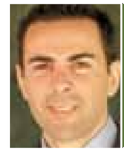

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A Good Route for Bad-Credit Borrowers

Hard-money lenders offer home loans for borrowers with damaged credit

Since the recession, the mortgage process has been complicated for everyone involved: homeowners with damaged credit history, banks that have less capital and are under pressure to implement stringent procedures, and the mortgage brokers who have to liaise between the two.

This tighter lending environment has made it difficult not only for homeowners trying to get relief in the event of possible foreclosures, but also for investors who are interested in grabbing bargains in a "down" real estate market. As banks have stepped aside and taken a more cautious role, there has been a lending vacuum in the industry, particularly for would-be homebuyers who have bad credit. As a result, the demand for an alternative lending source has emerged, and this demand often is met by hard-money lenders.

In the past few years, hard-money lenders have become an integral part of financing because of their role in helping opportunistic investors take advantage of the low property prices that have been seen across the industry. They also have offered bad-credit home-equity loans for those who have been displaced because of foreclosure, yet are interested in purchasing new homes and getting back on their feet.

The lenders that have investment capital for these exact situations understand that credit scores have taken a significant hit in recent years and typically do not hold it against the borrower when it comes to qualifying for the loan itself. These lenders also know the specifics of the markets they work in and can predict the likelihood that the asset value will increase with time.

Mortgage brokers and originators should consider this alternative for clients who are struggling with damaged credit, knowing that their deals are unlikely to be funded by traditional bank lenders. They also should keep clients aware that hard-money loans typically come at a higher cost to the borrower, which covers the higher risk that the lender is taking.

There is also a significant number of private-money lenders that are capitalizing on the need for home-improvement loans. Property investors and mortgage brokers and originators know that today's market is a buyers' market, meaning that those with capital and an interest in purchasing property are the ones who are calling the shots. If your client is trying to sell a property, there may be a need to pour some money into it to entice a buyer. Your client, who is probably already overextended, may find it difficult to come by this capital for home improvement. That is why private lenders have entered the mix, helping homeowners find the money they need to make improvements to properties, which ultimately gives them a better chance at selling them at a relatively better price.

Mortgage brokers and originators who are interested in finding lenders for bad-credit home-equity loans may go through a simple online search, which generates any number of lenders. Knowing which one is right for your client is the key, however.

You will need to find an individual or lending group that will accept your client's application, put the property up as collateral for the loan, and most importantly, understand the small details that are involved in this lending style. By doing so, you'll have access to capital — despite the down economy — for borrowers who are unable to get financing from traditional lenders. •

Yanni Raz is CEO of HML and has been a hard-money lender for more than 10 years. Raz was a real estate broker for five years before he partnered with a group of investors from California and began assisting real estate investors in financing commercial and residential projects. He writes about real estate financing for magazines, blogs and other online news outlets. Reach Raz at info@hardmoneyloans.org or (818) 308-4443. Visit hardmoneyloans.org.

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