

GUIDE TO HARD MONEY LOANS

by Cathy Crowe



**INVESTOR
DEALS**

A CATHY CROWE COMPANY

“Hard money lenders are a great resource for real estate investors. Especially for the beginner investor with limited resources of cash and credit. Having a hard money lender on your team you can confidently go out and make offers on properties, close on the house and have repair funds to do the job!”



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The term “hard money” is a bit confusing. When you first hear this term, one might think that the money is difficult or hard to obtain. But, quite the opposite, it is the easiest money to procure. Just like in other areas of business the terms “hard” and “soft” come into play. Hard money has strict terms and repayment schedule. Soft money has easier terms a flexible repayment schedule.

Hard money loans were designed specifically to service short-term real estate investments. If you’re looking at flipping a property or building something new, the benefits of hard money far outweigh the challenges.

Hard Money Loans can be used for:

- Property Acquisitions and Improvements
- Rehabs
- Apartments
- Bridge Loans
- Construction Developments
- Commercial Projects
- Remedial Financing on Distressed Mortgages.

Hard money lenders are not restricted by the same regulations as major financial institutions, so hard money loans are more flexible than conventional mortgages or construction loans.

Advantages of Hard Money Loans include:

- Very Fast Turnaround (Usually 21 Days or Less to Funding)
- Interest-Only Payments
- Loans Made with Minimal Credit Scoring and Income Documentation
- Little or No Prepayment Penalty
- Financing Up To 100% Of the Purchase Costs Plus Improvements
- Notes Last Between Just A Few Months and On Up To Three Years

For very difficult or unusual types of loan transactions, Hard Money Lending is often the fastest and most effective solution. And while it is certainly not inexpensive compared to other loan programs, it carries a flexibility and efficiency that’s unmatched by institutional lenders.

***“What’s the Difference
Between a Private Lender
and Hard Money Lender?”***



What's the Difference Between a Private Lender and Hard Money Lender?

There are a number of views regarding the difference between a “private lender” and a “hard money lender”. In my opinion, they are about the same – a non-institutional lender offering short-term mortgage loans to real estate investors.

A private lender is an individual investor who lends his/her own money and may not charge any points/origination fees.

A hard money lender is a private lending company that charges points and may get their funds from investors.

However, the lending companies which many real estate investors refer to as “hard money lenders” will commonly refer to themselves as a “private lender” or a “private money lender.” Some private lending companies do not like to be associated with the term “hard money” because they feel it has a bad connotation and makes them seem unprofessional or having extremely high pricing.



Here Are Some of The Benefits Of Doing Business With A Private Lending Company:

- More Professional
- More Reliable
- Rarely Runs Out of Money
- Reputation
- Legal Compliance
- Easy to Find
- Experienced
- Guidelines
- Many Programs to Choose From

Here Are Some Benefits to Borrowing From An Individual Private Investor Lender:

- May Offer Higher Leverage
- May Consider A Joint Venture or Equity Position
- May Be More Flexible in Terms

***“Requirements of a Hard
Money Loan”***



Requirements of a Hard Money Loan

Hard Money Lending is normally capped at 65% or 70% of loan-to-value, although excellent credit, lender relationship and full documentation may increase the loan ratio to 80%. Values are typically based on the after-repaired value (ARV.)

1. Money Out of Pocket to Acquire Loan
 - a. Down Payment Money if acquisition is more that loan-to-value assessment
 - b. Lender Fees
 - c. Closing Cost for title company expenses
 - d. Insurance
2. Property Information
 - a. Address of the Property
 - b. Pictures of the Property both exterior and interior
 - c. Pictures of the neighborhood street view
 - d. Area Assessment of rehabilitation an growth
3. Value of the Property
 - a. CMA – Comparative Market Analyses As Is
 - b. CMA – Comparative Market Analyses After Repaired Value
 - c. Tax Record
4. Repair Evaluation Scope of Work
 - a. Roof
 - b. Foundation
 - c. Plumbing
 - d. Electrical
 - e. Carpentry
 - f. Paint
 - g. Flooring
 - h. Kitchen
 - i. Bathroom
 - j. Proposed additions
 - k. Landscaping and Fence
 - l. Demolition and Clean Out
 - m. Miscellaneous
5. Documentation
 - a. Contract to Purchase and Addendums
 - b. Assignment of Contract if applicable
 - c. Title Commitment
 - d. Proof of Homeowners Insurance
 - e. Preliminary Settlement Statement (HUD-1)
5. Exit Strategy
 - a. Sell After Job is Complete
 - b. Refinance and Keep for a Rental



***“Fees Charged for Private
Mortgage Loans”***



Fees Charged for Private Mortgage Loans

Some private lenders charging various types of fees prior to funding, and it shouldn't be a deterrent. Some fees are reasonable or common for private lending, and every lending company has their own policies on this matter.

Below are some of the types of fees seen by lenders charging prior to funding short-term private mortgage loans...

Appraisal Fee

Prudent private and hard money lenders will require an appraisal. The fee is typically paid upfront with the application or directly to the appraiser.

Application Fee

Application Fees are more becoming more common for some private lenders for a residential property loan. Most lenders who do charge a fee have decided that they are going to fund the loan, but they want a commitment from the borrower. This may be completely reasonable because a private lender may spend a lot of time and effort to complete the process of funding the loan. It would be a huge loss for the lender if the borrower decided to back out of the deal.

Site Visit Fee

For private lenders who only lend in one single market will typically visit every property they fund and meet the borrower as well, without charging any sort of fee for their time and travel. We've seen site visit fees range from \$100 to \$500.

Interest Rate

Annual interest rates typically range from 10% to 18% and financing costs (points) range from 2% to 4% of the home's purchase price.

Closing Cost

Documentation fee for Loan Documents can be \$300-700 depending on documents needed. These are prepared by the lenders law firm.

“How to Find Hard Money Lenders?”



How to Find Hard Money Lenders?

Your real estate purchase is nontraditional in the market, unique like you, which means you need the best hard money lender for your investment.

Ways to find a HML are:

1. Internet Search
2. Realtor
3. Mortgage Broker
4. Fellow Real Estate Investors
5. Real Estate Investment Clubs or Networking Events
6. www.cathycrowe.com/lenders/



Evaluate the lender like they evaluate you:

1. Research Their Reputation - Ask for References to Check
2. Are They Local and Know Your Marketplace?
3. What Is Their Timeline?
4. What Are All of Their Fees and Charges?
5. What Documentation Do You Need?
6. Are You the Lender or A Broker?
7. When Are Monthly Payments Due?
8. Are Monthly Payments Interest Only?
9. How Is Loan Amortized?
10. What Is the Term of The Loan?
11. Is There a Loan Renewal or Extension and If So Is There A Fee?
12. What Are the Construction Draw Procedures?
13. Is There a Fee for Draws?
14. Is There a Pre-Payment Penalty?
15. Who Are My Contacts in The Company and Their Information?

“Points to Ponder...”



Points to Ponder....

Hard money lenders are concerned primarily with the value of the property. Their primary concern is that if the investor defaults they will have an asset form which they can recover their original investment and more. They have not desire to experience the hassle and expense of taking a property back then to finish the rehab and resell the property. They want to be secure in the loan in case that scenario does happen.

A hard money loan is only for the first position, meaning it can't be used as a second mortgage. They will not lend to a borrower who needs a second mortgage for lack of equity. In case of default, they want to be the first in line to recoup any proceeds.



Most hard money lenders will only lend to corporations and LLCs. Hard money lenders do not issue consumer loans, so working with an LLC ensures that the loan is a business transaction. Don't let this step scare you. Setting up an LLC in Texas is simple, and it will only cost you about \$400.

The timeframe for obtaining a hard money loan varies with the lenders, but this loan can be funded in as few as 3 days to max 30 days. Most lenders can fund in 14-21 days.

Remember hard money loans may sound expensive, but it is the cost for OPPORTUNITY, that you are obtaining in purchasing a property below market for future profits. Just keep in mind it is for a short term only!

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