



F C T D
FIRST CAPITAL TRUST DEEDS

HARD & PRIVATE MONEY 101:

What to Know Before Taking Out a Private Money Loan

Taking out a private money loan is a great alternative to traditional financing. If you are considering going the hard money route for your next real estate investment this guide will provide you with all you need to know.

INTRODUCTION TO HARD MONEY AND PRIVATE MONEY LOANS

When you're looking for a fast and flexible form of finance, traditional purchase loans soon become frustrating. In addition to requiring near-excellent credit scores, the documentation burdens can make approval rates slow. In contrast, private money and hard money loans are fast, they're available to those with credit that's less than stellar, and they overcome the barriers of meeting traditional lending criteria.

Although private money loans seem ideal, it's always worth learning more about them before approaching an investor. In this whitepaper, we're going to explore hard money loans in their entirety. In addition to learning what they are, you'll find out whether they're right for you. By the end, you'll also know the best ways to access one, while keeping your assets safe.

WHAT ARE PRIVATE MONEY LOANS?

In most cases, private money loans are loans that you'll secure against real estate. Unlike traditional purchase loans, they don't require excellent credit ratings. Your prospective lender still has an interest in your ability to repay,

but they're also willing to accept that said repayment could come from your collateral. As such, you may have a substandard credit profile, but if you have a property you can secure the loan

against, you can still take out a hard money loan.

In most instances, hard money loans come from private investors. Before you panic, these investors aren't loan sharks. They still charge legal interest rates and often work through brokers. Unlike banks,

You may have a substandard credit profile, but if you have a property you can secure the loan against, you can still take out a hard money loan.

they're willing to lend large amounts over shorter periods. Banks are often reluctant to do this, since providing a loan for less than five years doesn't accrue the same interest as one that's longer. In contrast, a private money lender will offer lending periods ranging between one month and five years.

HARD MONEY LOANS COME WITH HIGHER INTEREST RATES

It's worth stating upfront that hard money loans often come with higher interest rates. You'll pay between eight and 18-percent, but the higher rates come with the advantage of flexible repayment terms. You may find that your lender is willing to accept an initial delay in payment. Early repayment penalties aren't as common.

UNDERSTANDING THE DIFFERENT TYPES OF HARD MONEY LOANS

Now that you know how private money loans work, it's time to learn about the different types. Loans are often categorized by the purpose of the loan and by the industry the loan is used in.

Bridge Loans

One of the most popular products is a bridge loan. In many cases, those purchasing properties or working in real estate development will use a bridge loan to close the deal. The need to do so arises when their former property hasn't yet sold, there's a delay in contracts exchanging, or they haven't met their deposit requirements. Bridge loans are sometimes

as short as 30 days. As a result, their higher interest rates are soon offset by the quick repayment periods.



A loan made for commercial real estate is a commercial loan, including loans for office buildings, storefronts, and any other business purpose property.

Commercial Loans

Commercial real estate loans can be any loan made for commercial real estate rather than residential real estate. They can include both short-term bridge loans and long-term permanent financing.

Second & Third Mortgages

A hard money second or third mortgage can be a great alternative to bank financing for real estate investors who need funds quickly. They can be consumer purpose loans or business purpose loans. Depending on the loan scenario, the second mortgage may be owner-occupied or not.

Blanket Loans

Blanket loans allow the borrower to reposition debt across a portfolio of investments. Blanket loans are available for residential and commercial properties alike. By using a blanket loan, you can consolidate all of your holdings into a single convenient loan.



Owner-occupied loans can include any loan where the borrower intends to live in the home they are purchasing.

Owner-Occupied Loans

Owner-occupied hard money loans are loans where the borrower intends to live in the property they're securing their finance against. They can be used for large one-off purchases or managing financial strains.

An owner-occupied bridge loan can help a borrower buy his or her next house before their current home has sold by avoiding sale-contingent offers.

Real Estate Acquisition Loans

When you're seeking a passive income, an acquisition loan allows you to make a worthwhile

investment. You can use a hard money acquisition loan to purchase a new property, with the intention of renting it out or to fix and flip the property.

Construction Loans

The world of construction moves at a rapid pace. Many of the purchases you need to make are time-sensitive, especially when you're trying to accelerate a project to make a profit. Construction hard money loans include commercial bridge financing and completion loans. They're well-suited to scenarios such as running out of funding or facing unexpected costs.

On the other hand, if you're starting out with raw land and embarking on a ground-up construction project, there are lots of reasons why a private money loan could prove useful. Such loans come with a repayment period of one to two years, although you could secure a short repayment period if necessary. With the right lending scenario you could secure 100% of your construction costs.



Construction loans can include both ground-up construction and construction completion loans.

WHEN HARD MONEY LOANS MAKE MORE SENSE THAN TRADITIONAL FINANCING

Although private money loans aren't traditional, using one can make more sense than opting for normal financing. A traditional purchase lender often requires a great credit score. Such lending requirements shut out those who have suffered from bad credit.

Additionally, even those who have an excellent credit score will struggle to secure traditional finance if they can't verify their earnings. If you're self-employed or running a business, banks are less likely to see you as an attractive lending prospect.

Private Money Loans are Fast

Credit scores aren't the only reasons hard money loans make excellent sense, though. Most people who need to access cash benefit from access to it quickly. Traditional lending avenues don't just stop at the credit check process. They involve providing documentation, forming an agreement with the lender, and may also warrant in-depth justifications for borrowing. Unless you can afford to waste weeks or months on waiting for finance, traditional lending avenues can make life difficult. In contrast, many private money lenders can provide access to funds within a week. As a result, they're ideal for when you need money quickly for a project.

Hard Money Loans Have Fewer Lending Requirements

Using a lender that provides hard money loans

is advantageous because they're willing to work with sub-optimal credit and an inability to prove consistent income. They acknowledge that they may need to regain their cash through the form of a foreclosure. In addition to accepting less than great credit, they're also willing to provide shorter finance periods. Large financial institutions don't have an interest in short-term loans since they don't stand to make much money from brief agreements. Private lenders see short-term loans as a win-win, giving you the chance to access cash and repay quickly.

Avoid Prepayment Penalties

If your investment goes well, you may find that you're able to repay your loan sooner than agreed. While larger institutions penalize you for your success, private money lenders don't. Many private money lenders have no prepayment penalties.

ALTERNATIVES TO HARD MONEY LOANS

Naturally, hard money loans aren't for everyone. It's a good idea to explore the alternatives, as well as whether they're worth choosing.

Borrowing from Friends and Family

Technically, borrowing from friends and family is the same as making a private money lending agreement. Your repayments can remain flexible, and in many cases, you won't accrue interest. However, such agreements can sometimes prove awkward, especially if your friendly lender chooses

to advise you on how to spend your money.

Borrowing From Your Bank

Even though you're investigating private money loans, it's still worth considering your bank. If your loan repayment period is long and you need to borrow less than \$75,000, bank financing is an excellent avenue. Although you'll sacrifice the quick closure terms that hard money lending delivers, you'll benefit from lower interest rates.

HOW TO PREPARE YOUR HARD MONEY OR PRIVATE MONEY LOAN

When you know that a hard money loan is right for you, good preparation will help you secure your finance faster. Some of the ways to prepare for a hard money loan include:

- Find the right property and make sure you're confident that it's worthy of your investment.
- Create a concise executive summary detailing your investment plans. The more you can substantiate the proposal, the

higher your chances of success.

- Familiarize yourself with the loan application process. When you understand what's required, securing the right documents becomes easier.
- Find all of your documents, ensure they fall within the right date period, and certify them wherever necessary. Failing to supply documents will slow the process down.
 - Secure as many pictures as you can for your hard money lender. If they're going to have faith in your project, they'll want proof of its potential success on all fronts.
 - Select the right contractors for your project and secure quotes. The budget you present is also central to approval.



Preparing for a private money loan means being diligent, thorough, and organized. The better prepared you are, the faster your loan can be processed and approved.

THE BEST WAY TO SECURE A PRIVATE MONEY LOAN

Another advantage of hard money loans is that you can broker them yourself. Although you're also free to approach a bank directly, the person who processes your application is a decision maker who

leaves you with little control. In contrast, the ability to sell your investment worth or ability to repay to a hard money lender leaves you in a more powerful position.

Although you can try to find investors yourself, attempting to do so may negate benefits such as speed. In contrast, if you choose to use a hard money loan broker, you'll rapidly gain access to a pool of finance sources. Brokers are also able to direct your loan request towards the right people, as they have a sound knowledge of who's likely to meet your requirements. Overall, accessing hard money finance remains faster and more convenient than traditional routes, especially when you're making an investment.

WHAT TO LOOK FOR IN A BROKER

If you decide that using a broker for your private money loan is right for you, you should look out for certain features.

- A firm that has significant experience in sourcing private money loans in your niche. For example, can they demonstrate that they have a strong portfolio of clients who are willing to lend for construction completion purposes?
- An organization that has a verified pool of lenders. Diversity indicates that they can meet your unique needs.
- A transparent website that demonstrates the success of previous deals. Decent hard

money loan brokers will proudly highlight their successes.

- An agency that brokers loans itself, they don't outsource to others and increase your costs.

Overall, only aim for a broker you feel comfortable with. Securing finance is always a big decision, which is why it's a good idea to exercise a little caution and choose a broker with the expertise and knowledge necessary to execute your loan properly.