2014

INVESTFOURMORE

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NO MONEY DOWN

E-mail Guide

1. How to Buy Investment Property with Little Money Down

Many people do not have the 20 percent down payment that most banks require to buy an investment property; however, there are ways to buy with less money down. The easiest way to buy an investment property with less than 20 percent down is to buy as an owner occupant and then later rent out the house, but there are other options for investors as well.

Using a line of credit, refinancing your home, or even credit cards, can also provide ways to buy investment properties for less money. Seller financing is a great way to put less money down on a rental property, if you can find willing sellers. A more advanced technique is to use hard-money financing, which can be refinanced into a conventional loan. However, you choose to buy rental property, always research the method to make sure it is legal in your state, okay with your lender, and you are not stretching your finances too thin.

For more information on my 11 rental properties and investing strategy, check out my complete guide to purchasing long-term rental properties.

How much money down do most banks require on an investment property?

If an investor wants to buy a property from a typical bank, they will have to put down at least 20 percent. If you own more than four properties, that figure can increase to 25 percent down, if they will even finance more than four properties. On top of the down payment, an investor will have to pay closing costs that can range from 2 to 4 percent of the loan amount. It is very expensive to buy an investment property using financing from a typical bank. I have found a great portfolio lender who will finance as many properties as I want with 20 percent down. I discuss how to find a great portfolio lender here. Once you factor in repairs and carrying costs, as well as the down payment and closing costs, it can cost as much as $30,000 to buy a $100,000 rental property.

How to buy an investment property with little money down as an owner occupant

The easiest way is to buy an investment property with less money down is to live in it as an owner occupant, then rent out and keep the property as an investment after you have satisfied your loan requirements. Most owner occupant loans require the buyer to occupy the home for at least a year. However, once that year is up, the house can be rented and be turned into an investment property. The down payments for owner occupied loans range from no money down to 20 percent or more if you want. USDA and VA have great no money down programs that I will discuss later on. Those programs also have little to no mortgage insurance, which will save an investor a lot of money each month. Mortgage insurance is typical on most loans that have a loan-to-value ratio of more than 80 percent. Mortgage insurance can add hundreds of dollars to your house payment and eat away at your cash flow. The process for buying as an owner occupant and then turning the house into an investment property is as follows:

1. Buy a house as an owner occupant that will cash flow if you were to rent it out.

2. Move into the house and live there for at least a year.

3. After the year is up, find another house that will cash flow and purchase that home as an owner occupant.

4. Move out of the first house and keep it as a rental. Move into the new house and keep repeating the process every year!

Eventually you will be building equity and extra cash flow that will enable you to buy properties with 20 percent down. If you could repeat this process ten times, that would be an excellent way to get started, but no one wants to move ten times in ten years. If you have a family, it can also be tough convincing them to live in a home that would also be a great rental.

How to buy investment property with no money down

There are many books and programs that claim you can buy houses with no money down. I have not used these techniques and I am not an expert in this field; they do not fit my investing strategy. Many of these no money down deals involve high interest rate notes by borrowing short-term money. Many times the returns are not very good on these types of deals because of the high financing costs involved. These strategies do not work well for me since my goal is long-term cash flow created by buying below market value. If you have no other options to buy a house than borrowing with short-term money, it may be worth looking into, but make sure you are getting a great deal and it is worth it.

How to buy rental properties with no money down using hard money

Using hard money is more expensive in the end, but it can save you a ton of cash in the short-term. Fannie Mae lending guidelines allow you refinance a home with no seasoning period. No seasoning period means you do not have to wait six months or a year after you bought the home to refinance at a higher value than you bought the home for. Fannie guidelines base the refinance amount on a new appraisal and they will allow a 75 percent loan-to-value ratio. Fannie Mae guidelines will not allow a cash-out refinance, but the guidelines allow the refinance to pay off any existing loans. Many hard-moneylenders will allow a buyer to borrow up to 100 percent of the purchase price of a home, plus repairs.

Since Fannie Mae guidelines allow a 75 percent loan-to-value refinance, theoretically an investor could buy a home for $100,000 and get a loan with a hard-money lender for $100,000 plus $30,000 in repairs, for a total loan amount of $130,000. The investor can then refinance the home for as much as 75 percent of a new appraisal. If the appraisal came in at $180,000, then 75 percent loan-to-value would allow a refinance of $135,000. Fannie will not allow a cash-out refinance, but the investor could refinance the full $130,000 loan amount. This strategy can be costly due to hard-money fees, but it allows the investor to refinance the entire purchase price and repairs!

This strategy can be very risky, because you are depending on a high appraisal to get your money out. Most hard money loans are only one year long and you must pay off the loan after that year. Refinance appraisals are not always as high as we would like them to be. Make sure you have an exit strategy if the appraisal comes in lower than you expect. Here is an article with more information on hard moneylenders.

How to purchase investment property with less cash by becoming a real estate agent

There are many advantages to having your real estate license, but the biggest benefit is you can keep your commission on almost every house you buy. On a $100,000 house, your commission could be $3,000 dollars or more. Here is an article that details why it is an advantage to become a real estate agent if you are an investor. Being a real estate agent also gives me an advantage when finding and purchasing great deals. I detail how hard it is to get your real estate license here. I estimate I saved over $70,000 on commissions in 2013 by being a real estate agent. That does not include the money I made on deals I got because I was an agent.

How to buy a property with little money down using a turnkey rental property provider

A new trend in the US is buying turnkey rental properties that are purchased, repaired, rented, and managed by a turnkey provider. Turnkey properties are a great opportunity for investors to buy rental properties out-of-state, because homes may be too expensive in their area. There are also turnkey providers who offer as little as 5 percent down for investors. Here is a great article about turnkey providers or send me a request here for turnkey providers I know of.

How to use line of credit to buy investment property with no money down

I was able to get a line of credit on my personal residence earlier this year. That line of credit was for $60,000, required no appraisal, and only cost me $26! If you have equity in your home, a line of credit is a great way to get some extra cash to invest in rental properties. You can pull money out of your line of credit for any reason and the money is available almost immediately. With my lender they were able to tell me how much the line of credit could be instantly and for no charge. Here are the details on my line of credit.

How to use seller financing to buy investment property with little money down

Some sellers may be willing to finance the house they are selling or finance a second loan on a home to allow a buyer to put less than 20 percent down. If your bank is willing to offer 80 percent loan-to-value, the seller may offer to loan the other 20 percent, which would equal no money down for the buyer. The seller may also offer a number of other loans to value percentages that will help a buyer get into to a home for less than 20 percent down.

Finding seller-financed properties is the tricky part. Most sellers are not looking to finance a loan when they sell. In order to find seller financed listings look for homes that have no loans against them and terms in the MLS listing description that say seller financing available. The seller's terms can vary greatly depending on how desperate they are to sell and what exactly they are looking to get out of the deal. Do not expect to pay 4 percent interest on a seller-financed loan; they will want a premium on any money they lend. It is also harder to find great deals with seller financing, which is a key to my strategy. There are many new restrictions on financing thanks to the recent Dodd-Frank Act.

Use proceeds from a refinance to buy investment property with no money down

If you already have a home, you may or may not have equity after the recent market downturn. In most areas around the country, home values are rising and interest rates are at record lows. You may be able to refinance your home and get enough money to buy an investment property. Once you are able to buy an investment property, you can refinance the investment property in one year. If you bought the home below market value, you should be able to take out as much as you put into the house and still cash flow with rates as low as they are. I use the refinance technique all the time and offer more details here. Getting lenders to do a refinance is tricky when you own multiple investment properties. I use a portfolio lender who has allowed me to use a cash-out refinance on as many properties as I want.

How to partner with another investor to buy investment property with little money down

Another way to find a down payment for rental property is to collaborate with another investor. Some investors may be looking for a better return on their money than a CD, but they do not trust the stock market. Real estate may seem like a better investment to them, so they will let you borrow money from them in exchange for you finding a property and managing it. If you collaborate with an investor, always make sure everything is in writing and both parties are clear on what is expected.

Buy a move-in-ready property to reduce the amount of money spent on repairs

A move-in-ready property means all the repairs are completed and it is ready to rent as soon as you buy it. There can be many advantages to buying a move-in-ready home. The biggest advantage is you do not have to pay anything for repairs. You also do not have to spend time waiting for repairs to be made, which saves money on mortgage payments, utilities, and other carrying costs. The downside on a nice home is it is usually more expensive and provides less cash flow than a home that needs work.

Use credit cards to purchase rental property with little money down

There are a few other ways to get quick cash, but they can be very expensive and are usually reserved for people looking to do a quick flip. If you have a killer deal you cannot pass up, you may consider these options, but I do not recommend except as a last resort. The easiest way to get quick cash is through credit cards. You can get a cash advance or pay for repairs using your credit card. If you do use a credit card to finance your down payment or repairs and cannot pay it off right away, do not pay the 17 percent interest rate. Do your best to get another card that will allow a balance transfer. Many times, you can transfer all of your balance and pay little to no interest for up to a year. Hopefully that will give you enough time to pay off the card and you will not be stuck with a high interest rate eating all your profits. I also suggest using a rewards card for repairs on your investment properties. This is a great way to make a little extra money if you pay it off every month.

Buying investment properties with no money down using a self-directed IRA

If you have money invested in an IRA, you are not limited to investing in stocks or mutual funds. There are special self-directed IRAs that can be invested in investment property. You can use money from your IRA for down payments and repairs and then collect rent in the IRA. Here is a site with much more information.

How to buy an investment property with no money down using a 401k

Some 401ks allow an investor to take out a loan against the 401k. The loan usually has to be paid back relatively quickly and you will have to pay interest on the loan. You have to be very careful when borrowing from a 401k, because the money you borrow is no longer earning interest or growing in your retirement fund. If you lose your job, you also may be required to pay back the loan within 60 days or have to pay a 10 percent penalty and income tax on the loan.

How to buy a house with little money down using subject to loans

Subject to, means you buy a house, but do not pay off the previous owner's mortgage. This is another tricky situation that investors must be very careful with. When banks give people mortgages, almost none of the loans are assumable. That means that when the person the bank loaned money to sells the houses, the loans must be paid off. The bank will most likely have a due on sale clause that says the loans must be paid in full, once the borrower transfers ownership.

Subject to is when the new investor buys a house subject to an old mortgage and does not pay off the loan. There is a chance that the bank could require the loan to be paid off if they find out the home was sold without paying off the loan.

The reason investors will buy homes subject to a mortgage is they do not have to get a new loan. It may be hard for the investor to qualify for a mortgage or they may be maxed out on being able to get new loans. If you buy a home for $80,000 that has a $75,000 mortgage in place, the investor would only need $5,000 to buy the houses instead of the normal 20 percent or more.

Conclusion

Rental properties can be expensive to buy, but there are ways to get into them with less than 20 percent down. If you are short on cash, buying properties with little money down can accelerate the purchasing schedule and increase your returns. However, you will most likely make less money on each property because borrowing that last 20 percent can be much more expensive than the first 80 percent.

2. What Type of Loan allows Investing with Little Money Down

Now that you know the basic ways to buy a property with little money down. This section will go into the details on what types of loans let an investor or soon to be investor buy with little money down.

How I would buy an investment property with little money down if I had to start over

If I had no houses, little money, and wanted to invest in real estate, this is what I would do. With little money to put down on a property, your options are limited, unless you can buy a house as an owner occupant. If you can buy a home as an owner occupant, you can put 3.5 percent down or less on a home! It takes some sacrifice and flexibility to use this method, but it is not always easy to get ahead in life.

Buying an investment property with little money down as an owner occupant

I am not advising you should pretend to be an owner occupant when you are an investor. There are serious penalties for pretending to be an owner occupant, especially on HUD homes (up to 2 years in prison and $250,000 fine). But you can buy the home as an owner occupant, live in the home a year (or whatever the owner occupant requirement is), and then rent the home. This process can be repeated over and over as long as you can take moving into new houses every year.

What type of loans allow for a smaller down payment?

Many owner occupant loans allow for a small down payment. Most investor loans will require at least 20 percent down or even 25 percent down. An owner occupant has many more options to buy a home with little money down.

- **FHA loan**

FHA loans are government-insured loans that can be obtained with as little as 3.5 percent down. You can only have one FHA loan at a time unless you have extenuating circumstances, such as job relocation. You do have to pay mortgage insurance on FHA loans. There are limits to the amount an FHA mortgage can be and varies by state and even city.

- **USDA loan**

USDA is a loan that can be used in rural areas and small towns. The loans most likely cannot be used in medium-sized towns or large towns/metro areas. The loan is a fantastic loan for those that qualify and want to buy a home in the designated areas. USDA loans can be had with no money down, but do have mortgage insurance as well.

- **VA loans**

VA loans are run through the United States Veterans Administration. You have to be a veteran to qualify for the loan, but they also can be had with no money down and no mortgage insurance! VA is a great option for those that qualify because the costs are so much less without mortgage insurance.

- **Down payment assistance programs**

Many states have down payment assistance programs. In Colorado, we have a program called CHFA. The program helps buyers get into owner occupied homes with very little money down. CHFA actually uses a FHA loan, but allows for less than a 3.5 percent down payment. Check with lenders on your state to see if you have any programs that help with down payment assistance.

- **Conventional mortgages**

Even conventional mortgages have low down payment loans available for owner occupants. For owner occupants, conventional loans have down payments as low as 5 percent. You will most certainly have to pay mortgage insurance with any conventional loan that has less than 20 percent down. Unlike some of the other loan options available, you can have as many conventional mortgages in your name as you want as an owner occupant. That assumes you can find a bank who will give many loans to an investor like my portfolio lender.

- **FHA 203K Rehab loan**

A FHA 203K rehab loan allows the borrower to finance the house they are buying and repairs they would like to complete after closing. This is a great loan for homes that need work, but the buyer has limited funds to repair a home. There are more costs associated with this loan upfront, because two appraisals are needed and lenders have higher fees for 203K loans. The same down payments and mortgage insurance will be needed as with a regular FHA loan.

Loan Costs, besides down payment, that a buyer has to consider

On almost any loan, you will have more costs than just the down payment. The lender will charge an origination fee, appraisal fee, prepaid interest, prepaid insurance and possibly prepaid mortgage insurance. Plus the title company may have more charges like a closing fee, recording fees, and possibly title insurance. In most cases, the seller pays for title insurance, but with HUD and VA foreclosures, the buyer has to pay for title insurance. These costs can add up to another 3.5 percent of the mortgage amount or sometimes more. When you talk to a lender, they can give you an estimate of exactly how much these costs will be before you get your loan.

Reduce the amount of money needed to buy a house by asking the seller to pay closing costs

Even though the lenders and title company will charge you more fees than just the down payment, that does not mean you have to pay those upfront. You can ask the seller to pay closing costs for you. If you can get the seller to pay your closing costs for you, loans like VA and USDA may be obtained with no out-of-pocket cash. You may still have to put down an earnest money deposit, but that can be refunded at closing in some cases. When you ask the seller to pay closing costs it reduces the amount of money they are getting from the sale so you might actually be paying more for the home than if you did not ask for closing costs. But in my mind paying a little more for the house and financing those costs to save cash is better than paying more money out-of-pocket for a little cheaper home.

How much does mortgage insurance add to mortgage payments?

I talked about mortgage insurance briefly in the loan descriptions above. Mortgage insurance is an upfront fee paid at closing, a monthly premium paid on top of mortgage payments or both. Mortgage insurance is insurance for your lender when the down payment is less than 20 percent, because loans with a lower down payment are typically more risky for a lender. Each loan type has different mortgage insurance amounts and time frames. Below are links to more information on mortgage insurance for each type of loan.

FHA mortgage insurance

USDA mortgage insurance

Conventional loan mortgage insurance

Some mortgage insurance can be cancelled once your home has built up enough equity. With a conventional mortgage, if your home rises in value, it may possible to cancel the mortgage insurance.

A lower down payment increases the monthly payment

Getting a loan with less than 20 percent down will increase your monthly payment. Not only does your payment increase because the loan amount increases, but the mortgage insurance will add even more to your mortgage payment. Many times the difference between a 20 percent down loan and a 5 percent down loan can be hundreds of dollars per month. A main part of my strategy is cash flow and low money down loans do make it harder to cash flow on homes once you rent them out. It is very important you run the numbers on any house you buy, that you eventually plan to rent out, to make sure the home cash flows after all expenses, including vacancies and maintenance. It is vitally important to buy these homes below market value to leave yourself enough room to cash flow and sell the home if needed. When you have little money available for down payment and repairs, it usually means you have little money for vacancies and maintenance when a house is rented. In the worst-case scenario, if you cannot rent a home or if you lose your job, you will be able to sell the home and hopefully make a profit, if you bought it below market value to begin with.

Conclusion

I believe the sooner you start investing the better, but make sure you have a backup plan if things do not go as intended when you buy an owner occupied property that you plan to turn into a rental. Could you sell the home if needed after a year? Are you willing to live in the home longer than a year if things do not go as planned? Cover your bases and get started investing! Once you have your loan in place and have a property in mind, here is what you can expect to happen during the closing process.

3. How Can College Students Invest in Real Estate Without a lot of Money?

Investing in real estate is a great way to get ahead in life and retire early. It can be difficult for many people to invest, especially college students, because of the money required to buy real estate. However, as I have already discussed, there are many ways to get started investing in real estate without a lot of money. The sooner you begin investing in rental properties the better off you will be, and if you can buy properties while in college you will be in a great position later in life. Investing in real estate was not on my mind when I was in college, but I wish it had been. If I would have started investing in real estate much earlier, I would be much better off than I am today.

Why should college students invest in real estate?

I own 11 long-term rentals, and I fix and flip 10-15 homes a year and sell 200 homes a year as a Realtor. I have a definite bias towards investing in real estate, but that is because I have made a lot of money with rental properties and fix and flips. I wish I would have started investing in real estate and worked hard at selling houses as a Realtor much sooner. When I was younger, I was much more concerned with having fun, than I was with setting goals and making it big.

Fix and flips are great for producing income, but fix and flipping is more of a job than it is investing. Rental properties on the other hand produce long-term cash flow, which is what really builds wealth. The longer your own rental properties the greater their benefits are. Rental properties have great tax advantages, can be bought below market value (giving you instant equity), provide cash flow every month, and are a great hedge against inflation. Inflation will cause rents and home values to rise over time, but if you buy rental properties with a fixed rate mortgage, your payments will always stay the same. The sooner you buy rentals the more money they will make you and college is a great place to get started. You do not have to be in college to get started investing; any young adult can buy properties and start building an empire.

Another reason for college students or young adults to invest in real estate is that life has not gotten in the way yet. We all have great intentions to invest, but when you get a job, your focus moves to that job and making money. Then you get ahead in your job and you get married and have kids. All the sudden, all of your free time and money is gone! When you are finally ready to invest in real estate, 20 years has passed since college and you are starting from scratch. It is not a bad thing to start investing at any age, but the sooner you start the better off you will be. In college you have the freedom to invest, and the sooner you start, the easier it will be to continue investing and building something great.

What type of real estate should a college student buy?

All of my rental properties are single-family homes, but that does not mean everyone should focus on single-family. In my area, single-family homes cash flow better than multifamily homes and I can get a better deal on single-family homes. In some areas, multifamily homes may cash flow better and college students may be better off buying multifamily properties because of their living situation.

When a college student lives off campus, they have to pay rent for a house, apartment, or bedroom. One advantage to owning a house is the college student no longer pays rent. They have to pay a mortgage, but that mortgage payment helps pay down the loan on the property over time. If they buy a multifamily property or a house that can have the bedrooms rented out. Then the college student can live in the house for free because the money they make from renting out the other units or bedrooms will pay their mortgage for them. If you find a good cash flowing property you can make money every month on top of living in the property for free.

Once the college student graduates or moves on from college, they can continue to rent out the property to students and make even more money every month. *If you are renting out bedrooms in a house, make sure you know the zoning laws. Some towns will not allow multiple unrelated people in single-family homes.*

What are the biggest obstacles college students face investing in real estate?

Buying real estate takes money. I do not care what anyone says, you will be able to start a real estate empire without any money. Most banks require 20 percent down when buying a rental property, but most college students do not have 20 percent down to buy a property.

How can college students put less than 20 percent down on rental properties?

I talk about how much it costs to buy a rental property here; however, there are ways to put much less cash into a property. Banks require investors to put 20 percent down, but they require much less for owner occupants. One great thing about college students who invest in real estate is they may not be particular about where they live. If you can buy a house or multifamily property that you can live in for a year, you can get started with 5 percent, 3 percent, or possibly no money down.

Even if you buy a property with no money down, you will still need some money. You have to account for vacancies and maintenance as a real estate investor, and on great a great deal, sometimes you get a house that needs repairs.

How can a college student qualify for a loan on rental property?

Even if you can buy a house with no money down, you still have to qualify for the loan. That means a college student will need income, good credit, and a good debt-to-income ratio. These are many things that college students lack! It is easy to rack up student loans to pay for school and housing. Without much money, it is easy to miss a couple of payments here and there while getting started in the world, and most students do not have a lot of time to work at high paying jobs.

It is very tough for college students to qualify for a loan without help. The good news is that it is easy for students to get help qualifying for a loan. A kiddie condo loan is a loan that allows a college student or young adult to a have co-signer on a mortgage. The student still needs decent credit, but if the co-signer has a good income and good debt-to-income ratio, the student can buy a house. The student has to live in the house but the co-signer does not, and they will still qualify for a low down payment, owner occupant loan.

How can a college student find a co-signer for a loan on rental property?

Not everyone has a rich uncle, but it sure helps if you want to be successful in real estate. If you do not have a rich uncle you can ask parents, siblings, grandparents, cousins, or any blood relative to co-sign on a kiddie condo loan. Do not be embarrassed to ask someone for help. My guess is that whomever you ask will be impressed that you are thinking about investing so early and will be anxious to help if they can. Remember the very richest people in the world constantly ask for help and constantly learn. Do not be afraid or too proud to ask for help building your future. If someone says no, then ask them if they know someone else who might want to help.

How can a college student earn extra money wholesaling real estate?

One way to get started in real estate with virtually no money is wholesaling. Wholesaling is buying and selling houses or contracts to buy houses without investing your own money, because you sell them right away. In order to sell a house right away you have to get some smoking deals. Some people wholesale off the MLS, but the good wholesalers find properties that are not listed. My blog is not about wholesaling, but here is another article with more information on it.

The great thing about wholesaling is it teaches you how to find great deals. If you can find great deals in real estate, you can make money. That is one of the hardest parts of the business. The sooner you learn how to find deals, the better off you will be, even if you are not able to buy those deals yourself.

Should college students fix and flip houses?

I fix and flip a lot of houses, but fix and flipping takes a lot of money or a partner. If you want to flip by yourself as a college student, you are going to need to build up a bankroll or have a rich uncle that will loan you money. Since most people do not have that rich uncle, you can try to collaborate with other investors on flips. The problem is, convincing an investor that it is a good idea to collaborate with you. What do you have to offer the partnership if you have no money? This is why it is important to know how to find great deals. If you can find deals that can be flipped for a profit, you can find investors who will collaborate with you or buy the properties from you (wholesaling).

Another way to collaborate with an investor is to offer physical labor. Once again, an investor is not going to collaborate with someone just for the fun of it. If you have plumbing, electrical, roofing, carpentry, or other experience, maybe an investor will help teach you the business in return for work.

What if you cannot find a co-signer or a partner, and cannot qualify for a house?

It is not easy to buy real estate when you have little money, little credit, and little time. Wholesaling is one option for college students, but is not easy to do either. The best opportunities to get ahead in life are rarely easy. There is a chance you could do a lot of work in college to invest in real estate and never buy a property. Even if you never buy a property, but learn the ins and outs of your market while in college you will be better off than 95 percent of people out there. I am not saying you should not try to buy property, but even if you do not, you will be better prepared to succeed once you are out of college. Learning to find deals is a great skill that will be worth a lot of money.

4. How can you Save Enough Money to Buy a Rental Property?

One of the hardest parts of buying rental properties is saving enough money to afford them. There are ways to buy rental properties with little money down, but these techniques usually make it harder to cash flow than putting 20 percent down. Putting little money down also involves buying as an owner occupant in many cases, which is not easy to do for those with families. The most profitable way to buy rental properties is to put 20 percent down, make repairs, and have money in a reserve for maintenance and vacancies. However, it is not easy to save the money needed to pay for all the expenses that come with buying a rental property with 20 percent down.

How much money do you have to save to buy a rental property with 20 percent down?

The rental properties I buy cost from $80,000 to $135,000 in my market in Colorado. I put 20 percent down on my rentals and use an ARM to finance them. I also buy properties that need repairs in order to get them below market value. If you add all the costs, including carrying costs, repairs, down payments and closing costs, I need about $30,000 to $35,000 in cash for rental property I buy. I also need to have money in reserves for repairs or vacancies. I figure I need to have at least $40,000 in cash before I buy a rental property. I discuss the costs of a rental property in more detail in this article.

How can someone save $40,000 for a rental property?

$40,000 is a lot of money and an unthinkable amount of money to save for many people. I was in that boat early in my real estate career; I could not save any money to buy a rental. One of the first steps to saving money is actually believing you can save money! Once you get it in your head that you can save money, it becomes much easier. Then you can start planning, setting goals, and working towards those saving goals. It may sound cheesy that believing you can save money will help you save, but it works. If you constantly tell yourself that you cannot save money because you do not make enough, you have a family, or your taxes are too high, then you will not save any money. If you get the idea into your head that you can save money, you will start to see places where you can cut back and build up your savings account.

Are their alternatives to saving $40,000 for a rental property?

There are ways to buy a rental property with less than $40,000.

- The easiest way to use less cash to buy a rental property is to buy cheaper houses. The price of a rental property will be largely determined by your market prices. If you can cash flow on a rental property that is only $50,000, in an area you would want a rental, and then you will not need $40,000, you may only need $25,000 or less.

- You can also buy a rental property as an owner occupant, live in the home a year, and then rent it out. This technique definitely saves upfront cash, but your payments will be higher due to higher loan amounts and mortgage insurance. The higher payments make it harder to cash flow.

- Another owner occupant strategy is to buy a multifamily property and live in one of the units. If you buy a 1-4 unit property and live in one of the units, you can get an owner occupant loan. You could move out and rent the unit after one year or continue to live there.

- Seller financing can also be used to reduce the amount of cash needed to buy a rental. The problem with seller financing is finding a seller willing to loan money back to you. If you can find seller financing, in my experience, the sellers willing to do this are looking for top dollar on their properties and I want a great deal when I buy.

- Collaborating with another investor may allow you to put less money down, but you will have to share the profits and decision-making. If you do collaborate with someone, make sure everything is in writing and crystal clear.

- A very risky strategy is to buy a rental property with a hard money loan and then refinance that property into a conventional mortgage. This strategy requires a lot of experience and is very risky because hard money loans have to be refinanced with a year or less

What is the easiest way to save more money for rentals?

I can say this from personal experience; the easiest way to save more money than you are now is to make more money. Many personal finance experts suggest saving as much as 50 percent of your income. That is very hard to do if you do not make much money; it is hard even when you do make a lot of money. Our society and economy is based on consumers spending money, and it is tough to save. Making more money makes it easier to save if you do not raise your spending habits with your additional income. So many people automatically start spending money when they get a raise or a bonus.

I am not saying you should never start raising your spending habits. I am not a frugal person and I think it is good to spend money on things that make us happy. Before you start raising your spending habits, save money and save a lot of it. The more money you save the better off you will be financially, whether you invest in real estate or something else. If you have money saved and have investments, you will feel better about spending money on things that really make you happy as well.

How can you make more money to invest in rental properties?

- **Start a business**. When you own your own business, you have control and much more opportunity to make more money. I am a real estate agent and I run my own real estate team, fix and flip houses, run this blog, and have rental properties, which are also a business. Make sure when you start a business that you run the business and do not let it run you. The point is for the business to make money without you, not for you to work 80 hours a week doing everything yourself.

- **Ask for it**. The easiest way to make more money is ask for it. Ask for a raise if you are in a position where you work for someone else. You had better be able to justify your raise from work performance. If you have no basis to ask for a raise, start working harder and smarter and show your value.

- **Change careers**. Have you reached a ceiling in your current field of employment? Do you hate your current field of employment? Are you burned out and not doing as good a job as you should? Think about changing career paths to something you may actually enjoy.

- **Educate yourself**. The most successful people never stop learning. They take classes, seminars, read, and listen to audio books. Do not be afraid to go back to school if that will give your career a boost.

- **Do something you love**. There are varying opinions on doing something you love versus being paid. Some say it is impossible to do what you love and make money in some fields. I think anyone can make money in any field doing what they love. It may not be the exact job you envisioned if you wanted to be a professional baseball player, but that does not mean you cannot make money in that field. You could work as a trainer, coach, manager, or product designer. When you love what you do, you have more passion and work harder at what you do. You do not wait for quitting time every day because you cannot wait to leave. You get excited to go to work every day and are disappointed when you run out of time to work because you are having so much fun.

Whatever you do to start making money, make sure you set goals. Set goals and plan how you will make more money, because it will not happen without hard work and change. Go out and make things happen, do not wait for it to come to you.

How can you use a refinance to get money for rental properties?

I have refinanced my personal house in the past and two rental properties to get more cash for investing. A cash-out refinance can be a great way to generate the cash needed for a rental, but you have to make sure you have thought the process through.

1. You must have enough equity in your home to be able to do a cash-out refinance. If you are refinancing your personal house, you can usually refinance up to 95 percent of the value.

2. You must be able to qualify for a rental property after you refinance. If you refinance your house and your loan amount goes up, it will reduce the amount you can qualify for.

3. There are closing costs and other costs associated with a refinance. Make sure the amount of money you are getting is worth the costs associated with the new loan.

4. Make sure you can afford the new payment with the refinance and still be able to save money.

The first step to saving money for rental properties is to use a budget

Hopefully you found a way to make more money, but you also need to spend less. The first way to spend less money is to realize what you are spending money on. A budget starts by tracking everything you spend money on: food, clothes, gas, housing, cars, entertainment, travel, etc. Most people never track their expenses, because they are scared to see what they spend their money on or they are worried they will have to spend less money on things they love.

By tracking your spending, you will see a few things right away that you can save money on. You may be spending too much money on housing, food, clothing, or entertainment. Once you see what you spend, use a budget to limit your spending each month. Cutting back just a little on some expenses will go a long way to helping you save the money you need.

Pay yourself first when you save money for a rental property

It is very hard to get to a point where you can save 50 percent of your income unless you make a lot of money. Your first goal should be to save more money than you are saving now. A good rule of thumb is to save at least 10 percent of your income, but you should work to increase that number as much as possible.

Pay yourself first means you save 10 percent or whatever percent you choose of your income before you pay any bills. As soon as you get your paycheck, put 10 percent in a savings account that can only be used for investing. Make yourself live on what is left over after you have put away your savings.

Save money for rental properties by spending less on your house

Lenders will tell you exactly how much house you can qualify for when you talk to them about getting a loan. But qualifying and affording a house payment are two different things. I think buying the most expensive house you can qualify for will make it very hard to save any money. It will also make it very hard to buy a rental property because you have maxed out how much you can qualify for. I like spend about 10 percent of my income on my house payment and that leaves me plenty of money to save. That is not easy to do if you do not make a lot of money. Spend more on your house if you have too, but try not to buy the most expensive house you can afford.

Quick tips to save money for rental properties

There are many books out there on saving money; I highly suggest you read them. I do not know every technique and I cannot go over everything in one article, but hopefully this helps you start saving more than you are now, which is the only way to start.

- Pay off credit card debt by paying of the lowest balances first.
- Compare rates on insurance. Check different companies for rates and move all policies to one company to get a multi-policy discount.
- Eliminate cable and cell phone services or shop around for a better deal. Many times simply calling the company you currently use will lower your bill. Threaten to leave and they may give you a better price. You could eliminate cable all together as well.
- Turn the temperature in your house down a couple of degrees in the winter and up a couple of degrees in the summer to save on heating and cooling.
- Carpool to work, walk, or ride a bike on short trips that do not require a car.
- Stop drinking or smoking and do not go out to eat every night.
- Use credit cards to pay for everything. Yes, I said use credit cards for everything, but you must be very disciplined. I have a credit card that pays me 2 percent cash back on every purchase. If I pay my balance off every month, I am charged no interest. It is like getting 2 percent off everything I buy with my credit card and it adds up.

Conclusion

There are many ways to save money that I have not listed, but the important thing is to start saving now. If you can combine spending less money with making more money, you will be surprised how fast things can change. I am not a fan of being overly frugal and never spending money on anything, but you cannot spend all your money either. You need to find a happy medium that works for you where you are saving money, spending money on things that are important to you, and building a future.