MortgageVintage, Inc.
"Private Money – Smart Lending"

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Tips for Hard Money Borrowers

There are a number of reasons why Borrowers welcome an opportunity to work with Mortgage Vintage, Inc. for their real estate finance needs. Simply stated, many times a conventional Loan is not possible or feasible. In these cases where government backed loans are not available, Mortgage Vintage, Inc. may be able to help.

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7 Steps to a Hard Money Loan Approval for a Borrower

Private Capital's voracious appetite for yield continues. These yield seeking Trust Deed Investors search for and are competing for qualified Hard Money Loans. Millions in Private Capital sits on the sidelines waiting to invest in secured and well underwritten Trust Deed Investments. This article describes the 7 key steps a borrower or a mortgage broker will need to ensure a Hard Money Loan approval.

7 Steps to a Hard Money Loan Approval

1. **Find a Qualified Financing Opportunity:** Every Hard Money Loan needs 3 qualifying criteria:
    a. Equity or Skin in the Game – Typically 35% Equity or Down Payment will be required except for Fix and Flip loans where less down payment is acceptable in exchange for rehab funding
    b. Ability to Pay the monthly mortgage
    c. Valid and Viable Exit Strategy
2. **Understand the Loan Program:** Fix and Flip, Fix and Rent, Commercial, Bridge, Business Purpose Cash-Out, are just a few of the many loan programs provided by Hard Money Lenders. Each program has different criteria for qualifying. Make sure you understand and meet the loan program criteria for your specific loan scenario.
3. **Structure the Deal Correctly:** Is there enough equity? If not maybe there is another property for a cross collateralization? Are there credit problems? Maybe a co-borrower can help boost the credit profile to facilitate approval. Many seemingly insurmountable obstacles to a loan can be solved with the proper deal structure.
4. **Disclose the "Hair" on the Deal Up Front:** Whether the issue is a lien, a property defect or a credit problem, it is best to disclose any potential issues up front with the Lender so that a remedy can be worked on from the beginning.
5. **Choose a Single Reputable Lender for Your Loan Scenario:** Choose a Lender that has a good track record of funding and one that will be transparent about their ability to fund. It is fine to have multiple lenders in your directory, but respect the Lenders time and select one Lender per deal.
6. **Deal directly with the Borrower:** Don't be a "Brokers Broker". A daisy chain of brokers and fees usually makes the loan points and fees prohibitively expensive.
7. **Manage Expectations and Timeline to Close**: Let the Lender and Escrow know of the deadline like a short sale approval. Know that it typically takes 1-2 days for a Prelim and time for subsequent Title and Escrow efforts. Work with a lender that has systems and processes in place to expedite timelines.

These 7 steps will get you on your way to getting approved for and obtaining a Hard Money Loan. Have you found your Hard Money Lender yet?

Seek First to Understand….Then be Understood

I received a loan scenario recently and the request was for a large new 1st Trust Deed that was paying off an existing Bank First Trust Deed while providing cash-out to the borrower. When I discussed the loan with the borrower, I asked some questions and understood that what the borrower really wanted was cash-out money to fix the rental property in preparation for an immediate Sale. As in many cases, the borrower needed the money but did not understand the intricacies of his/her loan choices. In this case, the borrower did not want or need a new higher priced 1st Trust Deed, and had plenty of equity in the property to support a new short term 2nd. The problem was that the borrower had not really been listened to.

Rules and Regulations for housing finance can be complicated and confusing. Lenders and Brokers forget that borrowers may not understand seemingly rudimentary terms, loan options, compliance issues and loan-to-value ratios. Below is a table depicting loan requirements in simple English and the applicable Hard Money Loan Product:

Understanding the Borrowers Need	Hard Money Loan Solution
I need capital for this Fix and Flip investment so I can use my capital for a down payment on 2 more flips that I have the opportunity to buy this week.	1 year Fix and Flip loan with 80% Loan to Cost
I need to pull money out of the equity in my house so I can buy a new piece of equipment for my business.	3 year Business Purpose Cash-Out Loan in either 1st or 2nd Position
I would like a loan so I can buy a Duplex for retirement income	5 year Investment purpose purchase loan
I am in Escrow to buy a new Principal Residence and have not been able to sell my current home yet. I need money to buy my new house.	11 month Bridge Loan to Purchase a new Principal Residence while current home is not yet sold
I have a Short Sale on my Credit Report and can't qualify for a conventional loan. I make plenty of income in my own business and want to buy an amazing new Principal Residence.	5 year Small Creditor Qualified Mortgage (SCQM) Owner Occupied loan.
I put an offer in on a Short Sale residential property that I want to fix and rent and my offer was accepted. I need to close by Friday.	3 Year Fix and Rent Loan with 80% Loan to Cost (20% down payment)
The Seller carried back a loan when I purchased the small commercial property and the Seller is offering me a discount to purchase the Note at a discount. The only problem is that the Seller wants the money and we need to close by Friday.	3 Year Small Commercial Bridge Loan

Bubba’s and Business Consistency Factors

I watched the Masters and the most consistent guy won. Bubba Watson not only won the 2014 Masters Golf Tournament by hitting the longest drive at 366 yards on the 13th hole on Sunday but consistently out drove the field. Bubba averaged 305.63 yards off the tee and more importantly hit all but one fairway during his round on Saturday. Consistent and long with the driver, tied for fifth in greens in regulation, hitting 50 of 72 for the week, and 16th in putting. Those statistics add up to a second Green Jacket for Bubba. Consistency also wins in business. I thought about what makes Bubba consistent in all parts of his game and how those characteristics also provide keys to business success.

Bubba’s Consistency Factor	**Comment**	**Business Success**	**Comment**
Golf Clubs	Bubba’s Ping Pink Driver is one of a kind.	Systems and Technology	A successful business weaves together a set of systems and technologies to outpace competition
Training and Practice	Bubba played the Nationwide Tour on his way to the big show.	Hard Work	Training, working hard, learning from experts and ongoing education
Sponsors Team	Ping, Travis Mathews, All Sport, Marquis Jet	Employees/ Service Providers	High performing employees and service providers define the business’ expertise and capabilities
Strategy	Bubba's strategy for the 2014 Masters was a good one: hit it further than everyone, straighter than almost everyone, and as a result hit more greens than basically everyone.	Precise, concise and quantifiable business plan	Defining the niche plan for a business and having the discipline to focus on your chosen niche and value add will facilitate success. Once you have a plan, then execute, iterate, repeat.
Powerful Swing that plays to Bubba’s strengths	Bubba’s frenetic and fidgety temperament contributes to his unique and powerful swing. Even though Bubba is the Longest Driver on the PGA Tour, hitting the ball really far, it turns out, wasn't all that important in the Masters. In fact, it was probably the least important determining factor compared with Driving Accuracy and Greens in Regulation.	Leverage skills, education, talents, expertise and experience	Successful business enterprises capitalize on their strengths. In my case, I leveraged my UCLA education, IBM Financial Industry Sales, CB Commercial Brokerage Mortgage and Title Software industry and sales expertise to develop an industry leading Hard Money Lending and Trust Deed Investment platform
Adjust the Strategy for the Circumstance	Bubba teed off with a 4 wood on the 72nd hole to ensure accuracy	Continual improvement	Stay current, watch trends, react to a changing landscape

10 Point Checklist When Meeting a Hard Money Borrower

Real Estate provides the collateral for most hard money loans however there are many borrower characteristics that should be considered while underwriting a loan. One of the best ways to avoid fraud and determine if a Hard Money Loan makes sense is to meet the borrower. If you are a borrower, you might want to think about these items before your lender meeting and if you are a lender you might consider some of the guidelines during borrower meetings:

1. **Skin In the Game:** Does the borrower have substantial equity in the property or are they putting in a down payment of 30%-40%
2. **Track Record of Performance:** What is the borrower's track record of performance on previous hard money loans and real estate investments? If the borrower is a real estate investor, ask if they have successfully flipped houses before and made a profit?
3. **Pride of Ownership:** On a cash-out loan check to see if the property is well maintained. A property in disarray shows a lack of caring that may extend to making timely payments.
4. **Does the Story Line Make Sense:** Does the loan scenario add up? Who owns the property now? Validate that the Borrower knows the property, comps and After Repair Value. What are the liens on the property and why are they there? Where is the down payment coming from? What is the purpose of the purchase or refinance?
5. **Verifiable Data:** If the FICO is lacking, does the credit explanation make sense? If the property is non-owner occupied, can the borrower provide a lease agreement and substantiate his/her own principal residence? It is always important to check and double check the validity of the facts and scenario presented.
6. **Borrower Identity:** Make sure to understand the roles of the different parties to a transaction. If the borrower is a company, make sure the Executive is authorized to sign.
7. **Borrower Appearance and Responsiveness:** Does the borrower appear responsible? Does the borrower send in the information requested on a timely basis?
8. **Ability to Pay:** Validate that the Borrower can make the monthly payments and has residual income to pay the mortgage besides the rental income.
9. **Concerned about Loan Amount and Fees?** It is a good sign when a borrower is trying to get a lower purchase price or is negotiating fees. This concern is an indicator that the borrower will try to make the payments. A disregard for transaction costs may indicate that the borrower never intends to pay.
10. **Exit Strategy:** Can the property be sold for the suggested After Repair Value? Is the planned credit repair viable? Has the employment and or income situation changed to facilitate an exit?

When to Choose Hard Money?

I often get asked, "When would anyone choose Hard Money?" Well after originating hundreds of Hard Money Loans, we can say "for many reasons". While Hard Money rates are certainly higher than conventional loan terms, in many instances the money is less expensive compared to other financing alternatives or the potential loss of potential revenue on a business transaction. Additionally, Hard Money eligibility requirements are less stringent compared to the full documentation and income requirements of today's conventional loans. The Table below represents just a few scenarios where buyers, sellers, investors and business owners have chosen Hard Money:

When to Choose Hard Money?
A buyer has a time sensitive purchase and a fast closing is required
A buyer lacks verifiable income to qualify for an institutional loan.
A buyer needs a cash-out refinance on one property that has substantial equity to get their down payment for another property purchase
A buyer needs money to cure a Foreclosure and provide time to sell the property
An owner of a free and clear property needs cash-out funds for a business or investment purpose
A buyer has a guarantor or co-signer to help them qualify
The seller has agreed to carry financing but the buyer needs extra cash for the purchase
A principal in a Real Estate Investment company needs fast, easy financing until the property can be repaired and sold
A Borrower's FICO is damaged and does not qualify for Fannie Mae, Freddie Mac, FHA or VA
A conventional loan is denied due to income, credit or down payment seasoning of funds issues
The property is not suitable for a conventional loan, i.e. under construction, roof repair required
An Heir needs money to buy out the siblings in an inherited property
A buyer only needs the money for a short period of time
A buyer does not want the documentation hassle of a conventional loan
Bridge Loan of < 1 year to complete construction of or purchase a Principal Residence
Seller Carry Back Note is offered at a discount to buyer/occupant
A property owner needs money quickly to pay off an existing maturing bank or private note

Hard Money is sometimes the best financing alternative. Mortgage Vintage, Inc. provides loan programs to solve the scenarios listed above and creates the highest quality California Trust Deeds in the marketplace. We efficiently connect current income seeking investors with qualified borrowers who want a fast and professional business purpose hard money loan.

Successful Loan Strategies for
Self Employed Borrowers in California

Self-Employment carries many benefits including making decisions, schedule flexibility and not having to work for an incompetent Boss. From 2001 to 2012 self-employment in the US grew by 14.4% to a total of 10.6 million jobs and 7.1% of the total workforce according to an Economic Modeling Special International Report.

However there are some disadvantages to generating your own income when it comes to applying for a home loan. Today, under new Federal Regulations, borrowers need to prove their income with tax returns rather than using a "stated income" loan. Banks like to see that a potential borrower has a steady paycheck in the form of a job. Does the borrower have sufficient cash flow to pay the mortgage? Self-employed individuals typically write off a large part of their income with business expenses leaving little net income on the tax return. Without sufficient net income on the tax return, it is very difficult to qualify for a home loan. What steps should a self-employed borrower take to get a loan?

1. **Try to Qualify for a Conventional Loan:** Conventional loans (loans from banks guaranteed by Fannie Mae or Freddie Mac) carry significantly lower interest rates. However, stated Income Loans that used to be a godsend have been hit hard by the new Dodd-Frank 2014 regulations. Conventional loans for self-employed typically require: 2 years tax returns, pay stubs, and professional balance sheets and income statements.

   Borrowers have to decide what is more important to them. Qualifying for a larger mortgage or avoiding paying taxes. I am self-employed and wanted to refinance my primary residence to a fixed rate for 30 years. I increased my salary for 2011 and 2012 and was able to get a refinance in 2013 based on my increased Salary. Planning ahead was the key. Don't be surprised even if you do qualify for a conventional loan that the loan will require a higher down payment, a higher interest rate and a temporary increase in net income.
2. **Acquire a Hard Money Loan:** If a conventional loan is not attainable, self-employed borrowers should consider a hard money loan. Typically, hard money loans don't require tax returns. Underwriting is based on the equity in the property, and income that provides an "ability to pay" rather than in place cash flow or a tax return. The concept of "residual income" is used as opposed to a strict Debt to Income (DTI) ratio. Income can be derived from the rental income, employment, assets, Trusts or even depletion of current capital.

   Hard Money Loans can close quickly and are ideal for entrepreneurial Real Estate Investors needing sources of capital to leverage their investments.
3. **Ask the Seller to "Carry Back" some of the Purchase Price:** If a self-employed individual can get a conventional or hard money loan, and they don't have the requisite down payment, consider a Seller "Carry Back" loan.

How to Qualify a Hard Money Loan?

A Mortgage Broker must spend their time wisely in order to enhance their customer service and opportunity for income. Top Mortgage Brokers that specialize in conventional lending turn over quality Hard Money Loan Leads to a Hard Money Lender. How does a Conventional Mortgage Broker know if they have a good hard money loan opportunity? Follow these 4 steps for qualifying a Hard Money Loan:

1. Determine the Borrowers Need for the Loan:

There are many loan scenarios that require Hard Money. Funding timing, lack of conventional credit availability, additional leverage, short loan term requirement, self-employment and personal credit issues are just a few reasons that Hard Money rates may be palatable.

2. Equity in the Property or Down Payment:

Typically a minimum of 35%-40% equity or down payment will be necessary in order to qualify for a Hard Money Loan. This equity and "skin in the game" provides equity protection to the lender should payment or default issues arise. In some cases on Fix and Flip loans, less Down Payment is required when the Rehabber will be providing their own funds for the Rehab.

3. Ability to Pay:

The "Ability to Pay" hurdle is now well defined in the consumer lending arena and is also an important criterion in determining the suitability of a Hard Money Loan. The borrower has to have the wherewithal to make the monthly payments on the mortgage and the ability to pay off the loan at the end of the term. Rental Income, employment income, investment income, and Bank Account velocity can all be used to determine the Ability to Pay.

4. Exit Strategy

Typically, Hard Money Loans for Real Estate Investors have a Balloon Payment at the end of the 1, 3 or 5 year term of the loan. Make sure that the borrower has a plan or strategy or ability to pay the loan back at the loan maturity. Selling the property, obtaining a refinance or paying off the property with the proceeds from another investment are all viable strategies to satisfy the Exit Strategy requirement.

Solving the 5 Most Painful Issues in the Mortgage Process

Most Painful Issues in Mortgage Applications	Percent of Polled
High Cost	66%
Slow Execution	56%
Difficult Communication	32%
Unable to Track Application Status	31%
Untrustworthy Advice	26%
Source: Carlisle & Gallagher Consulting Group	

The most painful issue in the mortgage process is cost, according to 66% of the consumers polled by Carlisle and Gallagher. More than half (56%) of those polled blame slow execution as one of the most frustrating aspects of the mortgage process. More than 30% said difficult communications and the inability to track the status of their mortgage application caused frustration. Finally, more than a quarter of respondents said untrustworthy advice was an annoyance when dealing with the traditional mortgage process.

Below are ideas for solutions to these common painful issues that should be deployed at any Hard Money Lender:

High Cost: Typically the points being charged are in the 2 – 4 range for Hard Money. Lenders should keep overhead down and apply technology and virtual processes to reduce costs.

Slow Execution: Slow execution can be minimized by doing tasks in parallel and by knowing what and how to perform the loan functions early in the loan origination process. Critical to fast funding is identification and commitment of the Lenders funds prior to closing.

Difficult Communication: Lenders need to be available. Whether by email, phone, text, in person or through an assistant, a borrower or broker should always be able to access their lender. The borrower should also be able to speak to anyone in the organization to get the correct information.

Unable to Track Application Status: Your lender should have systems in place for you to access all the loan documentation 24x7. A borrower should always know where they stand and should be informed in a timely manner of all decisions regarding their loan.

Untrustworthy Advice: Working with a lender that has experience in a variety of disciplines surrounding real estate and mortgage lending is important. Many times a lender needs to help with the investment angle of a loan scenario, know Title Insurance, offer compliance expertise and more. Certainly a lender needs to keep the borrowers best interest as a paramount concern and provide advice based on what loan solution solves the borrowers requirements.

7 Important Factors when Choosing a Hard Money Lender

Mortgage Brokers, Real Estate Investors and Borrowers should consider 7 factors when choosing their Hard Money Lender (HML):

1. **Experienced** – Make sure the HML is specialized in private/hard money lending. There are increasingly complex origination, servicing and investor relations regulations that need to be adhered to for compliance. Lenders who claim to handle all loans for all people will not have the processes or specific knowledge to originate the best loan possible. Additionally, an experienced HML will provide deal structuring guidance to facilitate a win/win scenario for all parties involved with the loan.
2. **Transparent:** All parties in a transaction should have web based access to relevant loan data during the origination process. Loan program guidelines should be published by the HML and adhered to. If an HML has "teaser" rates published, ask how to get those rates. Don't let an HML "bait and switch" your loan scenario into a higher rate and point category without understanding why those "teaser" rates don't apply.
3. **Licensed:** HML's should be properly licensed with either the Department of Corporations or the Department of Real Estate. Additional National Mortgage Licensing System (NMLS) endorsements should also be in place for any HML originating consumer loans.
4. **Competitive Rates and Fees -** Well at MVI, you will get incredibly competitive rates and low fees. We'll give you flexible terms. Most importantly we'll give you and your borrower's assurance that we'll deliver what we tell you and we'll deliver it fast.
5. **Reliability -** In today's market where timing and reliability can make or break your deal. Where your reputation can be dramatically affected in the positive by having a company make you look like a hero when they perform, why take a chance with Lenders making promises that might or might not be able to keep.
6. **Fast** – Lenders should get back to you promptly. They should give you a commitment as to what they can do for you and your client immediately. Are you able to call or email your loan package at any time and know you can get a response back with terms immediately or within a few hours?
7. **Professional**: If a HML can't do your loan they should tell you right away and tell you why. The HML should publish loan programs, not misleading advertising and should not change the terms at the last minute. Check the Website, LinkedIn, Facebook to make sure the HML exemplifies professionalism and consistency across their public image.

Rehab Loans: A Win-Win-Win for the Real Estate Investor, Community and Lender

Before

After

Mortgage Vintage, Inc. enjoys making Single Family Residential Rehab loans. Rehab loans are a win-win all the way around. Here are the many benefits to a Rehab Loan:

- Distressed Seller is able to get some of his money out of the property with the sale to a Rehabber
- Construction Jobs during the Rehab
- Construction Supplies being purchased boost the local economy
- Neighborhood is improved with a updated house and landscaping
- New buyer gets to move into a Turn-Key house that has been improved
- Real Estate Investor/Rehab Borrower gets a short term bridge loan that can be funded quickly to take advantage of a Short Sale or REO opportunity

We are excited to offer Real Estate Investors with some of the best Rehab Loan Programs in the Private Money Lending Industry. Mortgage Vintage, Inc. has offered loans specifically designed for the professional rehabber for several years now. Our loan program is simple, if you are an experienced rehabber, that is, 2 or more successful rehab transactions in the last year or so, we offer up to 80% of sales price financing.

Here is how that works, we will loan up to 80% of the initial purchase price as long as that does not exceed 65% of after repaired value (ARV). It really is that simple. For those individuals that do not yet have the experience in rehabbing properties Mortgage Vintage, Inc. can go up to 70% of the initial purchase price not to exceed 60% of ARV.

In most cases we will hold a predetermined amount of funds to be disbursed to the rehabber either upon completion of the project or as draws as the work gets completed. Through this funds control process, a rehabber can maximize their financing and work on multiple rehab projects concurrently.

Reinventing Yourself with a Business Purpose Cash-Out Loan

Like many people Grady got hit hard by the Great Recession in 2008-2012. He owned his own business brokerage company where he helped Car Dealers buy and sell their Dealerships and Real Estate Holdings. Car Dealers suffered huge losses as uncertainty, and deleveraging pummeled Car Sales. Grady's brokerage business was severely impacted as many Car Dealers hunkered down to survive the economic malaise. Transactional buying and selling of Dealerships came to a grinding halt as did Grady's income and he was worried about his ability to provide for his wife and his 4 elementary school aged children. He worked harder than ever, cut expenses and staff, moved his business to a home office and more, but still had severe negative cash-flow every month and soon ran out of savings and started to have trouble meeting his monthly bills and obligations.

By 2012 Grady saw Car Dealers starting to recover. People were buying cars again and his clients wanted to make moves to capitalize on the economic rebound. Like a good businessman he wanted to expand his marketing and services to capture these brokerage opportunities. The problem was that Grady was out of money and had depleted all of his resources for cash.

The one thing Grady did have was equity in a beautiful home in Orange County, CA. He had purchased the home in 2000, with a 20% down payment, had improved the house and back yard and had enjoyed some appreciation in the early 2000's. Grady investigated Business Purpose Cash-Out 2nd Trust Deed to monetize the equity they had in the family home. He then made a strategic decision for his family and seized the opportunity to use the cash-out money to invest in his business.

Comparable Sales valued Grady's house at $950,000. Grady's 1st Mortgage from the Bank was at $338,000. With a 60% Combined Loan to Value (CLTV) Grady qualified for a $235,000 Hard Money Business Purpose Cash Out 2nd Trust Deed. With this new Loan Grady had the resources to execute his new business plan and generate substantial income from Car Dealers buying new locations or moving existing facilities.

The smart and nimble, like Grady, embrace the changing landscape and reinvent themselves and their businesses. Whether it was the volatile Stock Market plummeting 40%, a job loss or a soured real estate investment, the Recession hit all of us hard. The question is what did you do to survive? How did you reinvent yourself?

Every Loan Has Wrinkles

Like a Pug, every loan has wrinkles. Each wrinkle defines a loan and should be evaluated during underwriting. The key to successful underwriting and Trust Deed investing is to know which wrinkles are harmful or not. This Blog addressed to Hard Money Lenders will discuss some of the common wrinkles in Hard Money Loans, some of the remedies for these wrinkles and the single most important wrinkle that dictates many loan approval decisions.

Wrinkle #1 - Low FICO Score: - All FICO's scores are not the same. Short Sales, Foreclosures, Medical Conditions, loss of a job can all contribute to a damaged FICO. Treat FICO's differently if the score is low because of irresponsibility vs. an event. Current income, assets and a letter of credit explanation can smooth this wrinkle.

Wrinkle #2 – Lack of Verifiable Income: Many Hard Money borrowers are self-employed. These borrowers work in the cash economy and don't report qualifying W2 income. Bank Statements, other income proof and verification of employment can help justify income and the ability to pay for these self-employed borrowers.

Wrinkle #3 - Property location, Condition, Age or Specialty Use: Many Lenders state that they will make a loan only if they would live in the property if they received the property back in a Foreclosure action or Trustee Sale. For me, living in the property is the wrong metric. I measure Loan to Value, rehab costs and property liquidity. All types of properties, whether distressed or not, will trade at the right price. Lenders should make sure that the property is repairable at a suitable cost, and has enough equity protection to cover the investment, foreclosure, sales expenses and has a market for future buyers. Initial property valuation can be solidified through Appraisals, property visits, realtor comps, Broker Price Opinions and Automated Valuations.

Wrinkle #4 - Borrower Character: I can attest from personal experience that character matters. If the Borrower has a criminal record or history of litigation or the loan scenario/story does not add up, be careful. Make sure that the seller, buyer, agents and all stakeholders are singing the same tune on the loan. I try to understand and validated the motivations of each party to make sure that the loan story makes sense. Even if the borrower has a checkered credit history, if they have significant equity at stake, they will be incented to make the payments unless they have a lawsuit or fraud up their sleeve.

Wrinkle #5 – Loan to Value (LTV): This wrinkle can't be smoothed out. Loan to Value makes or breaks a Hard Money Loan. Equity incents the borrower and leaves room for protection against foreclosure, rehab and sale costs. No matter what the property is or where it is, if the property carries substantial equity protection, the Trust Deed Investment will be safer.

5 Questions to Ask when Choosing a Real Estate Hard Money Lender

As a Real Estate Investor or Mortgage Broker, many times you will need to act quickly to buy or assist someone buy or refinance real estate. When time is of the essence, Hard Money financing is the best and fastest alternative. Below are 5 questions to ask when you need to choose a Hard Money Lender:

Q: Does the Lender offer you pre-approval letters and deal coaching?
A buyer presenting a Hard Money Lender provided Pre-Approval to a seller can boost the financing contingency offer to compete with all cash offers. Hard Money Lenders are typically Certified Real Estate Brokers with years of relevant real estate experience. Smart real estate investors leverage their lender's experience to structure a favorable deal structure. For instance rehabbers typically think that the flip will occur in a few short months. Lenders know that flips can take longer, especially when permitting is involved, and may suggest a longer term for the loan. A longer loan term at the same rates would eliminate loan maturation and extension fee costs.

Q: Does the Lender provide a quote quickly?
A: Best practices is for a lender to render a quote within 24-48 hours. Borrowers should provide critical data for the quote including a loan application, Appraisal if available and deal summary. Borrowers should know the type of loan that they are seeking and understand if the Lender writes those kinds of loans. For example if the borrower is looking for a ground up construction loan and the lender only underwrites rehab loans, the lender would not be able to provide a quick quote.

Q: Does the lender value the property quickly?
A: Hard Money Lenders should generally close a loan transaction in 7-10 business days and sometimes even less than that. One of the first due diligence items is the property valuation. Lenders use their own valuations, Appraisals, Broker Price Opinions, online valuations, MLS and other tools to value properties. The key for the borrower is to make sure that the lender quickly evaluates or performs one or multiple valuations.

Q: Do they live up to their Quote and Term Sheet commitment?
A: Hard Money Brokers work with institutional investors, individual investors, funds and their own capital. Loan terms in Pre-Approval quotes, while nice to receive, many times are adjusted when the final lender is selected. It is important for a borrower to understand when a quote becomes firm and when a quote becomes a commitment.

Q: Does the Hard Money Lender provide competitive terms?
A: Loan to Value, rate, loan term, points, fees, prepayment penalties are all critical elements to a loan. Borrowers should develop a "go to" lender they like to work with and negotiate equitable terms for all parties. The Lender with the cheapest "rate" may not always be the best loan for your scenario. Look at the other factors above before deciding on your lender.

CrowdFunding: Promise or Peril for Hard Money Lenders?

When one of our lenders recently moved their investment funds to Crowdfunding Trust Deed providers, I realized I better get up to speed on Crowdfunding. How will this new capital raising phenomenon impact the Hard Money Loan and Trust Deed investment business? How can a Hard Money Lender effectively Crowdfund? I will answer a few of these questions over my next few Blogs but for today I will discuss whether Crowdfunding offers Promise or Peril for Hard Money Lenders:

In October, 2013 Congress passed and the President signed the "Jobs Act" into law which authorized this new era in fund raising. Crowdfunding is, according to Forbes, the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet. While Hard Money Lenders sell Trust Deed Investments over the Internet to multiple people, there is a wide chasm between today's traditional Hard Money Lender and the new breed of Real Estate debt Crowdfunding companies.

To effectively evaluate the Promise of Real Estate Debt Crowdfunding, the perspectives and benefits from the Borrower and Lender stakeholders need to be understood:

Real Estate Debt Crowdfunding Promise	Hard Money Loan Borrower Benefit	Hard Money Lender Benefit
Lower Cost of Funds to Borrower	Lower cost of funds to borrower make more projects viable and increases potential profits	Lenders enjoy 9% - 12% returns today. These yields may scale back if borrowers get lower rates
Transaction Transparency	Good for the borrower to divulge all of the aspects of the deal	Reduces fraud
Underwriting Transparency	Helps borrowers screen potential projects	Lenders love due diligence transparency and the ability to quickly determine their interest in funding a loan
Funds reliability	Certainty of funding eliminates a big headache for borrowers	Everybody knows the percentage of the funds raised for the loan
Online experience	Would like to know status of their loan real-time	Other lenders/friends involvement, social aspects of lending, loan/borrower/investor ratings
Lower investment entry cost to Lender	If more capital means lower rates, borrowers are all for it	More capital available to fund loans with lower entry costs to funding
Faster Funding	Beneficial in distressed acquisition and cash-out situations	As long as the due diligence is complete and compliance is met, no problem
Diversification	Loans for various property types	Lenders desire a diversified Trust Deed Portfolio to spread their risk

“Life is About Opportunity”

I attended a breakfast meeting with Terry Donahue, former illustrious UCLA Head Football Coach, and he mentioned “Life is About Opportunity”. Terry currently give’s high school football players opportunity to receive a college football scholarship at his California Showcase. (http://cashowcase.org) In 2012 450 player athletes worked-out in front of 30 College recruiters. These schools offered 74 scholarships and changed the trajectory of 74 lives. Terry said, “Just giving the kids a chance is exciting”.

Similar to California Showcase giving the opportunity for High School Football Players to earn college scholarships, Private Money Loans give the opportunity for an equity rich borrower or real estate investor to succeed. The following 6 scenarios describe the “Opportunity” to acquire and benefit from a Hard Money Loan.

1. When time is of the essence: Sometimes a seller needs to sell the property quickly. A Hard Money Loan can compete with all cash buyers and close in 7 to 10 days. Whether the timing situation is a short sale with a bank deadline or the need to replace a conventional loan that was denied at the last minute, hard money loans can be fast.
2. When a borrower has not sold their home yet and wants to buy a new home: Bridge Loans for a purchase of a new home give time for a borrower to sell their principal residence.
3. When a person’s credit is temporarily impaired: Short sales, foreclosures, sudden medical expenses, loss of job can all impact a Credit rating. Borrower’s with less than stellar credit can qualify for a Hard Money Loan based on the equity in the property
4. When a person is self-employed and does not have enough W2 Income for conventional financing: While being self-employed offers many advantages, W2 income which required by Fannie and Freddie is not one of them.
5. When an investor wants to leverage their cash and fix and flip or fix and rent a property: Many fix and flip loan programs offer loan to value’s above traditional financing when the rehab funds are included in the loan amount. Borrowers get to conserve and leverage their cash to invest in additional real estate investment opportunities.
6. When business owners need cash out for a business purpose: Business owners may have opportunities to buy other businesses, take advantage of strategic acquisitions, capitalize on marketing opportunities or just infuse working capital. A hard money loan to cash out of equity laden real estate is many times the fastest and least expensive source of financing for a business.

The Double Nickel: 5 Lessons Learned 5 Years after the 2008 Meltdown

It's been five years since Wall Street crashed and the financial crisis broke across the country. Many people lost their homes, their savings or their jobs. Financial plans were shredded. College funds and retirement accounts were drained.

The economy has been slowly recovering over the past few years. The stock market is at new highs and mom-and-pop investors are pouring in money.

But how much have we really learned? Are we any wiser or better prepared, than we were?

Here are 5 lessons that we should have learned and Action Plans to avoid a personal financial meltdown during the next crisis:

1. Bubbles Always Pop:

According to the conventional wisdom on Wall Street in 2006, house prices would just keep going up. The reason: They always had. "We looked at the data since 1945," said Treasury Secretary Hank Paulson later, "and we concluded house prices don't go down."

Conventional wisdom also said then that stocks would produce average returns of about 9% a year and bonds about 5%. The reason: Those were the historical averages in Wall Street's spreadsheets according to the Wall Street Journal.

The problem didn't lie with the data, but the reasoning. You cannot reliably extrapolate a guide to the future from a limited set of past experiences. Yet today too many households are still basing their financial planning and retirement hopes on the same flawed forecasts.

Action Plan: Be prepared by keeping 6 months' worth of living expenses in cash in case your investments do worse than expected.

2. **The Experts can't accurately predict the future and have different agendas:**

Most of Wall Street, the Government and most economists were surprised by the crash in 2008. The Federal Reserve thought the subprime-mortgage blowup would be "contained." Few economists predicted the recession before it was nearly over. Even amid the biggest housing bubble in U.S. history, there was no consensus among economists that housing was even overvalued. In 2005, at the peak of the bubble, most Wall Street analysts were bullish on housing stocks.

The No. 1 job of the experts is to protect their own careers. That means they have every incentive to stick to the herd. Today, as the Fed plans eventually to "taper" down its bond-buying program, China slows alarmingly, and government debt burdens almost everywhere surge, Wall Street experts insist it will all be OK.

Action Plan: Listen to experts but take control of your own portfolio

3.. Use Leverage Wisely:

The three decades leading up to 2008 saw the entire U.S. go on a debt binge. That included households, companies and the government. Households and financial companies doubled their debts in the previous eight years. By the summer of 2008 U.S. households owed 10 times as much as they had in 1980.

Do we know any better? Today household and financial companies' debts remain higher than they were in 2006, while federal and corporate debts have spiraled. Many consumers are borrowing freely again and are exposed if they lose their jobs, or the economy turns down again.

Action Plan: Don't Over Leverage. Maintain equity protection on both Wall Street and Real Estate assets

4. **Sleep better at night by reducing risk, earning income and diversifying your Portfolio:**

When the stock market collapses, people sell. Seeing your net worth halved is very different in practice than in theory. From September 2008 through March 2009, as the Dow Jones Industrial Average plummeted from 11700 to 6500, mutual-fund investors withdrew more than $200 billion from stocks—at precisely the wrong time.

I remember waking up in the middle of the night in 2008 after my Wall St. portfolio had depreciated 35%. I vowed to take action to reduce that feeling of potentially losing 35% of my life savings. Now I have a Wall St. and Trust Deed Portfolio and sleep better at night.

Today, as the stock market hits new highs, investors are feeling complacent and wealthier. Could they cope with another selloff? They need to be prepared.

Action Plan: Make sure to diversify across Wall Street Equity and Debt and Real Estate Equity and Debt

5. KIS – Keep it Simple:

Credit Default swaps, Derivatives, Collateral Debt Obligations all collapsed. Hedge funds imploded. Banking stocks plunged or got wiped out. Complexity lost. It's an argument for investing in simple assets or simple strategies.

Trust Deed Investments are simple smart passive income investments. The Collateral for the loan is a piece of California Real Estate. Generally, a conservative loan to value of 65% or less will provide the investor with sufficient equity protection to weather depreciation, property or borrower calamities. Providing debt vs. equity enhances capital preservation, simplicity and current income.

Action Plan: Invest in assets, or strategies, that you understand.

What to Look for When Visiting a Non Owner Occupied Property?

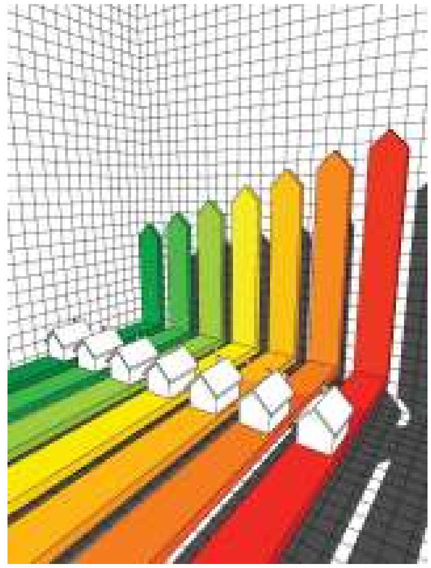
One of the many things I enjoy about the Real Estate business is that each property and loan scenario is unique. Real Estate is not a commodity as every property and borrower has different characteristics that impact value. A personal or trusted associate property visit before making a hard money loan always provides useful underwriting information and insights. This blog describes what to look for when visiting a property. Both positive and negative property characteristics can be determined by a drive by:

Positive Observations:	**Implication:**
Toys on the lawn	Verification that a Tenant is leasing the house
Garden hose on the side of the house	The landlord/tenant/owner is watering the plants and taking care of the landscaping.
Welcome mat at front door	Pride of ownership by Tenant and Owner
Real Estate signs on the street	Many sale/lease signs signal a distressed neighborhood.
Paint and Roof in good condition	Property maintenance and capital improvements taking place

Observations that should cause Concern:	**Implication:**
High number of empty lots	Shows a neighborhood that may not be in demand
Vacant houses on the street	Developer may have badly overestimated demand and could soon be choking on inventory. Also could signal pending foreclosures.
Bars on Windows	Lack of security in the neighborhood
Real Estate signs on the street	Many sale/lease signs signal a distressed neighborhood.
Trash in the Streets on lawns	Neighborhood may be deteriorating

Pictures on a website or GoogleMaps can be deceiving. Make sure you get a real person making a real drive by of a property before you lend on your next hard money loan.

7 Economic Stimulants from Hard Money Loans



Real Estate investing is one of the primary economic engines in America. With scrutinizing and stringent underwriting of conventional loans now prevalent, Hard Money loans have become a real estate investors financing preference. This Blog discusses the 7 ways that Hard Money Loans boost the economy. To fully grasp the realm of economic benefits from Hard Money Loans (HML) a view from the Investors and Lenders perspective will be highlighted.

Real Estate Investor Stimulants:

1. **Business Purpose Loans: When the HML is for a business or investment purpose, the new money puts borrowers to work in the recipient business and provides working capital that is used for hiring or new equipment. We recently made a business purpose 2nd loan to a Couple that owned a local performing arts theater. The loan was used to purchase theater lights, sound and stage equipment. My children and I visited the theater and we and the entire audience saw a wonderful Play. The loan boosted the local economy with the purchases and also provided a stimulant to the Arts and Education.**
2. **Fix and Rent Loans: These loans enable an investor to fix up and then rent a property for income. This rental income provides much needed cash flow for investors to live and make payments.**
3. **Fix and Flip Loans: Fix and Flip loans create construction jobs, increase sales at housing supply stores like Home Depot and Lowes and improve neighborhoods. When an Investor/Rehabber is finished with a Fix and Flip interior, exterior and landscaping, the entire community around that house benefits from the upgrade and the new owner's viability.**
4. **Housing Market Liquidity: Most traditional buyers don't want to hassle with dilapidated properties and the work needed to bring those properties to livable conditions. Investor HML's provide liquidity to the real estate market and facilitate the renovation of undesirable properties.**
5. **Foreign National Loans: A Foreign National loan provides a mechanism for foreign investment in U.S. Real Estate. These investments reinforce demand and buffer wild price swings.**

Real Estate Lender Stimulants:

6. **Trust Deed Investments: Trust Deed Investments offer 9%-12% current income returns to Lenders. This cash flow stimulates spending, further investment and travel that keep the local economy humming. Many retirees are searching for replacement and dependable income that can help them enjoy their retirement. Trust Deed Investments fill this need for a secured high yield income.**
7. **Portfolio Diversification: A Non-Correlated to the Stock Market Trust Deed Investment helps lenders survive the volatile and wild swings of Wall Street instruments. A Trust Deed's monthly cash flow pays the bills and allows for a better night's sleep. A Lender's portfolio is truly diversified and better positioned for long term success with Alternative Investments like Trust Deeds that have less correlation to the Stock Market.**

5 Ways to Profit from Buying Distressed Residential Properties

According to the Corelogic Home Pricing Index (HPI) Residential Real Estate prices have depreciated by as much as 59.11% from the peak in May, 2006. Prices have increased the last few months in 2012, but the overall decline in prices is substantial. There are many ways that Real Estate Investors can capitalize on this home price depreciation. Today's Blog will discuss the 5 ways most Investors are profiting from this housing market decline:

1. **Purchase, Fix and Flip a Short Sale:** Investors around the country are working with Realtors and Asset Managers to snap up Short Sale Listings. Short Sales and Foreclosures make up approx. 25% to 50% of sales in most markets. Buying a Short Sale takes patience, an understanding of the stakeholders and often requires multiple offers to get accepted.
2. **Purchase and Fix a REO:** Similar to finding a Short Sale, Real Estate Owned (REO) buying requires patience. An REO is a property the Bank or lending institution has taken back into their portfolio. Aka they have foreclosed on the property and did not sell the property at the Trustee Sale. There are many sources available online to find REO properties. Individual Banks like Wells Fargo and BofA have their own sites with their REO listings and other sites like Realtytrac.com and foreclosureradar.com will help you find REO opportunities. Typically, an REO, once purchased will require rehab work to get the property ready for sale.
3. **Purchase and Fix a Trustee Sale Property:** Investors looking to scoop up good deals should consider purchasing properties at a Trustee Sale held by the County. There are many experts bidding and buying properties at the "Court House Steps" and to compete with these "experts" you will need to study this market and process and come up with your own parameters. This approach also requires you to have cash on hand to purchase the properties with Cashier's Checks. Whether that cash is yours or someone else's is up to you.
4. **Buy a Discounted Note and do a Workout:** The number of real estate investors buying discounted notes and or pools of notes continues to grow. Many Banks, Hedge Funds, and Credit Unions that have portfolio loans are finally deciding to jettison the loans and take losses. If you can find a legitimate source for quality performing or non-performing notes, the exit plans can be lucrative.
5. **Originate a Hard Money Loan:** Mortgage Bankers and Brokers typically loan up to 60% of the homes value. When homes have depreciated and stabilized, new loans at reasonable Loan to Value (LTV) ratios carry significant equity protection and security against default or further price erosion.

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.

5 Ways to Win Short Sales with Hard Money

Come October 2012 – Things are changing in the Short Sale marketplace.
As noted in the MBA Newslink 9-4-12

"While distressed borrower typically must be behind on mortgage payments to qualify for a short sale, Fannie Mae and Freddy Mac are relaxing the requirement for those who meet certain hardship criteria. Beginning in October, 2012, homeowners who are current on payments but are struggling due to job loss, divorce, long-term disability, a business failure, a natural or man-made disaster, the death of a primary or secondary wage earner or a change in employment that is more than 50 miles from the current residence may be eligible for assistance through a short sale…Banks are taking advantage of these Short Sale offers by Fannie and Freddy with 23 percent of all housing sales being Foreclosures in Jul, 2012 with 18% of those sales being short sales that occurred before the foreclosure process was initiated." Source: MBA Newslink 9-4-12

As a Real Estate Investor, how do you take advantage of the increased number of Short Sales?

We all know that many Short Sales have multiple offers and a cloak of opaqueness around the bidding and approval process. There are 5 proven ways to Win these Short Sale bidding wars with Hard Money:

1. Pre-Approval Letter from a Reputable Lender
2. Provide a Proof of Funds to the Selling parties
3. Show an Excellent Track Record of the Lender
4. Meet the Short Sale Closing Timeline
5. Communication with all mortgage broker, Realtor, lending and Government Sponsored Enterprise (GSE) parties involved

Recently, a distressed Single Family Residence was available via Short Sale in Southern California. The Seller had experienced one Escrow falling out after another. The Selling Bank, Asset Manager and Realtor decided to accept a bid from the experienced Fix and Flip buyer with a Pre-Approval letter from a Private Money Lender. Proof of funds was provided to show the buyers ability to close the transaction quickly. All due diligence, inspections, Title, Escrow and documentation was performed within 7 days and the transaction closed on the day before the Short Sale Deadline. The buyer/borrower/Real Estate Investor now had his Fix and Flip opportunity and was off to Home Depot!