A Brief Guide to Hard Money

Mark Abramovich

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Lenders are in the business of serving their clients by lending money, and having it returned with interest.

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Lenders are **NOT** in the business of owning properties, foreclosing on properties, or liquidating foreclosed on properties. For this reason, lenders evaluate both the deal and the borrower, and have criteria according to which they lend to keep themselves and the borrower safe. Different lenders have different criteria, risk tolerance, and underwriting procedures.

Just as no two houses appraise exactly the same, no two deals are exactly the same. Location, purchase price, rehab cost, ARV, credit score, experience, and other factors all work together to determine the specific numbers on a deal; interest rate, points, fees, LTV, etc.

This is intended only as a rough guide to the world of lending and borrowing, answers to the questions I am most frequently asked. This is not legal advice. Talk to your attorney, accountant, lender, mentor and/or coach to discuss your specific situation. For more information or to discuss a specific deal e-mail us at mail@mirsgroupllc.com, or fill in the form at www.mirsgroupllc.com

All the best,

Mark Abramovich

A Brief Q & A for Lending and Borrowing Money

Why don’t lenders typically lend 100%?

- Lenders want the borrower to have “skin in the game” so that if there are issues with the project, the borrower does not simply walk away leaving the lender to deal with, and dispose of, the property.

Do lenders allow second position lenders/gap funding?

- Some do. Some lend in “first and only” position.

Why do lenders typically provide 75% - 90% of the purchase price?

- The borrower participates in the investment by paying some amount of the purchase price (typically 10% - 25%) at closing. This is the borrower’s “skin in the game”.

Why do lenders typically provide 100% of the rehab funding?

- Lenders will typically provide 100% of rehab funds to make sure that the borrower does not run out of funds and both get stuck with an unfinished property.

How does rehab funding work?

- At the beginning of the project the borrower provides a Scope of Work (SOW). As items on the SOW are completed the borrower requests a draw. Typically, rehab draws are disbursed after the work has been completed to reimburse for the labor and material costs incurred. Some lenders may advance the draws to help commence work.

Why do lenders charge a rehab draw fee?

- To release a rehab draw lenders need to confirm that the work they are reimbursing for has been completed. To determine if the work has been completed, they hire a 3rd party inspector to come out and inspect the property. The draw fee is to pay the inspector.

Why do some lenders provide 100% funding?

- Sometimes a deal is a really great deal, and the opportunity is worth the risk. This is specific to the individual lender, and their individual risk tolerance.

Why do lenders care about credit scores?

- Credit scores are an indication of the borrower's character, and what is happening in a borrower's life. Lenders use it to determine if there is anything happening which will adversely affect the borrower's ability to repay the loan, as well as how reliable they are at paying their debts.

Why is there an appraisal fee?

- To confirm the comps and the ARV, lenders hire a 3rd party appraiser (or sometimes a broker to provide a Broker's Price Opinion) to appraise the property and provide an appraised value. The appraisal fee is to pay the appraiser.

Why do lenders typically charge monthly interest?

- Feeling and seeing the monthly interest payment expense keeps the borrower motivated and focused on finishing the project as fast as possible to reduce holding and monthly interest payment expenses.

If I am a new beginner investor what costs can I expect?

- When analyzing a deal use 12% as the interest rate, 3 points, and $1,500 for fees and if the deal makes sense for you as the borrower it will make sense to the lender.

What are points?

- Points are the fee lenders charge for issuing the loan. This is the fee used to pay the overhead such as staff, utility bills, and other operating expenses.

What kind of return should be in a good deal?

- 10% Return On Investment (ROI), and a $30,000 minimum. This of course depends on the market, and the project.

Why do lenders ask about liquidity?

- To make sure that the borrower has the ability to pay the monthly interest payments, and holding costs.

What loan amount do lenders typically lend?

- Typically, lenders will lend 65% - 75% of ARV, 80% - 90% of Deal Cost.

Low credit and no experience?

- Partner with someone in one LLC who has better credit and experience. This will improve the terms of the current deal's loan, and the experience will count towards the next deal for all involved.

HML or PML?

- A lender… with a specific set of terms, conditions, and pricing.

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