

7 Steps To Guaranteed Hard Money Loan Approval

This is a FREE REPORT brought to you by the private lenders and real estate professionals at Hard Money Bankers, LLC

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The goal of this FREE report is to help you understand how to get the most out of your relationship with your hard money lender, how to make yourself and your loan irresistible to your hard money lender, and how to take your real estate investing to the next level.

Some Key Points in This Report

- What Is Hard Money?
- Who Uses Hard Money Loans?
- What Do Hard Money Lenders Do?
- How Does a Hard Money Lender Evaluate a Loan Proposal?
- How Do You Guarantee Loan Approval?
- Insider Tips From the Front Lines

What Is a Hard Money / Private Mortgage Loan?

Hard Money is technically defined as "a conservative loan made against hard assets." A "Hard Money" loan (also referred to as an "Equity-Based Loan," "Private Money," "Special Circumstances Financing," or a "Bridge Loan") is a loan that is offered when a conventional loan may not fit the borrower's

lending needs. This generally happens when a borrower needs money to act on a "hot" real estate deal, but does not have time to wait for the stringent and sometimes lengthy underwriting process associated with a conventional loan.

These loans are typically "outside of the box" type deals and require creative financing to help real estate investors fund projects where conventional financing may not be right for the circumstances. Hard money loans are typically fast, flexible, and can go as high as 65% loan-to-value based on the after-repaired-value (ARV). For example, if a house will be worth \$100,000.00 after a complete rehab, a hard money lender will usually lend up to \$65,000.00 total. Thus, if you can purchase the property for \$40,000.00, not only could you get the acquisition money, but also the \$25,000.00 construction money.

The capital for a Hard money loan is generally acquired from private individuals or small companies willing to lend out money for these types of creative deals. Most banks and other financial institutions do not fund hard money loans. Hard money can be utilized in both residential and commercial real estate transactions. Interest rates and points are usually higher with a hard money loan than a standard conventional loan, because the risk of default is deemed to be higher with these types of loans. However, if the real estate deal is structured properly, those higher costs can easily be absorbed into the deal, making the transaction a win-win for both the borrower and the lender. Interest rates paid by borrowers for hard money loans typically range from 12-18% annually, and the exact rate will depend on many factors, including the type of deal, the strength of the borrower, and the current supply of private money available at any given time.

Who Uses Hard Money Loans?

Hard money loans are traditionally used by non-bankable borrowers, or borrowers who require more flexibility than a bank or other conventional lending institution can offer. Many real estate investors or property owners will utilize a flexible hard money loan if they have a limited time to close on a deal, have an unfinished or un-stabilized property, or need short term bridge capital to carry them through a rough patch. Other candidates for a hard money loan may be those investors or property owners who have some assets or savings, but cannot qualify for conventional financing due to financial hardships in the past, such as foreclosures or bankruptcies.

What Do Hard Money Lenders Do?

Hard money lenders, such as HARD MONEY BANKERS, LLC, work with borrowers who need access to quick and easy capital and can provide flexible underwriting, as well as construction money on rehab projects. Because hard money loans are not subjected to the same strict lending guidelines and regulations as conventional loans, they can be closed much more quickly and with much less hassle. Hard money loans can be utilized for several types of real estate projects including:

- Building Acquisition & Rehab
- Land Acquisition & Development
- Investment Properties
- Emergency Cash-Out
- Quick Property "Take-downs"
- Low Loan-To-Value Loans

- Short-term "Flip" Properties
- Non-bankable Transactions
- Foreclosure or Bankruptcy Bailouts
- Self-employed or Cash-strapped borrowers
- Credit challenged borrowers
- Residential or Commercial properties
- Any Short-Term Financing Related to Real Estate

What Are The Guidelines For a Hard Money Loan?

Further into this report, we will explain how to structure your deal and make your loan appealing to the hard money lender, but first let's look at some basic lending guidelines for hard money loans. Although there are many different types of hard money lending programs, the following can be used as a general guideline for determining whether your situation would be appropriate for a hard honey loan. Remember - because hard money lenders are very flexible, these are not hard and fast rules, just guidelines, so even if your situation does not adhere exactly to these guidelines, you may still feel as though you have a good project. If you have some compensating factors in your deal that overcome weaknesses, the hard money lender will be able to help you assess your deal and determine if it is one that fits the criteria for a hard money loan.

INSIDER TIP #1

Never be afraid to ask your hard money lender, "What about this deal don't you like?" Or "What can I do to make this deal more attractive to you?" Hard money lenders want to lend as much as you want to borrow. Maybe there is only one or two things you need to do to make your deal a home-run, but you'll never know unless you ask!

Here are some basic Hard Money Bankers loan guidelines:

- Loans are usually up to 65% Loan-to-value (LTV) based off the After-Repaired-Value (ARV)
- 100% of acquisition/construction can be financed
- Both residential and commercial properties are permissible
- Low credit scores or no income are acceptable
- HMB welcomes foreclosure/bank REO properties
- Interest only and "no payment" options are available
- All loans must be for business or investment purposes (HMB does not lend on primary residences)
- HMB can handle cash-out refinances of land or existing structures

How Does a Hard Money Lender Evaluate a Loan?

Unlike conventional lenders that use complex credit score and income formulas, along with volumes of strict underwriting guidelines, hard money lenders utilize basic, flexible, common sense underwriting to analyze each deal. Every application is viewed from many creative angles to determine whether the property and the borrower are properly suited for a hard money loan. Different hard money lenders look at things very differently, and like different types of deals. Make sure to understand what types of deals your lender is looking for.

INSIDER TIP #2

Ask your hard money lender what their "sweet spot" is. Every lender has a different niche, and you don't want to waste your time applying to a lender that doesn't like your type of deal. In what geography do they lend? The city or the burbs? Do they like land or just structures? Residential or commercial? A good lender will have no problem telling you exactly what types of loans they are looking for.

So what is “common-sense” underwriting? At HARD MONEY BANKERS, we follow the time-tested evaluation of the “4 C’s” - that being 1) Collateral, 2) Character, 3) Capacity/exit strategy, and 4) Credit. Let’s take a look at each of these from the eyes of a hard money lender to allow you to better understand how to increase your loan worthiness. Always remember that these factors are evaluated to make sure the deal is profitable and secure to both the lender and the borrower, so if the loan is denied, it is a good idea to understand in which category your deal fails so you will know how to better improve your chances of success in the future.

1) COLLATERAL -- What is the value of a property from a sales and/or income approach? Typically, valuations are done through sold comparables, appraisals, and BPOs (Broker Price Opinions by real estate agents). Hard money lenders will also perform physical site inspections. Hard money lenders don’t use traditional “appraisal” evaluations based upon a 180 day marketability study. That’s what banks use. Rather, your hard money lender will want to know how much your property would fetch in 30 or 60 days in the current marketplace. If there is a default and a foreclosure, the lender wants to resell the property fast, get the private investor’s money back, and put that money back out into other loans. They cannot afford to lose money in any deal, so they are very conservative in the evaluation of property.

INSIDER TIP #3

Never, Never, Never try to misrepresent the value of your property. Hard money lenders are conservative. They lend on property based upon conservative values to ensure their money is safe. Hard money lenders will ALWAYS do their homework and determine the “true” value of your property. Thus, it doesn’t do any good to try to hide or overstate it - the lender will figure it out.

2) CHARACTER - Banks aren't able to look you in the eye and determine your character like in the old days of banking. That's why they had to develop complex credit and income formulas to determine your creditworthiness for a mortgage. Fortunately for hard money lenders, they *can* look you in the eye, talk to you on the phone, and get a good feel for whether you are a worthy borrower. So for hard money lenders, this is a *big* factor. Here are some questions the lender will ask about you:

- Does the borrower have experience investing in real estate or managing rental properties? Lenders are very cautious about high risk borrowers, such as a real estate investor seeking financing for their first rehab project.
- Does the borrower possess excellent communication skills? Lenders prefer to work with a borrower who is readily available and accessible. A lack of communication in initial loan negotiations represents a caution flag to lenders; if a borrower is not accessible initially, lenders see that as a potential for problems should the loan default.
- Is the borrower conscientious, reliable, and honorable?

The hard money lender will scrutinize each borrower, property and loan documentation thoroughly in an effort to ascertain that all information disclosed during the application process is legitimate. Therefore, be certain any documentation you provide the lender is accurate, professional, and presented to the lender in a timely, organized manner. Later, we will explain how to do this.

3) CAPACITY/EXIT STRATEGY - Your hard money lender will analyze your financial abilities to both make any anticipated loan payments and get

yourself out of the deal. For instance, if you have a poor credit score and limited income, yet you seek a loan you claim that you are going to “refinance” in 6 months, both your capacity and your exit strategy will be questioned.

Some of the questions you may be asked are:

- What is Your Exit Strategy?
- Will You Sell or Refinance?
- What is the Timeline for Your Project?
- Is This Project Realistic and Doable?
- What Is Your Repayment Plan For the Loan?
- Can You Verify Income, Available Cash, and Assets?

The goal of the hard money lender in asking these questions boils down to the following: The lender will want to know that you have the ability to exit the loan prior to approving the loan. This is absolutely critical to ensuring the loan is repaid on-time.

4) CREDIT -- A hard money lender will often review your credit history, including your current credit score, when assessing your loan request. If you have foreclosures, bankruptcies, liens, or collections, you will be asked to provide necessary background for those items. Your current and past reliability in loan repayment will be reviewed. Hard money lenders do not rely solely upon your credit history to determine your loan approval status, but it does help them to determine your ability to repay the loan and your credit worthiness.

INSIDER TIP #4

Credit isn't everything, but it tells a story. At HARD MONEY BANKERS, we realize that one reason you may need a hard money loan is because of credit issues. That is why it is not the most important underwriting criteria. But recognize that it will be used in understanding your character. For example, did you lose a job? Get a divorce? There's always a story behind a credit report and we want to hear it.

SEVEN STEPS TO GUARANTEED LOAN APPROVAL

Now that you have been introduced to hard money, what hard money lenders do, and how they will evaluate you and/or your property, let's take a look at the 7 KEY steps to guaranteed success in your loan approval process:

STEP 1 - Find the Right Project

When you meet with a hard money lender, you should have your project mapped out in full detail with profit forecasts. Acquiring real estate for profit is a business unto itself and beyond the scope of this report, so we won't go into detail on this aspect. What we will offer here is key advice to "Follow Your Formula." Hard money lenders want to see that you have a proven, repeatable formula, and that you follow that profitable formula, as that has proven over and over again to be the key to success in real estate. At HARD MONEY BANKERS, we have seen too many investors start down the road of farming one area of real estate and buying property in one way, then flipping to another way, then another way. This, unfortunately, often leads to failure in real estate investing because the investor never masters one method before moving on to the next. So make sure you "do what you do best, perfect it, and do it over and over again."

Real estate counselors and successful investors often use a rigid formula of “65% of ARV (after-repair-value) minus construction costs” to determine the price to pay for a piece of real estate. This is a good formula to utilize as a first step when considering a purchase. You should also realize what type of projects best fit your skills and knowledge; ground-up construction, single family homes, condos, city or suburb investing, light rehab, multi-unit. Knowing where to search for your preferred type of project is also essential: MLS real estate, Bank REO’s, short sales, estate sales, or other avenues should be researched and pursued.

In conclusion, before you start applying for hard money loans, make sure you know your individual success formula. Hard money lenders want to know what that is. And if you don’t have one, it may be a great idea to join an investor group, network and educate yourself, or even get a mentor who can help you develop your own profitable formula. In fact, if you need referrals to these types of organizations, your hard money lender will be happy to refer you to them.

STEP 2 - Executive Summary with Exit Strategy

When you approach a hard money lender with a project, it is crucial that you know your plan and are able to explain it concisely. A hard money lender will be further impressed by a short write-up, also known as an Executive Summary. An Executive Summary typically includes the amount of your loan request, the reason for your request, a timeline of the property or project including how much cash you’ve invested, the date it was acquired, and the cost. The Executive Summary does not need to be lengthy (in fact, if it’s too long, it most likely won’t get read), but it should be very detailed. Your exit

strategy is of vital importance because, as previously mentioned, most hard money lenders are not in the business of acquiring property, and they do not want to own your property. They expect performance and repayment according to the loan terms. If you need an example of a well-written Executive Summary, contact HARD MONEY BANKERS and we will gladly provide you one.

INSIDER TIP #5

As of 2009, the easiest and most successful exit strategy, and the one most successful investors are using, is the quick rehab and re-sale to a homeowner. Getting a refinance on an investor property is very difficult in today's banking environment, so if your exit strategy is to buy, hold and refinance, it will be viewed with great skepticism by the lender unless you have strong credit and financials.

Your proposed exit strategy should be "in line" with your credit, financials, etc. Make sure you clearly spell out to the lender whether you will be: 1) buying, rehabbing and reselling; 2) buying, holding and refinancing; 3) buying, holding and paying loan off through other resources (inheritance, other business venture, sale of other property, etc.)

STEP 3 - Full Loan Application

(Including Personal Financial Statement and Schedule of REO)

It is often assumed that hard money lenders look only at the property's value without assessing the borrower's personal financial situation. This may still be true with some hard money lenders, but most private lenders in today's environment, including HARD MONEY BANKERS, will review your financials. This is done to ensure that you have the capacity to repay the loan if you end up holding the property longer than expected and to help ensure the hard money lender does not end up owning your property. Your financial portfolio

should include any real estate owned, whether a primary residence, a rental property, commercial property, or undeveloped land. If you are experiencing a cash flow problem, you can offer another property as collateral (often termed “cross-collateral”). Providing a detailed and accurate summary of your financial status will improve your chances of successfully securing a hard money loan. If you require a loan application, you can utilize ours located at the bottom of the page on this link

<http://www.hardmoneybankers.com/loan-application>

STEP 4 - Comparable Sales and Pictures of Property

At HARD MONEY BANKERS, we believe there can never be enough pictures. Chances are you already have this information if you are analyzing numbers and considering purchasing a property, so why not send it to the lender? Some lenders, including HARD MONEY BANKERS, have MLS access and can acquire comparables in minutes. If your proposed ARV (after-repair-value) matches up with the lender’s, that makes a good impression. If the lender does not have MLS access and relies upon appraisals, pictures and comparable sales data, sending this info over will make the lender’s life that much easier. Today’s digital technology makes sending a picture of the property an easy task and can greatly expedite the loan approval process. Pictures provide a clear insight of the property, what work is required. And don’t forget to take pictures of the surrounding homes and neighborhood, as that will be very valuable to the lender in determining whether your property is located in a nice area with strong resale potential.

STEP 5 - Contractor Estimate and Scope of Work

Unless it's a "paint and carpet" type of rehab project, have your contractor look over the property and provide a detailed cost breakdown for rehab and repairs. Quite often these figures will differ substantially from your original estimate. It is to your advantage to have a firm estimate in hand before ratifying a contract with the seller. Provide the hard money lender with a draw schedule of projected work, as well as the cost and timeframe. And make sure that any estimates from a contractor are in writing. Also, make sure you are using licensed contractors and sub-contractors. If you don't, this could cause many different problems, and hard money lenders don't like problems.

If you need a good example of a draw schedule and scope of work form, contact HARD MONEY BANKERS and we would be happy to provide that to you.

You will also need to closely evaluate all the neighborhood properties to make sure that once the work is completed, your property will sell at or near the same price as you originally projected.

INSIDER TIP #6

Make certain all your projected improvements to the property are "on par" with the surrounding neighborhood. If your rehab is below par for the neighborhood, you may not be able to sell the property at the price you desire. If you over rehab, you will have wasted money on unnecessary and expensive materials.

STEP 6 - Bring Something of Value to the Table

You will not need all of these elements to get your loan approved, but you will most likely need one:

- Cash
- Cross Collateral
- Credit
- Experience (or Experienced Partner)

Cash - the old adage “money talks” applies here. If you own several liquid assets you are viewed as a low-risk borrower. Quite simply, it demonstrates to the hard money lender that you are a good saver, know how to manage money, and can afford the loan payments. It also demonstrates to the hard money lender that in the event something goes wrong costs, i.e., longer holding time on property, higher than expected construction costs, etc., you will be able to handle those problems and won’t end up in default. Make certain to include all your cash accounts on your loan application.

Cross-Collateral - as referenced previously, cross-collateral (meaning other real estate or collateral that has substantial equity), can sometimes take the place of your cash contribution. With sufficient cross-collateral, you may be able to leverage, or “buy into”, projects with no out-of-pocket cash. Remember to include any other real estate that you own on your loan application. Or if you have substantial equity in other assets (boats, planes, government bonds, etc.), you may be able to use those to replace cash.

Credit - most hard money lenders understand that credit is not the sum total of who you are, and don’t use this as a primary factor in deciding on loan approval, but it provides a moral compass for the lender. If you have an upstanding credit history, have always paid on time, and have always repaid your loans, this assures the lender that you are likely to honor any outstanding contracts with them as well. This is a crucial point for a lender

who wants high performing loans, and it can override other weaknesses, such as poor cash flow.

Experience (or Experienced Partner) - If you do not possess any of the elements above, then your strongest asset will be an experienced business partner who does. If you excel at finding profitable projects, you will find a good number of people who are willing to work with you. Ideally, if you excel at finding profitable projects and also possess the ability to oversee and complete the project, you will find it easy to secure a wealthy business partner. And that looks good to a hard money lender.

STEP 7 - Perform! Perform! Perform!

Performance reveals to the hard money lender how reliable you are. It is crucial that you are accessible and responsible. And performance does not just mean making payments once the loan is in place. Performance starts the minute you contact the lender and make application. The lender will make very fast judgments about your ability to repay the loan based upon simple things you do such as:

- Returning phone calls and emails promptly;
- Answering any and all questions of the hard money lender truthfully;
- Staying organized and providing all requested documentation and information to the lender quickly and in a very organized fashion.

Think about it this way: Hard money underwriters are people too. Who are they going to be more likely to deal with: people who don't answer their phones or people who do? If you are honest and open with your lender, help

the underwriter get through the application process quickly and in an organized fashion, and communicate effectively, your chances of success increase dramatically.

Once you have an active loan, it is absolutely critical that you finish your construction on time, make your monthly payments, and stay in close contact with your lender if you wish to have any other loans approved.

INSIDER TIP #7

Your relationships are everything! Whether it be with other investors, contractors or lenders, the key to success in real estate is to acquire and maintain long-term relationships with other people in the industry doing business. If you are known as a person of integrity and have a strong network of successful people on your team, your hard money lender will be asking to do business with you, not the other way around!

HARD MONEY BANKERS, LLC has a fully qualified staff of legal and finance experts. We are a full service hard money company, and work with both borrowers and capital investors to coordinate successful real estate transactions. We represent millions of dollars of private capital and provide turn-key solutions for our capital investors by providing them deal flow, underwriting, title work and closing, and loan documentation and servicing. Our mission is to simplify the hard money process for both the lender and the borrower and make the entire lending process as smooth and effortless as possible, while maintaining the highest levels of honesty and professionalism. Our loan and payment terms can be structured to allow for a broad range of flexibility. We do not subscribe to stringent lending guidelines as we believe each borrower and project is unique and, if structured properly, can prove prosperous for both parties.

If you should need assistance with a current project, or a future one, please feel free to contact us. We offer our knowledge and expertise, and together we can help you make your next real estate project a successful transaction.

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