Financing Options When Investing in Real Estate

With the recent downturn in the national housing market, the choices in financing options have become a little complicated for those wanting to invest in real estate. Historically, a financial institution would finance up to 80% of a property, requiring at least a 20% down payment. For the past several years, many would offer up to 100% financing, but this option may be harder to find and have more stringent requirements today.

There are several options for financing the purchase of a property, depending on if it is to be an investment or residence for you and your family. If you're considering becoming a landlord or jumping on the bandwagon and trying your hand at flipping houses, it's important to be aware of your choices available.

One such option for investing is to use a second mortgage on your primary residence to help finance a down payment. Record lows in mortgage rates have allowed this to become a more affordable option, too.

An important reminder is called for here that the financing party will require private mortgage insurance for properties financed above 80% of their value, adding to the cost of this investment.

Some lenders may remove this requirement after some payment history, though this is doubtful. When this does happen, the loan-to-value ratio will have been paid down to 80% or less of the home's value. This may become a little tricky today with decreased property values, unless you owed very little on your home in the first place.

Other options for financing investment properties such as communities or housing tracts may be available through the house manufacturers for a first-time buyer. These loans are usually an option to finance only 5% of the purchase price, requiring another form of financing for the remaining 95%.

If you have a home buyer in line for a possible home, you may have the option to buy it yourself and after a short time sell it for a few thousand dollars in profit. This option will not require you to ever be listed on the title or take possession of the home. These transactions will turn quick profits if you know what you're doing, but they require excellent credit scores to take advantage of them.

Another financing option includes a 'Sub2' deal, standing for 'subject-to.' If you are an experienced investor, you know that lenders will not finance more than 5 or 6 total properties in any one year with even the best credit scores. Sub2 deals allow you to make payments due on the existing mortgage and take ownership of the property, without becoming legally liable for the loan.

If you are in the market for a 'fixer-upper,' forming an LLC with a partner may be the best option. Each of you should agree to a percentage that each will contribute to or finance for the home, and upon flipping the property split the profits in accordance with the percentage of your original investments. This percentage may also be altered if you perform the needed work while someone else fronts the money for the purchase.