



What You Need To Know To Borrow Hard Money Now

Hard Money for Hard Times

By Scott C. Seckel

It's a Dickensian time to be a real estate investor. Buys of a lifetime line the streets, but money is harder to come by than it's been in years. Banks, never an investor's best choice, have tightened their vaults. Lenders polish spectacles thoroughly before scrutinizing deals. In times like these, investors need to know how to work with hard money to make deals happen.

LOANS AVAILABLE

Hard-money lenders make loans in hours, not months, like banks. The term "hard money" comes from the usual tight terms and high interest rates. Hard-money lenders will also make loans on properties that banks won't touch, like crack houses and other distressed properties.

"We're seeing huge opportunity," said Greg Reichman of hard-money lender Active Finance Group. AFG finances deals in seven Western states. "There's more opportunity than there has ever been. You just need to walk through a minefield to find it."

Before the market turned, hard lenders ranged from big national institutions to a guy in his basement with a little extra cash, said Mark Stevens of REIN Mortgage, a Colorado-based hard-money lender.

Flippers ended up in markets that weren't doing what they were supposed to or what they had predicted. They defaulted or took out permanent financing to get a conventional loan and rent the property. With the turmoil in conventional financing, investors ran into a wall trying to refinance from a hard-money loan to a conventional loan. Lenders took properties

back. Small hard-money lenders with lax lending standards went out of business.

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"Most of the hard-money lenders in town have foreclosed on so many borrowers they're becoming asset management companies," Reichman said.

Lenders who are still standing in the wreckage now have stricter guidelines. Some lenders went from 20 loans a month to two. In the last two months, AFG went back up to approving 60 percent of loans crossing their desks, Reichman said.

"It's difficult to lend in a price-declining market," he said. "Our underwriting intensity has increased, we're much more selective. We're making the customer put in more money."

AFG still does not require any type of FICO score or qualifying. REIN now requires a recent credit report, a 1003 application (the standard uniform residential loan application), and a pre-qualifying letter from a conventional lender or broker.

LOWER LOAN-TO-VALUE RATIOS

"As a rule of thumb now, most hard-money lenders want to see \$20,000 of liquid cash for every \$100,000 borrowed," Stevens said.

Larger, national hard-money lenders and brokers typically look for about 65 percent loan-to-value of the after repair value, according to Stevens. Most will include the purchase price, rehab costs, points and six months interest into the loan, which must still be within 75 percent or less of the after

repair value. Hard-money lenders are not as regulated as banks. They underwrite based on how they feel about a deal, not on set guidelines.

LOCATION MORE IMPORTANT THAN EVER

"They should be more selective about what they're buying," Reichman said. "Collateral quality is more important to us. They should have more liquidity and be prepared to carry it longer."

The general demise of the market is an advantage, Stevens said. "It's harder for the small-time rehabber. We can steer people to some areas and advise them to stay away from others. We'll work with and talk to the hard-money lenders so we can have a smooth transition to conventional financing."

Reichman said his doors are open. "Our company has lots of liquidity and we want to put the money out," he said.

RESOURCES

Active Finance Group
www.activefinancegroup.com
602-252-1155

CSI Mortgage
www.csimortgageaz.com
480-860-4028

Marken Funding
markenfunding.com
602-252-0742

Mortgage Banking 4 Investors, LLC
www.mb4i.com
866-971-4471
602-748-3628

REIN Mortgage
www.reinusa.com
303-770-2038