One of the loans works in a conventional way, and is for 80% of the purchase price. The second part of the loan is a smaller 20% loan issued simultaneously.

In effect, the lender is letting you borrow your 20% down payment. You can expect to pay higher rates on the down payment portion of the loan, but you get to buy a house with the "piggyback" plan, rather than the "break open the piggy bank" plan.

Do you qualify for special loans?

The US Department of Housing and Urban Development can provide you with information about state and local government loan programs or loans available through nonprofit organizations. Check them out, but if you find a loan that fits your circumstances, don't delay – sometimes the loan funds are budgeted and dispersed on a "first come, first served" basis and then they run out until the next fiscal year.

And if you have served in the US military, you may be eligible for a no-money-down (or low money down) Veterans Affairs loan.

Down payment funds from gifts or retirement accounts

Some loan programs permit you to use funds that are a gift from a family member for your down payment. The lender will follow procedures and use a "paper trail" to ensure that your family member isn't just temporarily parking some money in your account, and that it really represents a no-strings-attached legitimate and permanent gift. There are also lenders willing to make the same concession for gifts from a domestic partner or even from a nonprofit organization.

You can also tap into your retirement account as a way to get down payment money. There are specific guidelines and stipulations, so consult a tax professional to find out exactly how to do it. But most 401 (k) plans allow you to borrow as much as $50,000, as long as you have enough funds leftover in the account to meet certain criteria.

Flexible owner financing

Sometimes a seller doing self-financing will pay your closing costs, to help you close the transaction. And if you use a "lease purchase" contract, you may be able to negotiate it so that the landlord/seller lets you apply monthly lease payments toward the purchase price until enough money has changed hands to compensate for the down payment.

Ask your mortgage representative to help you decipher all the available options. Because real estate prices have skyrocketed, mortgage lenders have become more creative to meet the need for consumer-friendly loan packages. During the hot Japanese bull market of the 1980's, banks in Tokyo began writing mortgages with payments stretched out over lifetimes. A conventional 30-year loan became a 99-year loan, in order to help people manage the payments on humongous mortgages.

We don't expect to see those kinds of amortization schedules offered in the USA anytime soon, but we do see opportunities for first-time buyers to secure solid and reliable "zero-down" mortgages. ▼

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