By Joseph Hughis
Vice president
Riverdale Funding LLC

Venture Safely off the Traditional Path of Lending

Working with true, asset-based hard-money lenders can pay off handsomely

Your clients might not always qualify for a traditional commercial mortgage. Perhaps their credit is less than perfect. Maybe their job history had a few bumps. Or perhaps their finances aren't totally in order. Whatever the reason, traditional lenders have turned down your client.

As a broker, that spells a dead end for your business, right? Not necessarily. Although banks continue to keep a vice grip on their proverbial purse strings, alternative-financing solutions like hard-money loans have gained new prominence.

Brokers should proceed with caution, however. Not all hard-money lenders are created equal. Before exploring how to choose the right lender, here are a few basics for the uninitiated.

Basics

Hard-money loans are typically short-term bridge loans — practical financial tools that provide borrowers with the flexibility needed to move ahead with their projects. In contrast to standard mortgages, true hard-money loans are assessed by the lender solely on the value of the property, rather than the credit history or the financial holdings of the borrower.

As such, hard-money loans tend to have higher interest rates and lower, more conservative loan-to-value (LTV) ratios — typically about 65 percent. This allows the creditor to recoup its losses if the loan is defaulted upon, even if the property loses significant value.

Hard-money loans on commercial properties are used for a variety of purposes. For example, borrowers may use them in turnaround situations or for a quick injection of funds while building credit.

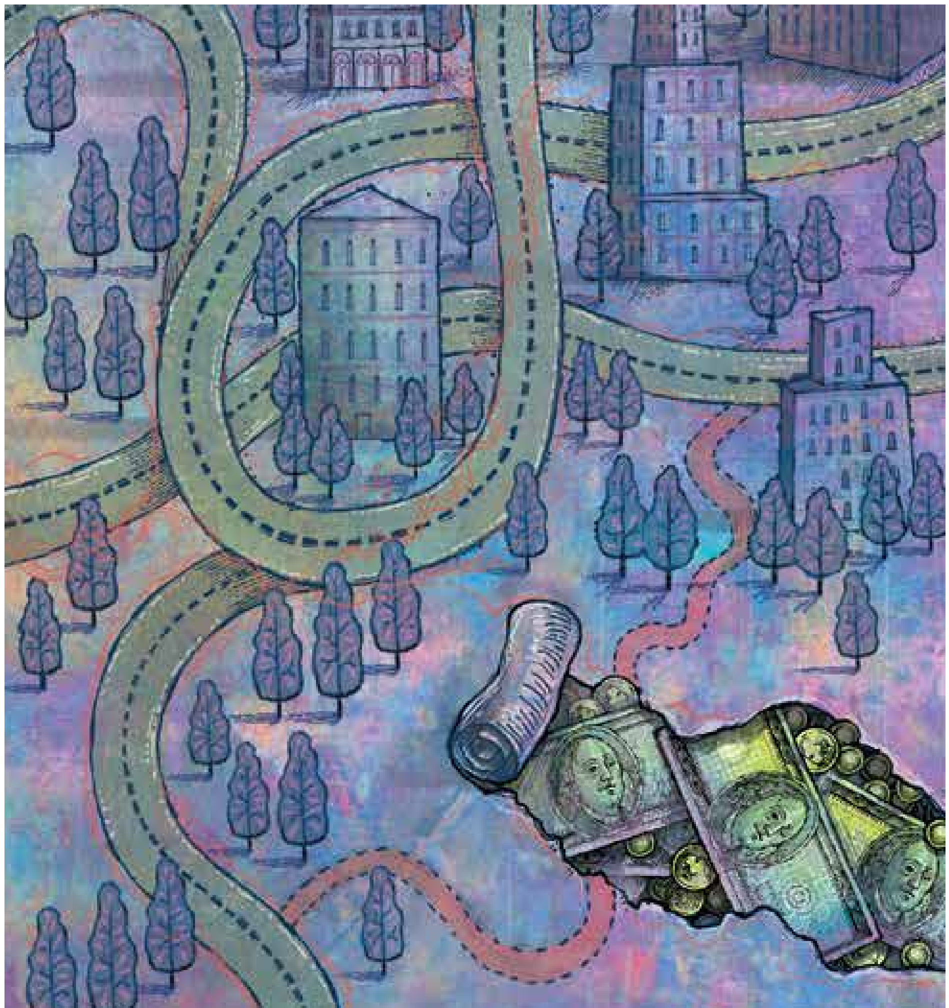

Illustration: Dennis Wunsch

Benefits

Borrowers who venture off the beaten path to hard-money loans — and the brokers who lead them there — will discover that asset-based financing offers a host of benefits.

- **Minimal paperwork:** Because equity-driven private lenders base hard-money

continued ››

Joseph Hughis is vice president of Riverdale Funding LLC, a commercial hard-money lender. As a privately funded hard-money lender, Riverdale Funding provides loans from $100,000 to $5 million and funds from its own portfolio, thereby significantly reducing red tape and overall closing period. For additional information or consultation, visit Riverdale Funding at riverdalefunding.com or call (800) 880-2957.

Reprinted from *Scotsman Guide* Commercial Edition and scotsmanguide.com, February 2014

‹‹ continued

loan approval on the value of the property and only minimally on credit, much less paperwork is required to close. Standard documents, such as an appraisal, title, and insurance paperwork, are required, but very little beyond that. If the lender requires more documentation, it can be a major red flag that it is not a true hard-money, asset-based lender.

- **Quick closings:** Because of the minimal paperwork involved, hard-money loans can close in an extremely rapid time frame, especially when compared to traditional mortgages. Rather than months, hard-money loans can be finalized within one to two weeks. This can be essential in cases where a client needs cash fast.
- **High approval rates:** As long as the property itself is in good condition, there's a good chance a client's application will be accepted. With true asset-based hard-money lenders, virtually all loans are approved because they depend solely on the value and condition of the real estate — regardless of the credit history or financial standing of the borrower.

Dangers

Brokers beware: Many organizations claim to be hard-money lenders, but in reality function as little more than glorified conventional lenders. Others act merely as middlemen, hoisting unnecessary arbitrage fees upon clients. And some even can be full-fledged scam artists.

Have no fear, though: There are several qualifications brokers can look for to eliminate the potential dangers and secure safe, attractive and worthwhile hard-money loans for clients.

1. **Asset-based lenders:** Many hard-money lenders claim their loans are totally asset-based, but they aren't. They still may ask for your client's credit history, financials, proof of employment and more — and approve or deny based on that criteria alone. Not only do these requirements delay the process, they go against the primary principle behind asset-based lending. A hard-money lender may use a borrower's credit history to set the interest rate, but will never use it to impact the approval of the loan itself. The decision on the approval should be based strictly on the value of the property.
2. **Direct lenders:** These lenders fund their own loans, rather than working as middlemen. Working with direct lenders translates typically into quick approvals, adjustment of the loans to meet the borrowers' needs and fast closings, because all the decisionmaking is done in-house.
3. **Minimal upfront fees:** Brokers should do their research: There are a few scam artists working in the hard-money space. A common scam is the so-called "fee collectors" trick. Here's their ploy: First, advertise too-good-to-be-true rates (e.g., extremely low interest, 100 percent LTV, etc.), then charge an unusually high upfront fee to investigate the loan. In reality, these scam artists usually pocket these fees without ever investigating, then will deny all borrowers. Upfront fees are a legitimate request from a credible hard-money lender, but be sure the lender is willing to issue a "commitment" — a contract between the lender and the borrower guaranteeing the latter the loan. Be wary of any lenders with suspiciously high fees that are not willing to issue commitments. As always, do your homework to find a trustworthy hard-money lender.

In addition, watch out for letters of intent (LOI); these mean nothing and are subject to change for no apparent reason. An LOI only means that the potential lender "intends" to do the loan, but makes no commitment to do so. Insist on lenders that are willing to issue actual commitments.

• • •

Ultimately, asset-based financing solutions like hard-money loans can be extremely beneficial for borrowers in need of alternative financing. By anticipating potential dangers and scams in the market and turning to direct, true asset-based lenders that charge minimal upfront fees, you can ensure your clients get the money they need quickly, without a lot of paperwork.