Agyrtis Lending

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Construction Lending Market Update:

Construction lending comes with a lot of risks for lenders, especially moving into 2023, so fully understanding a lender perspective is empowering to investors. In fact, there are significantly more risks in construction lending today than there were just two years ago or even 2 months ago.

Despite those added risks, the strategy for a successful construction loan remains much the same: knowing fully where your project stands, understanding your project's risks and how the project can best be execute using the proper tools and best practices to mitigate potential risks. The execution of the project doesn't really change, you are just "building a better mousetrap."

Understanding Today's Risks and Looking to 2023

Expecting the unexpected and properly preparing for ways to mitigate risks is just one part of a lender's job. Keeping current with the market, the changing practices of contractors, and the risks they both present is the second part. Below are four big risk factors construction lenders should currently be aware of.

1. **Material Cost Escalations**
   Material prices are up; this isn't news. However, it's important to note that these prices change constantly

2. **Escalation Clauses and Allowances**
   These are the elephants in the room (aka contract) no one likes, but everyone should know about and learn to expect them in construction contracts now (or until the market has settled).

3. **Global Supply Chain Crisis**
   There is not much visibility into the issues that may arise. Last year it was difficult to predict where the problems were going to be, and now new problems arise every month. In addition, there are no known quantities of the supplies available like there were two years ago.

4. **Limited Labor Availability**
   The labor crisis stems from many factors, including the following: Fewer workers, fewer bids, building in a new area, and out-of-town contractors/subcontractors. Out-of-town contractors will possibly have a hard time finding local subcontractors, not knowing whether they are reputable, and may be unfamiliar with the market; all of these equate to added risk.

Vetting the Project Before Loan Closing

Thorough, timely due diligence on a construction project is crucial. Putting extra risk management practices in place before loan closing offers the lender (and borrower) protections throughout the construction process. These practices will protect the project from delays, financial mismanagement, and defaults.

It is also very important for investors to be aware of both current and traditional risks and to perform proper due diligence and risk management practices on each project before closing on any loan.

~ To your Success, Tracy Horn

Are You Positioned to Take Advantage of the Vacation Rental Market?

Agyrtis offers asset based financing for the following closing between 14-45 days upon receipt of complete loan package:

- Fix & Flips
- Air B&B Vacation Rentals

- BRRR
- Long Term Rentals
- Refinance to Permanent Loan
- Commercial
- Multi-Family
- Mixed Use
- Business / SBA
- Merchant Cash Advances

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Click for a Quick Loan Quote Today

Casey Connors Offers Key Insights & Tips for Hard Money Borrowers

All good hard money lenders value win-win situations where they will commit to you as the borrower for a mutual win-win in a profitable project loan together. In return they are a second set of eyes for you on the project, making sure you'll be successful and have a high likelihood of hitting your target profit numbers together and then, as a result, move on to more deals.

If you are new to working with a hard money lender the below are some great key factors to consider for you the borrower, which can help save time and maximize success for you with your lender as a critical value add to your team:

TREAT YOUR LENDER LIKE AN ALLY

Smart hard money lenders deny loans where it's a risky project and save themselves and their borrowers from losing money on a deal. If the lender has a lot of real estate experience, then they will often have a good intuition on if it's a solid real estate investment for you the borrower. As a result, it is wise to be transparent and honest throughout the process as their knowledge can save you a lot of money and business risk in the long term if they keep you from purchasing properties where you would take a loss.

KNOW YOUR NUMBERS

Before talking to your prospective lender make sure you have worked through a well composed deal analysis within an executive summary including 2-3 Exit Strategies versus just one. The summary should be easy to read and include a simple breakdown of all expenses and projected revenues with conservative numbers including contingency factor reserves. You will earn much respect by then being prepared to talk through all aspects of the project with your lender.

WHAT'S IN A CREDIT SCORE

Credit Scores vary widely and so do lenders on how flexible they may on how they lend as a result. Ask your lender their perspective on credit and how credit scores affect the particular loan product you need. It is best to make sure you are transparent about any credit issues that may cause concern so that the lender can be proactive with you and potentially find solutions to mitigate credit issues such as letters of explanation etc., to get you the most money at the best interest rate with the least points.

EXPERIENCE

Depending on the type of project experience may weigh in differently. For instance, with a rental loan there is less risk for a lender because there will be little to no repairs whereas with a fix and flip project, ensuring the borrower and / or a skilled contractor is in play is very important to stay on budget and create success all. Be prepared to explain in detail your experience, and that of your team, and complete both a Schedule of Real Estate Owned anasd / or a Schedule of Real Estate Sold to share with your lender which details each past project and your results.

EQUITY / CASH STATUS

As they say cash is king and for you as the borrower and for your lender, both parties wish to use as little cash as possible. For you, the borrower, the smaller the deposit you can come up with towards purchasing and or repairing a property means you can do more deals quicker. For the lender they want to see a substantial contribution that represents a commitment as your risk in the deal. The % of equity and amount of the overall loan or leverage offered by a lender is represented by Loan to Cost (LTC) and Loan to Value (LTV) or Loan or After Repair Value (LTARV) if it is to be rehabbed or improved. These %s and how the lender lends vary by the type of deal and how a given lender looks at the overall risk profile the deal and borrower represent collectively. So, the exact ratio of cash or "equity" available to be used in the deal (or simply existing in reserve) is an important factor for the lender. Thus, you and the lender must agree on what is a mutually acceptable % of equity (vs. Debt) to push a deal forward so be prepared to present a Personal Financial

Statement and all related supporting documents to verify income, savings, real estate and other potentially valuable and / or liquid assets.

PROVIDE COMPLETE AND TRANSPARENT INFORMATION

In review of all the items discussed above it is key to present accurate information if it is requested within the loan application, Personal Financials, Real Estate Owned or Sold documents as more information is better especially when discussed in advance before the loan goes through the loan underwriting process. If there are any issues that may be problematic, you will benefit from your lender being fully aware in advance and having the full opportunity to problem solve in advance with you. This will save you time and money and create a better relationship with your lender as a result.

LEVERAGE YOU DREAM TEAM FOR SUCCESS

As it is always strategic to work with a strong and seasoned team, we recommend finding good real estate agents, legal counsel, contractors and property managers, etc. Which will mitigate your risk while saving you valuable time and money.

financing to name a few.

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