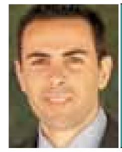

By Yanni Raz
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Learning to Fund the Hard Way

Know what to expect when dealing with private-money lenders

IN THE POST-FINANCIAL CRISIS ENVIRONMENT, many traditional lenders have scaled back lending to commercial real estate projects, prompting commercial mortgage brokers to look for alternative ways to secure funding for their clients' deals.

Hard-money lending has become one of these alternatives, especially because it's generally known for less-stringent processes that can appeal to borrowers in need of capital quickly. At the core of hard-money lending, the borrower is receiving a private loan without having to deal with the corporate paradigm associated with big banks. This can provide some flexibility, but private lenders still will want to be sure that they are not taking on too much risk.

Commercial mortgage brokers should familiarize themselves with several key details associated with these transactions. To better understand the process of dealing with a hard-money lender, brokers and their clients should bear the following in mind:

1. **Appraisal:** Receiving a hard-money loan in itself may not be difficult, but there still is an appraisal process that must be completed. Because the property will act as collateral should the borrower default, the lender will want to know the property value to determine whether or not the loan makes sense. In addition, commercial mortgage brokers should be aware that hard-money lenders typically offer 65 percent to 70 percent of the property's true value. This is a common practice that helps reduce the lender's risk.
2. **Details:** Once the property has been appraised, it's time to begin working out the loan details. Hard-money lenders typically will charge a higher rate than traditional lenders to cover the perceived higher risk in their deals. Commercial mortgage brokers should be able to look over the information, determine if the loan at these higher rates is the right fit for the client and then proceed. Once the financial details are worked out, you can begin closing on the property.
3. **Closing and repayment:** Many hard-money lenders have an in-house staff of appraisers and attorneys who help make the closing process go quicker. Your client must be aware that once the deal is closed, the repayment window will begin. At this time, it's important to remember that repaying the loan in a timely fashion is paramount for at least one reason: The property is the collateral, so if your client defaults, the property can be turned over to the lender. In addition, always be certain that the purchase plans also include details for repayment. When things line up properly, everyone is a winner: Your client will be able to have a reasonable investment in a property and tenants who help cover the expense of ownership, and you, of course, will add another file to your portfolio.

With the current economic circumstances, commercial mortgage brokers who think outside the box and try to find ways for their clients to get funding today are the ones who will make tomorrow's success stories. The trick, however, is to be knowledgeable of the ins and outs of hard-money lending to ensure that the process goes as smoothly as it can, thus helping your client's investment to remain viable. •

Yanni Raz is CEO of HML and has been a hard-money lender for more than 10 years. Raz was a real estate broker for five years before he partnered with a group of investors from California and began assisting real estate investors in financing commercial and residential projects. He writes about real estate financing for magazines, blogs and other online news outlets. Reach Raz at info@hardmoneyloans.org or (818) 308-4443. Visit hardmoneyloans.org.