

4 Ways to Value Property for Hard Money Loans

The primary underwriting criteria for a Hard Money Loan is the Value of the Property being used as Collateral. The Internet, new government regulations and the Housing meltdown have all forced Lenders and Service Providers to invent and utilize new valuation metrics and products. The main drivers for using different valuation methods are time, cost and accuracy. Typically increased cost + time = increased accuracy. This Blog describes the 5 primary ways Private Money Lenders are valuing properties today.



Many times the best way to value a property is to obtain a combination of the below valuation alternatives. When time is a critical factor, immediate valuations need to be done accurately. In some cases a BPO may be the correct valuation choice, in others an Inspection and an AVM may suffice to render the correct value. Whatever method is used, valuing the property correctly provides the necessary security for the loan:

- 1. Appraisals:** Appraisals offer a better valuation than in previous years with the new Home Valuation Code of Conduct (HVCC) rules now in place. These licensing and third party relationship rules help make the Appraisal unbiased. Appraisals take approximately 1 week, cost approximately \$450/Single Family Residence Appraisal and are the most expensive valuation alternative however, they do offer an interior and exterior physical inspection and all 3 valuation methods:
 - a. Sales Comparison**
 - b. Income Approach**
 - c. Cost to Rebuild**
- 2. Broker Price Opinion (BPO):** BPO's take 2-3 days and run approximately \$125 for an exterior inspection and \$150 for an interior and exterior valuation. BPO's are conducted by Realtors and offer a physical "drive by" and a sales comparison approach to value.
- 3. Automated Valuation Models (AVM's):** AVM's are computer generated valuation models that are available instantly and the cost can be free up to about \$25/AVM. AVM's are useful on conforming types of products where abundant sales comparison data is available. AVM's provide a valuation and a percentage confidence level of that value. Some AVM's "cascade" and if the confidence level is not high enough, the AVM will ping another system to gather additional AVM data to boost the confidence level.

Many Online Real Estate sites including Zillow, Redfin, Trulia and others use AVM's for their valuations. These are free valuations and should be treated with caution as the physical property may be in vastly different condition than figured by the computer algorithm.

- 4. Personal Visit:** One of my favorite things to do before making a loan is to visit a property. Numerous valuation considerations are uncovered during a personal visit including demographic characteristics, deferred maintenance, views, neighbors, proximity to schools and remodeling work required if a rehab is planned.

Whether you are an Investor, Broker or Borrower, understanding valuation options and techniques will help you increase your returns with Private Money.