

Hard Money 101

One of the most common types of financing we assist our clients with at **Shell Beach Capital** are Hard Money Loans. A hard money loan is a specific type of asset based loan, through which the note is secured by real property. A hard money loan is normally the quick-sale value of the the real estate loan, collateralized against of the property for which the loan is made.

Hard money loans are typically issued by private investors or private bank and investment companies.

Interest rates are typically higher than conventional commercial or residential property loans because of the higher risk and shorter duration of the loan. Most hard money loans are used for projects lasting from a few months to a few years, normally 6 months to 2 years.

Hard money rates can and do vary widely, depending on the location of the property, and the specific use as well. The use could be for rehab and rent stabilization, new construction from the ground up, or construction completion for a stalled project, among others.

The qualifying criteria for a hard money loan varies widely by lender and loan purpose. Credit scores, income and other conventional lending criteria may be analyzed. However, most hard money lenders primarily qualify a loan amount based on the value of the real estate being collateralized. Typically, the largest loan one can expect would be between 65% and 75% of the property value, or loan to value(LTV).

Hard money is similar to a bridge loan, which usually has similar criteria for lending as well as cost to the borrowers. The primary difference is that a bridge loan often refers to a commercial property or investment property that may be in transition and does not yet qualify for traditional financing, whereas hard money often refers to not only an asset-based loan with a high interest rate, but possibly a distressed financial situation, such as arrears on the existing mortgage, or where bankruptcy and foreclosure proceedings are occurring.

Both are non-standard loans obtained due to short-term, or unusual, circumstances. The difference is that hard money refers to the lending source, usually an individual, investment pool, or private company that is not a bank in the business of making high risk, high interest loans, whereas a bridge loan refers to the duration of the loan.

Hard money rates in the current environment are likely to be in the 8-15% range, with 9-12% being the most common. To receive the rate at the lower end of the scale the borrower may only be able to finance 55-60% of the loan to value, or LTV. They may also be required to furnish tax returns, personal financial statements, and bank statements as well.

Most lenders fund in the first lien position, meaning that in the event of a default, they are the first creditor to have their funds returned. Occasionally, a lender will subordinate to another first lien position loan; this loan is known as a mezzanine loan, a second lien or a junior lien. This type of specialty loan would have a higher rate than the loan in the first position, often allowing the lender an equity position in the project as well.

Cross collateralizing a hard money loan may be allowed by some lenders if there is insufficient collateral in the subject property or down payment from the purchaser. That is, equity in another property already owned by the borrower may be added to the note to satisfy the lender.

I hope you find some of these points useful in your pursuit of funding. If you would like to discuss your personal situation and a hard money loan, or any other type of financing, I would be happy to help. Good Luck!

Shell Beach Capital is a broker/referral service helping clients find funding for their business and commercial real estate transactions. Bruce McClanahan has over 22 years of experience in the financial services industry, and has held at various time Life/Health and Property/Casualty insurance licenses, and Series 7 and 66 General Securities and Investment Advisor Representative licenses. He can be reached at 805-458-5069, or at bruce@shellbeachcapital.com. His website can be found at www.shellbeachcapital.com.