

Hard Money Borrower Checklist: What You Need to Know

Hard money loans offer a fast, flexible financing option for real estate investors, but require careful preparation. Understanding that these loans are primarily asset-based rather than credit-based can help you navigate the process successfully. The following checklist covers essential knowledge for borrowers, including how rates vary based on your credit profile and documented experience.



Understand Hard Money Loans Are Asset-Based

Unlike conventional loans, hard money lending decisions focus primarily on the property value rather than just your personal creditworthiness. This asset-based approach means:

- Approval centers on the property's value and potential after repairs
- Typical loan-to-value (LTV) ratios range from 60% to 85%, varying by lender and deal specifics
- Lenders evaluate properties based on their current condition and after-repair value (ARV)



Credit & Experience Significantly Impact Your Interest Rate

While approval isn't solely based on credit, your experience and credit profile directly affect your interest rate:

- Rates typically range from **8% to 18%+** depending on borrower profile
- Experienced investors with proven track records often secure rates between **8%-10%**
- New investors or those with credit challenges may face rates above **12%**
- Documentable experience with successful projects can significantly reduce your rate



Prepare Your Documentation

Have these essential documents ready to streamline the approval process:

- Proof of property equity and professional appraisal or BPO
- Financial documents: bank statements, tax returns (though income verification requirements are often more flexible than with conventional loans)
- Detailed project plan with timeline and budget breakdown
- Clear exit strategy outlining how you'll repay the loan (refinance, sell, or rental income)
- Portfolio of past projects (if applicable) to demonstrate experience



Know Your Loan Terms

Understand the specific structure of hard money loans:

- Short-term duration (typically 6-24 months)
- Interest-only payments common throughout the loan term
- Points (origination fees) usually ranging from 1-5 points (1-5% of loan amount)
- Prepayment penalties and default rates vary significantly—ask for clear terms upfront
- Draw schedules for renovation projects (how and when funds will be disbursed)

Key Tips for Hard Money Borrowers: Maximize Your Approval Odds

How Experience & Credit Affect Your Hard Money Loan



Demonstrate Documentable Experience

Lenders offer better terms to proven investors:

- Document past successful flips or real estate projects with before/after photos and profit statements
- Maintain a manageable number of active projects to avoid appearing over-leveraged
- Provide references from contractors, other lenders, or industry connections
- Create a professional portfolio showing your track record with specific ROI figures



Understand Credit's Impact on Rates & Terms

While hard money loans are asset-based, your credit still matters:

- Credit scores below 600 are accepted by many lenders but typically result in higher rates
- Recent bankruptcies or foreclosures may require explanation but aren't automatic disqualifiers
- Lenders assess credit to determine risk pricing, even if it's not the primary approval factor
- A score above 700 can reduce your rate by 1-3 percentage points with many lenders



Choose the Right Lender

Not all hard money lenders are created equal:

- Compare interest rates, fees, and loan terms from at least 3-5 different lenders
- Research lender reputation through reviews and references from other investors
- Evaluate funding speed, as some lenders close in 3 days while others take 2+ weeks
- Confirm all fees upfront—look for transparency in documentation and closing costs
- Consider local vs. national lenders (local lenders may have better market knowledge)

⚠️ Common Hard Money Loan Pitfalls to Avoid

- **Hidden fees** - Request a complete fee disclosure in writing before proceeding
- **Unrealistic exit timelines** - Build in a 3-month buffer for unexpected delays
- **Insufficient contingency budget** - Always add 15-20% to renovation estimates
- **Neglecting local market conditions** - Ensure your ARV assumptions are realistic



Be Ready to Act Fast

Hard money loans typically fund within 3-10 business days, so preparation is crucial:

- Have all paperwork organized digitally for quick submission
- Prepare detailed scope of work for renovation projects
- Line up your contractor team in advance
- Be responsive to lender questions to avoid delays

Always Have a Clear Exit Strategy

This is perhaps the *most important* element lenders evaluate:

- Detail exactly how you will repay or refinance before closing
- Avoid vague plans like "maybe rent or sell"—lenders require certainty
- Include market comps supporting your exit assumptions
- Have a backup plan for market downturns or project delays

Remember: Hard money loans offer speed and flexibility but come with higher costs. Being prepared and experienced can help you secure **better rates and terms**.