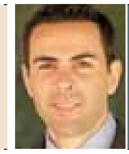

By Yanni Raz
CEO
HML

3 Hard-Money Basics

Hard-money loans may be the answer to your clients' investment needs

As more and more properties are foreclosed and made available to the market, many undaunted real estate investors are busy searching for new acquisition opportunities. Even in a depressed market, these opportunities can be good ones, but brokers may have difficulty locating the right lender for their client's deal, especially if it is a hard-to-fund property.

Many mortgage brokers and originators are finding that hard-money loans can be a boon to their clients and their investments. Keep yourself informed and competitive by knowing three hard-money basics.

1. What lenders want

In short, what most hard-money lenders want is equity — and lots of it. If you're working with a deal that includes more than 50 percent equity in the property, you should be able to find a hard-money lender for your client's purposes.

You may believe that most properties don't have significant equity these days, but properties being offered by banks may in fact have sizeable amounts of equity. Some lenders will consider the gap between existing value and purchase price to constitute equity, so in these cases, foreclosed homes can have enough value to qualify for a hard-money loan.

2. Rates and points

Every hard-money lender will charge different points and interest rates, but in many cases, you'll find that lenders' conditions are relatively similar. Ideally, a hard-money direct lender will offer no more than a charge of 2 points and an interest rate of 10 percent.

Hard-money lenders will never lend 100 percent of a deal's total finances, but in some cases, a lender may provide 100 percent of the after-repair value (ARV). That said, these cases are not the norm by any means; all hard-money lenders will carefully examine a property and its equity to determine if the deal qualifies for a loan as high as the property's total ARV.

3. Credit and assets

A borrower's credit is not always an important issue for hard-money lenders, but they will look at a prospect's credit if they suspect that the borrower may not be able to make adequate payments and will soon be headed toward foreclosing on the loan.

Even if a prospect's credit isn't significantly considered, hard-money lenders will consider that prospect's assets thoroughly. Many hard-money lenders will want you to show that your client has other finances or equities that could be liquidated in a worst-case scenario. Regardless of the source of your clients' finances, hard-money lenders will want to be certain that their borrowers are able to make their payments on time.

The loan that a hard-money lender provides also will be affected by whether or not the investment will be an owner-occupied property. In general, hard-money lenders are more cautious about owner-occupied residential properties, especially if they could fall into the realm of high-risk, "Section 32" mortgages.

• • •

All in all, hard-money loans can be a great resource for borrowers and brokers alike. They represent another way to assist your clients with their real estate investments while also providing a potentially significant source of business for yourself.

In these hard economic times, borrowers need to know about the full variety of loans available to them, and hard-money loans may be exactly what they're looking for.

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.

Scotsman Guide

Reprinted from *Scotsman Guide* Residential Edition and scotsmanguide.com, February 2012