

## How To Buy a Home With No Money Down and No PMI

Buying a home with no down payment is becoming more common. If you can afford the monthly payments, you can realize significant advantages. If you'd like to learn more about financing with no money down, please call our office at 415.345.0788

### How It Works

The "standard" is to have a buyer invest a 20 percent down payment in a home purchase. Anytime someone puts down less than 20 percent, *and* s/he takes out *one* loan to buy the property, that buyer has to pay what's called private mortgage insurance (PMI). PMI is an insurance premium paid to the lender to protect the lender against the borrower not making a mortgage payment. We encourage our clients to avoid PMI, as it can be very expensive and is not a tax-deductible event.

To avoid PMI, borrowers obtain *two* loans to buy the property rather than one. In most cases, the first loan is acquired as if the borrower put 20 percent down; that is, for 80 percent of the value of the property. The second loan is for the remaining 20 percent of property value that the borrower doesn't put down. For example, if someone puts 10 percent down, s/he would obtain a first loan for 80 percent and a second loan for 10 percent. In the industry, we call this the "80/10/10" (80% loan, 10% loan, 10% down). When clients put zero down, that second loan is for 20 percent, making the loan an "80/20." The second loan's interest rate may be higher, but the interest is tax deductible, making it less expensive overall than PMI.

### The Advantages

**Start building wealth sooner.** While many folks earn enough money to make monthly mortgage payments, amassing a 20 percent down payment is a difficult task. This allows them to get into a property and start to build wealth through real estate ownership sooner than if they saved for a 20 percent down payment. We've had clients pay as little as \$5K to buy a \$700K property that is now worth \$850K. Not a bad return on a \$5K investment.

**Free up cash.** By not putting all one's funds into a down payment, home buyers can reserve funds to upgrade the property, save for an emergency cash reserve, or invest elsewhere to build multiple assets.

**Increase tax deductions.** Borrowers who opt for 100 percent financing ultimately pay more in mortgage interest, thereby increasing their tax deductions (depending on their particular situation).

### The "Downside"

Buying a home with no money down is not for everyone. Those who have absolutely no emergency reserve funds should explore other options. Should someone buy a \$750K property today, finance 100 percent of it, and then have to sell it tomorrow for \$740K, that person would have to pay to close the sale. Without reserve funds, the owner would not be able to close the sale or would be subject to a lien.