THE 5 RULES OF HARD MONEY

- Jonathan Fitt

In my experience as a full-time investor, I have had plenty of dealings with hard money lenders and there are a few important questions to ask when trying to decide whether a particular hard money lender is right for you. I call these questions: "The 5 Rules of Hard Money." They are listed here in what I believe to be their order of importance.

QUESTION 1: Are they investors - or bankers?

The difference here is huge. *Bankers* and *investors* view the world completely different, and this viewpoint will probably color most of how that individual will conduct business. For those of you familiar with Kiyosaki's "Rich Dad Cash Flow Quadrant": *Bankers* operate on the left side (either an "E" or an "S" depending on who you are dealing with), and *investors* operate on the right side of the quadrant.

While both sides are taking calculated risks, a lender who has never been an investor does not know or understand how the investor approaches a deal. This is critical – as you will see later on, you need your hard money lender to understand how and why you want to buy a particular property. They need to "get it" or else it can make acquiring a loan with that company very difficult. When bankers don't understand a deal, they often times will bury you in red tape, and ask for all kinds of additional protection for themselves - at your expense.

The best way to get this question answered: simply ask your hard money lender if they personally invest in real estate, then talk to them about what experiences they have had and what types of deals they have done.

QUESTION 2: How involved will they be in the process?

The more involved the better. Especially for newer investors – this is a safeguard. A hard money lender who wants to stay involved is not only protecting their own investment, they are protecting you! Things like appraisals, inspections, additional estimates, cash-flow analysis, etc. should not be looked at as cumbersome. These types of processes are in place to ensure that the deal is good. Don't you as the investor want to know for sure that your deal is good? You should.

Make sure that this process does not stop when you settle on the property. You don't want your lender to simply forget about you once the deal is closed, but this is exactly what many of them do. Remember that many lenders get their points (payment) up front. A hard money lender that stays involved in the entire process from beginning to end is one that is dedicated to the success of the project – and therefore your success.

QUESTION 3: What about collateral?

Generally speaking, lenders protect themselves by lending at a certain LTV (Loan-To-Value). For example – if a lender is willing to give you 65% percent of the money to buy your property – they are at a *higher* risk than someone who will only supply 50%. There are, however, other ways lenders choose to manage risk. Collateral is one of these ways.

The collateral issues are directly affected by the answer to question #1. If your hard money lender doesn't understand the investment side, they will try to cushion themselves with additional collateral, to protect their investment. This basically equates to putting liens against anything they can: other investment properties, your personal residence, etc. Some will even go so far as to lien your car, boat, or life insurance. The bottom line is this: hard money lenders who ask for additional collateral are ***betting you will fail***. They are putting themselves in a position to profit if your deal goes horribly wrong. They have already managed risk by limiting their LTV. Any additional collateral is unnecessary. It can tie up your valuable assets, and represents the mindset of someone who does not understand your needs. The investment property they are lending against should be the only collateral required.

QUESTION 4: What are the terms of the loan?

Now we are getting down to the "nitty gritty". This is where we talk about all the various aspects of the loan including: points, interest, term of loan, fee structure, escrows, draws, inspections, pre-payment, minimum/maximum loan amounts, etc.

The best way that I have found to get all the information in an organized manner, is to ask your lender to walk you step by step through a deal, and ask questions along the way. Start from the point you have a deal under contract. What is the application process like? What paperwork do you need? How long will it typically take to close? When do inspections take place? What are the fees? All these questions (plus many more) will help you understand all the terms and conditions of the loan process.

As you have no doubt noticed, the section dealing with pricing has come after multiple other points. This is intentional. Whatever the price of the loan , it will always cost you MORE if you don't pay attention to the previous issues. In my opinion, honest, reliable, like-minded, hard money lenders on your team who are easy to work with and get your deals financed - are worth their weight in gold. The actual cost is completely secondary. That being said, pay careful attention to the next point.

QUESTION 5: What are the HIDDEN fees?

Be very wary of hard money lenders that are *cheaper than all the rest*. Every hard money lender charges points up front and then interest on the principal. However, there are many different ways to hide fees in the loan process.

New fees are literally being invented all the time. Here is a list of some of the fees you will see – this list is by no means exhaustive.

- back end points
- loan origination fees
- document preparation fees
- legal fees
- emailing fees
- wiring fees
- inspection fees
- appraisal fees
- faxing fees

Some of these fees are nominal, but some can cost you several hundred dollars. Think about it, if you are doing a deal with a principal loan amount of $50k, every time you pay $500 in fees it is like paying an additional point. Make sure that you grill your hard money lender about these fees – so that you can accurately count the cost of hard money prior to getting into the deal.

Hopefully these 5 points will help you to decode the sometimes complicated world of hard money. I would also like to offer one extra piece of advice on the issue. *Do business with people you like*.

One of the perks of owning your own real estate business is that you get to choose who you do business with. Unfortunately, many hard money lenders are difficult to deal with. Rest assured – there are folks out there who understand your needs and will work hard to make *your* project a success.

Read on.

WHO IS EDC?

Equity Development Corporation (EDC) is a Virginia Beach based private lending and consulting firm that provides loans and consulting services for residential and commercial real estate investors that buy and rehabilitate distressed real estate. Together, the principals of EDC have a wealth of knowledge and experience concerning real estate investment, construction, and finances. Consulting with knowledgeable friendly and experienced investors is all part of the valuable service that EDC offers.

PROGRAMS

- EDC has 2 basic programs
  - 6 pts. & 15% interest
  - 8 pts. & 10% interest
- 100% funding—Acquisition, Construction, Closing
- Loans up to 75% LTV (Based on ARV)
- No prepayment penalties
- New Construction, Commercial, and Mixed Use —on a case by case basis

EDC takes a very "hands on" approach with each deal being financed. Values are assessed by one of our approved appraisers – familiar with your area. One of our highly qualified inspectors will meet you at your job to assess the project. Inspections are made prior to starting, and periodically throughout construction. Rehab draws are available on a weekly basis. This means the funds are available when you need them, and that you have an extra set of eyes making sure that your contractors are performing the work properly and in a timely manner.

Because EDC is involved with the process every step of the way, we are confident in our ability to close loans – knowing that every deal we finance is a good one. For this reason we do not require additional collateral. Loans are secured *solely* by the investment property. There is no limit to how many properties our clients can fund at one time, and EDC has no minimum or maximum loan amounts. This allows investors to have little to none of their own money tied up in the real estate transaction.

WHAT TO DO NEXT

EDC is growing rapidly because many investors are getting the message that there is a better way to use hard money. We recommend that you create your account now—with or without a deal in hand. With the preliminaries out of the way – we can move quickly and smoothly when you bring us your deals.

Every step of the process from loan application to payoff letter is available 24/7 at our website. Should you require assistance with any aspect there is always someone to walk you through it. Head to our website and click on the link to ***create an account***.

I want to thank Jonathan Fitt for authoring this

this article.

I am proud to serve as Territory Director for the Jacksonville/Northeast Florida Area. We look forward to hearing from you.

Mike Hrisko—Territory Director

Equity Development Corp

Cell: 904.923.2974

Office: 757.460.9096

Fax: 757.460.4079

Email: mike@equitydevelopmentcorp.com

Web: www.equitydevelopmentcorp.com