# Hard Money Loans: More Art than Science

High volume Conventional lenders world use Automated Underwriting (AU) engines to determine if a borrower qualifies for a loan. Fannie Mae's Desktop Underwriter (DU) and Freddie Mac's Loan Prospector digest reams of quantitative data and spit out the yes or no decision on a residential loan. FICO's, income, expenses, debt ratios and other data mix with coded rules and are processed through these Automated Underwriting programs. The loan decision reflects the desires of the ultimate investors on these financing requests. The software takes much of the decision making on a loan out of the hands of people and into the hands of a computer. These conventional loan AU systems provide consistent and high volume decisions and high volume.

Hard Money underwriting on the other hand is more art than science. In Hard Money, knowledge does not equal understanding. Data elements are important but need to be interpreted and matched with the "story" and borrower character to provide a quality underwriting decision.

I met a hard working couple the other day and they needed some additional money to finish their fix and flip. They had bought the land with their own money and were a little short to finish the construction. We gathered the same data that many banks reviewed before they denied this construction loan. However, when I met the couple and shook their hand and looked at the quality of construction, examined their experience and heard their story, we made the loan.

The following table describes the differences between the numerical data, the knowledge that data provides and the application of that knowledge into an understanding that can be used to provide the underwriting decision:

| Data Point | Science | Art |
|---|---|---|
| Loan to Value | Loan Amount divided by property value | One of the most important elements in a Hard Money loan. Equity protection is paramount. |
| Purchase Price | The price paid for a property | Important factor but real market value of a property may be different |
| Down Payment | Percent of a borrowers equity investment | Along with how much, knowing how and where the down payment comes from helps understand the true skin in the game |
| FICO Score | FICO scores are stratified determining rates and qualifying decisions | Reasons why a FICO might be impaired can make or break a loan decision. Medical issue, short sale or a loss of a job can all impact FICO on an otherwise good borrower |
| Debt to Income Ratio | 28% Front End, 36% Back End | Understanding and quantifying income other than what is on a tax return matters. Residual income also helps determine ability to pay |

While, Watson, Artificial Intelligence and rules engines provide wonderful benefits for the masses, it is good to know that real people who are hard money lenders make underwriting decisions by art and not just science. Do you have a underwriting tip? We would like to know. Please submit a post on our Mortgage Vintage, Inc. Facebook Page or our LinkedIn Company page. If you enjoy discussions like this, please sign up for our Linked in Group called Southern California Trust Deed Investment Group or our CrowdTrustDeed Group.

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