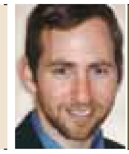

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5 Tips for Hard-Money Success

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Learn your way around the hard-money lending market

As the first half of 2013 comes to a close, the year is shaping up to be an interesting one. The recent financial crisis has taken a toll on many borrowers' credit and cash flows, and as a consequence, many consumers do not qualify for home loans under the new banking guidelines. Banks and traditional lenders still are focusing their efforts on high-quality borrowers and high-quality properties, leaving many consumers scrambling to obtain financing.

Fortunately, there's an alternative to the rigid underwriting of a traditional lender. These loans are commonly referred to as "private loans" or "hard-money loans," and they may provide your clients with the financing they need.

Terminology

For mortgage professionals who are relatively new to the industry and still are learning the ropes, private loans and hard-money loans are essentially the same thing. There are several reasons why these two phrases are used in referring to these loans. First, lenders doing subprime lending these days are privately funded and not regulated like traditional banks. Because of this, they're able to do any loan that makes sense to them because they are funding with their own cash.

This leads to the second term: hard-money loans. Loans are commonly referred to as "hard-money" loans because lenders use the "hard asset" — traditionally, real estate — to secure the loans. Many hard-money lenders focus their investments on single-family homes (typically not primary residences, however) and commercial properties. Because private lenders often are focusing heavily on a hard asset with a low loan-to-value ratio, many lenders are able to look past some credit issues. In other words, hard-money lenders rely on a borrower's equity in a property to act as their security.

Appropriate uses

Mortgage brokers and originators should know that there are numerous scenarios in which a hard-money loan may be appropriate. For instance, perhaps a borrower is unable to qualify for a traditional loan because of credit or financials not meeting current guidelines. In other cases, perhaps a property doesn't qualify under traditional guidelines because it's in need of repairs — or maybe the property is an investment property that's not being rented.

Hard-money loans also can be helpful when, for various reasons, borrowers need to close their transactions quickly. For example, consider the following scenario: Let's say you have a borrower with a 430 credit score who is hoping to fund a transaction on a residential investment property. The borrower has bought a house with cash and now needs funds to clean up his credit and make some minor improvements to the property.

The borrower is unable, however, to obtain traditional financing because of his low credit score. With a hard-money loan, the borrower likely will be able to pay down some debt to increase his credit score and land a long-term tenant after some minor repairs are completed. The borrower then will be able to refinance into a bank loan because of his improved credit score and the property's documented cash flow. In short, a hard-money loan can help a borrower get over a financial hump when a traditional loan is out of the question.

This is just one example of when a hard-money loan can be beneficial to a borrower. Each loan scenario must be evaluated carefully to ensure that hard money is the appropriate way to go, but in many cases, as long as there's ample equity in a property — or ample cash for a downpayment — a hard-money loan can be a viable funding alternative for your clients.

Finding success

It's important to remember, however, that hard-money lenders are privately funded and not regulated like traditional banks. This raises the question of how to successfully close a hard-money loan with a reputable lender. Consider the following five tips when obtaining hard-money loans for your clients:

1. **Be cautious when it comes to unreasonable upfront fees.** A lender may require a third-party appraisal, but mortgage brokers and originators should know that many private lenders who ask a borrower to submit large sums of money for "due diligence" are typically not real lenders. Often, these deals never close at all, leaving your borrower short of thousands of dollars. Be wary if a lender asks for more than 0.5 percent of the total loan amount in this respect.

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Glen Weinberg is the chief operating officer of Fairview Commercial Lending, a private wholesale direct hard-money lender. He is recognized throughout the industry as a leader in hard-money lending. Weinberg specializes in funding residential and commercial hard-money deals in Atlanta (georgiahardmoney.com) and throughout Colorado (cohardmoney.com). More information on hard-money loans can be found at fairviewlending.com. Reach Weinberg at (303) 459-6061 or glen@fairviewlending.com.

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2. **Watch for brokers masquerading as lenders.** Some people who claim they're direct hard-money lenders may in fact be brokering the deal to another party — without disclosing this to you, of course. Considering that, it's vital have a clear understanding of who the decisionmakers are in the lending process, and it's equally as important to obtain verification that your "lender" actually funds its own loans.
3. **Provide full disclosure of all material items.** Simply put, it's crucial for brokers to disclose any information that could materially impact a transaction. This information might include tax liens, title issues and certain time-sensitive issues. Mortgage professionals can be virtually certain that a lender will discover problematic information eventually, so it's always a good idea to disclose this information right away, and in doing so, help all parties take the necessary steps to resolving the issues at hand.
4. **Be wary of possible bait-and-switch deals.** Some hard-money lenders avoid detailing certain aspects of the loan process such as document requirements, site inspections, title issues, environmental considerations, etc. With that in mind, you need to understand the steps and time required for each part of the loan's overall process, and keep an eye out for any red flags.
5. **Watch for terms that are out-of-line with market realities.** Finally, brokers should know that there are some hard-money lenders who prey on individuals with less-than-perfect credit claiming that they can close deals no other lender can. The fact of the matter is that if a deal sounds too good to be true, it very well may not be true. In these cases, trust your instincts and do not proceed with the transaction.

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Although hard-money lending differs in many respects from conventional lending, mortgage brokers and originators shouldn't shy away from considering this alternative source of financing for their clients. In the right circumstances, hard-money loans may offer the solution to your client's financing needs — and a new source of revenue for your business.

Click here to get more tips on Hard Money Lending