A Primer on Hard Money Loans
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This primer is based on the most frequently asked questions I receive from investors who are seeking financing.

What is a hard money loan? A short term loan through which a borrower receives funds secured by non-owner occupied real property. Hard money loans are typically issued by private investors or companies. Interest rates are higher than conventional commercial or residential property loans because of the higher risk assumed by the lender.

When does it make sense to use a hard money loan? When you have a property that you want to purchase and repair to either sell or refinance in a short period of time, and you have no other funding options. This financing is more expensive than a bank and less expensive than an equity partner. Basically, if you have more <u>good</u> deals than cash, you should consider hard money. Many of my long term clients are now able to do several more deals per year because of their access to our loan program.

What does it take to qualify for a loan (application process). Just as the interest rates and closing fees vary by lender, so does the underwriting criteria. To receive the most favorable terms, my ideal borrower has a credit score (middle) of 680 or better, debt to income (including new loan) of 45% or better, and some cash available. Based on this information, you will receive a proof of funds letter that you can use when making offers.

What does it take for the property to qualify (appraisal)? The loan to value (LTV) ratio caps the loan amount. We use 65% of the after repaired value (ARV). This is determined by our appraiser who will walk through the property with you and factor in your repair budget to determine what the property will be worth when your repairs are completed. In addition to the LTV, most lenders have specific areas they are not comfortable lending in. You should discuss this with your lender before you make offers.

Can an investor doing their first deal get a hard money loan? Yes, around 25% of my new investor clients each year are doing their first project. One of the guidelines I use when looking at a new investors initial project is that the cost of repairs does not exceed 25% of the ARV. Normally, this rule keeps the new investor out of trouble.

What are the most frequent mistakes you see made by investors? Here are a few I see most often. Each of these have the same outcome: cash flow pressure, longer holding times, lower profitability.

> 1) Not doing due diligence on their contractor, resulting in overruns or having to replace the contractor during the project.

2) Scope creep. Either the initial budget was not well thought out, or the investor decided to make the project more grand during the rehab process.

3) Not budgeting a large enough overrun contingency. If the project is complex or the property has been vacant for a year or more, you should budget at least a 15-20% contingency for unforeseen repairs. Rarely is there ever contingency money left over at the end of the project.

4) Being greedy when setting your asking price. The name of the game in this business is speed. Holding costs including taxes, utilities and interest payments on your loan will erode your profits. Normally, it is better to price the property for a quick sale and get paid sooner, than to sit on the property waiting for that one crazy buyer who is willing to overpay for your property. The old adage, you only get one chance to make a good first impression, is also true when listing a property. Your property will get the most attention the first week its listed. Don't waste the spotlight by over pricing.

If you would like to discuss a project or get pre-qualified for a loan, please give me a call at 412-492-7495 or visit www.hardmoneypgh.com