New Shared Equity Program Helps Homebuyers Reduce Costs and Risk

June 11, 2013 - The Great Recession started when real estate markets fell apart in 2006 and 2007. And the primary reason for the crash in real estate was that banks were making loans to just about anyone. As long as you were breathing, you could pretty well be assured that you would qualify for a loan. But once the market crumbled, that changed. Interest only loans disappeared and more and more lenders insisted on high down payment and good credit before lending. Those new rules have made is much more difficult for prospecting home buyers. Even with pristine credit, it can be extremely difficult to come up with enough money for a down payment. But now there is a new private program called REX Homebuyer that can help people get into a home with a lower down payment, lower monthly payments, and with reduced overall risk.

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One of the real problems that investors face today is making money on low risk investments. Government bonds simply don't pay enough to keep up with inflation. And bank interest is nearly non-existent. This isn't just an issue faced by individual investors. Institutional investors such as pension funds face exactly the same issue.

To address the problem, these institutional investors have been looking for other forms of lower risk investments that have the potential for larger returns. That's where REX Homebuyer comes in.

REX Homebuyer will contribute up to 50% of the down payment on the purchase of a home in return for a portion of the profits when the home is actually sold. And if the property loses money at the time of the sale, the program participates in the loss.

The percentage of the sale that is shared with REX Homebuyer is dependent upon the percentage of the down payment contributed at the time of purchase. If they contribute 50% of the down payment, then they would receive 40% of the profit at the time of sale under the current guidelines.

The program may not be for everyone, but there are benefits that anyone considering a home purchase may want to consider.

To get a conventional loan, buyers are typically required to put 20% down when they purchase a home. On a home costing $500,000, that means that the buyer needs to come up with $100,000 for their down payment. That's a lot of cash for most people. If the buyer only has $50,000 to put down, he or she may still be able to get a loan but they will likely face higher interest rates and have to pay for mortgage insurance. Additionally, they will need to pay into an impound account for insurance and property taxes.

Using the REX program, the buyer would contribute $50,000 and REX would contribute the other $50,000. During the time they own the home, they would benefit from lower monthly payments because their overall loan size would be reduced and because they should be getting a lower interest rate. Additionally, they would avoid mortgage insurance payments.

At the time of sale, REX would be entitled to 40% of any increase in equity in the home since the time it was purchased and their initial $50,000 investment. The buyer of the home would be entitled to get their $50,000 initial investment, any monies that they had paid towards the principle of their loan since making their purchase, and to 60% of any profit.

To qualify for the REX Homebuyer program, you do need to have good credit. As previously stated, they are viewing this as a low risk investment.

While the program won't work for everyone, it may be a good way for people to get the home they actually want without overextending themselves.
byJim Malmberg
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