

My Home Loan



Mortgage Insight: How to Buy a Home for Nothing Down

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For the majority of today's home purchases, there is no longer a need to use overly creative seller financing and other innovative methods for buying without a down payment.

Today's mortgage lenders have become very savvy about the profitability of making low and no down payment home loans, even to borrowers with poor credit, or that have a previous (even recent) bankruptcy or foreclosure.

Last year, according to the National Association of Realtors, over 30 percent of home sales involved 100 percent financing in one form or another.

In real estate "nothing down" means zero cash from the buyer's pocket. However, it doesn't mean the seller won't receive 100 percent cash for the home. Nothing down really means the buyer is borrowing the entire purchase price.

If you are in the market to buy your personal residence (or even a second/vacation home,) but you are a little "cash-challenged," don't let that stop you from purchasing for zero cash from your pocket. There are more ways to accomplish this than you realize.

Although not every mortgage lender offers zero down payment mortgages, your mortgage consultant can arrange your no-cash home pur-

chase easily. Whether you are a first-time home buyer (defined as not owning a house or condo within the last two years,) or buying your second, third or fourth home, most mortgage lenders offer extra-easy zero down home finance plans.

But there's a catch; You will need a "decent" credit score, and some modest history of paying your credit accounts on time. Also, you will generally not want to be currently behind on your accounts or have any active collection agency activity.

For the purposes of zero down home purchases, I like to define a "decent" credit score (FICO Score) as being 600 and above. In some cases, scores of 580 and above are also allowed.

For the most part, as long as your score is above 600, no other factors will be an issue. Past bankruptcy, or foreclosure are ignored, no matter how recent, as long as you qualify on the other factors.

My favorite Zero Down Payment program only requires:

- 1) A credit score of 600 or above.
- 2) One credit account at least 24 months old and over \$2,500.
- 3) Two other accounts at least 6 months old.

These accounts don't need to be recent or active. In other words they can be accounts that you've already paid off or closed.

Your income will be calculated based on an average of your prior year's W2 (or 1099) and your current year-to-date earnings from a recent Pay Stub. If you're applying as

a borrower and co-borrower, than both of your incomes will be added together, along with your debts, and you will be qualified together.

If you're self employed, your in luck. There are now more programs than ever, created to cater to the many hard working self employed in this country. While you can use tax returns for income if you like, my favorite program averages out your business's monthly deposits (from your bank statements) and uses a generous percentage as your income to qualify for a loan.

This is a very powerful tool because the income calculations are usually about 70% of your *gross deposits*. This is very generous because only 30% is calculated as business expenses, and in real life, business expenses can be much higher than that.

Many lenders now also offer "stated income" mortgages where, with good credit, you don't even have to prove your income, such as with W-2s, tax returns or even bank statements.

If you qualify, and many home buyers will, lenders will gladly finance 100 percent, and sometimes even over 100 percent, of your home's purchase price, to include funds for your Closing Costs.

Another one of my favorite strategies for helping cash-strapped home buyers move in with *truly nothing out of their pockets*, is to include the closing costs in the loan *without* going over 100% of the price (and a higher rate on your loan.) You'll have to call me to get this savory tip!

As with any type of loan, you'll want to make sure you're a "well-qualified buyer." That means you meet the credit score requirement I mentioned, and have some plan for either documenting or "stating" your income.

To check your credit reports from all three national credit bureaus, and determine your FICO credit score (Fair Isaac Corporation) just go to www.myfico.com. For \$44.85 total, you will receive your three credit reports, and your FICO credit score. Each credit report will be different, so take time to compare them and follow the instructions to correct any errors.

Or, at no cost, you can obtain all three of your credit reports at www.annualcreditreport.com. However, you will not receive your very important FICO score at this free source.

After checking your credit reports and FICO score, the next step is to get written pre-approval for a no-down-payment mortgage. Most major mortgage lenders offer this service, or a mortgage broker can obtain a lender's written pre-approval mortgage commitment for no up-front cost to you.

Armed with your lender's written pre-approval mortgage promise (subject to reasonable conditions, such as appraisal of the home you decide to buy,) then you can shop for a home with confidence knowing the maximum mortgage you can obtain (and afford.)

A common one-stop approach to obtaining this information is similar to what I do with my per-

sonal clients; have an honest and open conversation about your plans, get a summary of your income and credit history and check your credit scores. All this takes less than 10 minutes (and is totally free) and the result is usually either a very *excited* and qualified future home buyer, or a future home buyer with a *clear understanding* of what still needs to be done in order to become qualified.

However, if you can't qualify for a no-down-payment mortgage, don't give up. There are many alternatives. If you can make a 5 to 10 percent cash down payment, that makes obtaining financing easier.

In some cases the combination of a traditional loan and "seller financing" might be your best and least expensive choice. This may sound complicated but it's something that your mortgage consultant can not only explain to you, but often arrange with the seller on your behalf to create a successful win-win for everyone involved.

The true power of buying real estate with little or no cash is "high leverage." It simply means the borrower controls the entire property with a very small (or no) amount of cash.

The big leverage benefit is usually a high percentage profit-per-dollar invested if the property goes up in market value due to capital improvements or sales price appreciation.

For example, suppose you buy a house or condo for \$200,000 with nothing down. Because of your good income and good credit, the

mortgage lender approves a \$200,000 mortgage. Suppose that house appreciates in market value by 5 percent annually, or \$10,000 in the next 12 months. What percentage return is that on your investment? The correct answer is "infinite," because your only out-of-pocket expense was probably for closing costs.

However, suppose instead you paid \$200,000 cash for that same home and it appreciates the same 5 percent in market value (\$10,000) during the next 12 months. Now your return on investment is a mere 5 percent. Of course, you avoided the tax-deductible mortgage payments, so those savings should be added to your return.

As the years go by, the advantages of high leverage on your home, and the benefits of using a Zero Down Payment loan will become greater each year.

Claudio D. Varga is President of My Home Loan. The firm provides a wide variety of lending solutions for residential and commercial real estate. Claudio has been a licensed mortgage broker and consultant since 1998.

His mortgage consulting clientele ranges from first time home buyers to professional real estate investors with multiple properties.

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