

## **Is it really possible to buy real estate with no money down?**

*Understand and know what a distressed seller is and why they would sell a house for less than its current value.*

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I have heard many questions over the years from students about whether or not it is really possible to buy real estate with no money down. The most frequent questions I get are from mortgage brokers and realtors. Since mortgage brokers are by definition trained to fund a loan based on bank requirements like 20% down payments, then by definition anything else seems to be beyond the scope of their possibilities. It has been my experience that many real estate professionals don't seem to understand the concept of "no money down deals".

***Firstly, the definition of no money down does not mean "no money down". It simply means none of YOUR money down.***

It could be Uncle Bob's money, the sellers' money, or a loan from Aunt Sally. It could also be a credit line, a private investor, hard money lender or anyone else for that matter. It is very important to understand this concept.

Now, if you were to purchase a house and put down 20% which you borrowed from your relative, then you would have purchased the house with no money down. You can call it 100% financing or whatever you want to call it. As far as the bank is concerned you put down 20%. However there is a problem with that since as many mortgage brokers will tell you, banks want to know the source of the funds. When they see that the funds are borrowed and that you have no "skin" (your money) in the deal then they will reject the loan.

So, what is an investor with no cash going to do to get around this problem? The solution is to borrow ALL of the money to purchase the

house for cash. If you borrow from Uncle Bob all of the cash then you can be a cash buyer. Cash buyers are very rare today and if you are a cash buyer then you can buy bank owned REO properties at a substantial discount to market value.

But Uncle BOB is not going to feel comfortable loaning you money to buy a house unless there is substantial security for him. Since banks loan money at loan to value (LTV) ratios of 70% Uncle Bob might be especially cautious and only agree to loan money at 60% LTV. Is this risky for him? Well it is less risky than conventional mortgages that are funded by banks. Why is it less risky? Well firstly, conventional banks loan based on a mortgage application, a credit score and an appraisal. But Uncle Bob is a little smarter than the average bank. He actually can go out to the property and inspect it himself. After all, if you don't pay him then he is going to get the property since he has the first mortgage.

So Uncle Bob is going to need to have enough knowledge of real estate to feel comfortable that if you don't pay him, and he gets your house that he will have a deal. Uncle Bob is going to do his own comps and is not going to rely on an appraiser. Uncle Bob is going to spend days or even weeks investigating the property compared to the 30 minutes that an out of state loan officer looks at a file. If Uncle Bob is convinced that your deal is a good deal, then he is going to loan the money. If you are paying him 10% interest and the bank is only paying him 2% then Uncle Bob will make more money loaning on real estate compared to having his money in the bank. If Uncle Bob has done his homework then he will only fund a deal at 60% LTV or less. What this means, is that if he thinks the house is worth \$100,000 he will only loan you \$60,000 and no more.

Your challenge will be to find a \$100,000 house that you can buy for \$60,000. Being a cash buyer will make your job much easier because 99% of the buyers that are competing with you will be looking to get a mortgage.

***Currently it is very difficult to get anything other than an FHA or VA loan. Cash buyers are able to buy properties directly from banks for as little as 50 cents on the dollar.***

## ***This is a once in a lifetime opportunity.***

So start looking for “Uncle Bob” or anyone that you know that has money. Then once you have an investor lined up begin looking for wholesale real estate deals.

When you find a deal the mechanics will work like this:

House is worth	\$100,000
You purchase for	\$60,000
Uncle Bob loans	\$60,000
Money out of pocket	\$0

Now that you own the house, you wait 6 to 12 months for something called “seasoning of the title” and then you go to your mortgage broker and you tell them that you want to do a refinance. You want to get a conventional mortgage at 7% to pay off Uncle Bob at 10%. The bank will require an appraisal and if you were correct in your initial assessments the appraisal should come in at \$100,000. If the bank agrees to give you an LTV loan for 70% of the \$100,000 appraisal, then they will loan you \$70,000. Assume closing costs are \$5,000, so after paying Uncle Bob back the \$60,000 you are left with the following scenario:

House value	\$100,000
Bank Loan	\$70,000
Equity	\$30,000
Cash left over from refinance	\$5,000

***You just purchased a house with no money down. AND you now have \$5,000 in your pocket and \$30,000 of equity in the house. This is called distressed real estate investing.***

Your challenge is not finding Uncle Bob. There are many Uncle Bob’s out there. They are called hard money lenders or private investors. Your

challenge is to find a \$100,000 house that you can buy for \$60,000. That is the hard part. To do this you are going to need to find a distressed seller. If you can learn how to do that then you will have no problem finding the money.

Beginner distressed real estate investors think that finding the money and having good credit are obstacles to their beginning to invest in real estate. This is not true. *The biggest obstacle is education.* Learn and understand how and why you can buy a \$100,000 house for \$60,000. Understand and know what a distressed seller is and why they would sell a house for less than its current value. Then go out and start looking for a deal. When you find one, give me a call. Maybe I will buy it from you.

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**Lex Levinrad** has been a full time distressed real estate investor since 2003. He has been involved in buying, rehabbing, wholesaling, renting, and selling hundreds of houses in South Florida. Lex is the founder and CEO of the Distressed Real Estate Institute, which trains beginning distressed real estate investors about how to find wholesale real estate deals. For more information about the Distressed Real Estate Institute please visit [www.lexlevinrad.com](http://www.lexlevinrad.com)

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