MORTGAGES

ADVERTISER DISCLOSURE

What is the down payment required for an investment property?

iStock

This content is created by AP Buyline in accordance with AP's editorial guidelines and supervised and edited by AP staff. Our evaluations and opinions are not influenced by our advertising relationships, but we may earn commissions from our partners' links in this content. Learn more about AP Buyline here.

Table Of Contents

BY DORI ZINN
EDITED BY MADDY SIMPSON | DEBORAH KEARNS
Updated September 30, 2024

In a nutshell

Investment properties require a higher down payment than a primary residence, but the exact requirements vary by lender.

- You should have at least 15% for a down payment on an investment property.
- A larger down payment might be necessary to prove you can afford the property.
- Your investment goals will determine the type of investment property you choose.

Investment property loan requirements

There are many ways to invest in property. These include:

- Buying a fixer-upper to sell it for a profit later.
- Owning a single-family home and using it as a rental property, either for another family or as short-term rentals, like an Airbnb.
- Owning an apartment building or another residential property, like a duplex or triplex and collecting rent from tenants.
- Owning a commercial property and collecting rent from businesses.

Related Articles

Zero-down mortgages: What to know about this path to homeownership
by Kevin Payne

How much does it cost to refinance a mortgage?
by Allison Martin

The 8 best mortgage lenders for December 2024
by Holly Johnson

Best home equity loans for 2024
by Gianetta Palmer

Different investment properties mean different requirements when taking out a loan. However, there are some things you should always have on hand when trying to get funding for an investment property.

Down payment

You should have at least 15% as a down payment for an investment property. Some lenders may require more based on your debt-to-income (DTI) ratio, credit score and cash reserves.

Other financial factors could impact your down payment amount, but many lenders prefer you to have a higher down payment. Remember that an investment property isn't your primary home, so it's more risky than your main residence.

Credit score

The higher your credit score, the less you'll need as a down payment for your investment property. To obtain an investment property loan, you should have a credit score of at least 620, although this varies by lender.

Debt-to-income ratio

Your debt-to-income ratio, or DTI, is how much debt you have in relation to how much you're earning. Add up all your monthly debt and divide by your gross monthly income, which is what you earn before taxes. That number, usually expressed as a percentage, is your DTI.

DTI requirements vary widely by lender. Because an investment property isn't your main home, lenders tend to be more forgiving of DTI requirements. Some might allow DTIs up to 50%, depending on your credit score or how much you have in cash reserves.

Cash reserves

To buy an investment property, you should also be able to prove you have cash reserves. This tells lenders you have enough money in the bank to pay your loan if you also have to pay for unexpected repairs or vacancies. Aim to have at least six months of cash reserves, enough to pay the mortgage for half a year, to get approved for an investment property loan.

What's the minimum down payment for a rental property?

You should have at least 15% down for a rental property, although requirements vary based on your lender, the type of loan you get, your credit score and other factors.

Conventional loans

Conventional loans, including jumbo loans, are the most common way to borrow for a rental property purchase.

If using a conventional loan, aim for at least 15% down. Compare lenders to see which ones require more or less based on other requirements. You might need a larger down payment if your credit score is lower than your lender would like or if you have a higher DTI ratio than they'd prefer.

Government-backed loans

There aren't many government-backed lending opportunities for investment properties. If you plan to buy a home separate from your primary residence as an investment property, you probably won't qualify for an FHA loan.

You can get an FHA loan for an investment property under certain circumstances. For instance, you may qualify for an FHA loan if you buy a multiunit property and live in one of the units while renting out the others. You might also be eligible if you have to relocate for your job and have to rent out your primary residence.

How to finance an investment property down payment

If you're worried about coming up with a sizable down payment for an investment property, there might be other ways to cover the cost.

Home equity

You can use the equity in your primary residence by taking out a home-equity loan, HELOC, or cash-out refinancing to cover the cost of a down payment on an investment property.

This is like a second mortgage, so you'll be responsible for your first mortgage, second mortgage and investment property loan.

Group investing

Rather than buying an investment property alone, consider partnering with a few people. That way, you can split the cost of the down payment among all of you.

Seller financing

You can negotiate terms with the seller of the property, who acts as your lender, rather than a bank or financial institution. This means you'll negotiate terms, interest rates and how much you'll need for a down payment. You'll still make a binding agreement signed by both of you, but the seller might be more lenient on your down payment requirements than a regular lender.

Personal loans

You can use personal loans for nearly anything, including a down payment for an investment property. Personal loans are unsecured, which means you won't lose your home if you fall behind on payments. However, interest rates are higher, meaning it's more costly to borrow than other types of loans.

Now let's personalize these rates just for you

Go beyond generic rates to see prequalified options from these lenders, customized for you. It takes just two minutes and won't impact your credit score.

Bridge loan

A bridge loan is a type of short-term financing many investors use to cover large upfront costs, like down payments or closing costs.

You can use a bridge loan to cover those costs if you don't have down payment funds. Then, you can pursue longer-term financing, like a conventional mortgage, once you've secured the property.

Considerations before buying an investment property

If you're considering buying an investment property, consider its entire cost. Aside from the down payment, consider:

- **Interest rates:** Compare interest rates on loans right now. Interest rates impact how much you can afford for your monthly payment.
- **Property and income taxes:** Your new property comes with property taxes. And using it as an investment property means you'll generate income, potentially facing income taxes. New or different taxes could cost you during tax time.
- **Closing costs:** Closing costs are usually 2% to 6% of the property price. You might be able to roll closing costs into your loan,

but remember that this comes with interest, which can increase your monthly payments.

- **Insurance:** Like primary residences, investment properties also need homeowners' insurance coverage. Compare coverage from multiple insurance issuers to see which ones offer the most value at an affordable cost.
- **Restrictions:** Not everyone has the same plans for their investment properties. Depending on where you buy your property, you may not be allowed to operate a short-term rental. Research local laws, ordinances and restrictions before purchasing a property.
- **Extra expenses:** Depending on the type of investment property, you may incur a lot of extra costs. For instance, you may need to hire a landlord or property manager. If you get a fixer-upper, you may have to hire many professionals to complete the renovations.

Before buying an investment property, consider your return on investment (ROI) and potential profit. If you might lose more than you can afford, consider other investments.

The AP Buyline roundup

Investment property down payments vary by lender and by the type of loan you get.

How much you need for a down payment is also based on your credit score, DTI and cash reserves. The higher your credit score and the lower your DTI, the less you might need for your down payment. In most cases, try to have at least 15% down.

Frequently asked questions (FAQs)

Can I avoid paying 20% down on my investment property?

Depending on your credit score, debt-to-income ratio, cash reserves and lender's requirements, you may not need a 20% down payment on your investment property.

Can I get a loan based on rental income?

Rental income is considered income, which can help you qualify for a home loan.

What is the 2% rule in real estate?

The 2% rule says an investment property's monthly rent should be at least 2% of the purchase price. Say you buy a property for $300,000. So, 2% of $300,000 would be $6,000. You'd then charge tenants $6,000 in monthly rent.

not influenced by our advertising relationships, but we may earn commissions from our partners' links in this content. Learn more about AP Buyline [here](#).

LIMIT USE AND DISCLOSURE OF SENSITIVE PERSONAL INFORMATION

CA NOTICE OF COLLECTION

1.1355.0+2.11.16