Title:
Everything About Private Money Loans

Word Count:
1319

Summary:
Private money is often misunderstood. Many industry professionals know very little about it, and fallacies and misconceptions tend to dominate the collective

wisdom.

Keywords:
Private money Loans, Private money, Real Estate, Loans, Hard Money, Private Lending

Article Body:
What is private money used for?
Private money is generally used as a bridge: a way to get from point A to point B. It is generally a short to medium term solution (1-6 years), and there is

nearly always an exit strategy going in. It is used for all types of real estate secured financing: commercial retail, restaurants, hotels/motels, marinas,

elder care facilities, industrial, agricultural, raw land, land development, construction, rehab, multi-family, single family homes, manufactured homes, and

floating homes. For a list of our loan programs. Some providers of these loans are www.rocklandcommercial.com, www.californiaprivatemoneyloan.com, and

www.interestratepolice.com

What are the interest rates?
Private money rates generally range from 10 to 15%. The rate is determined by looking at a combination of factors: (a) LTV ratio, (b) strength of borrower,

(c) condition/desirability of property, (d) actual cash-in or real equity contributed by borrower. Typically our rates fall in the 12-13% range. A list of

our loan guidelines may be found here.

What fees are involved?
Private lenders charge a loan fee generally equal to 5% of the gross amount of the loan. We also charge a doc prep fee ($500 or more, depending on the size

of the loan), a property inspection fee ($500 or more, depending on the location of the property), and a collection account setup fee which is based on the

size of the loan. There are no hidden junk fees.

Can the fees be paid from the proceeds of the loan?
Yes, if there is enough equity in the project. This is frequently the case.

Is there a pre-payment penalty?
Generally there is a 3-6 month minimum interest clause for our loans. With a 3 month minimum interest clause, for instance, it means that if a borrower

repays a loan in 3 months or more, there is no penalty. If the borrower repays the loan, for example in 2 months, then the borrower will have to pay an extra

month's interest out of escrow at closing.

Why would anyone pay those kinds of rates and fees for a loan?
There are many reasons whey a borrower would choose to use private money over a cheaper institutional option. For example, professional real estate investors

like to use private money when buying because they are able to make offers which are not constrained by long timelines and numerous rigid conditions. Often

times speed is a very significant factor in completing a profitable transaction and in those cases it often makes sense to pay for a short-term private money

option rather than loose the deal. Frequently the condition of a property won't allow for the initial financing with conventional money, and in those cases

private money may be used. Often the type of property is a factor: banks don't like lending on raw land and lots, but private money lenders are more inclined

to do so. Cash leverage is another factor. Fairfield Financial, for example, loans based on the true value of a property, not the purchase price, so

sometimes we lend 100% of the total acquisition cost for a property. The structure of the deal may be a factor. Most private money lenders allow the buyer to

establish their equity through the mechanism of a seller carry back; banks won't do this. The list goes on and on.

What is the most common use for private money?
Most common loans are probably construction, rehab, and land development loans. We have an entire FAQ devoted to these loans: see the Rehab and Construction

Loan FAQ.

How fast can private money loans close?
In a matter of one or two days, but more typically, you should figure on 1-2 weeks. (Keep in mind that it is only possible for the lender to move quickly if

the borrower, broker and other third parties are moving quickly as well.)

Is an appraisal required?
Some private money lenders require them. Evidence of value is a critical part of the private money loan process. However, it is in my opinion that a good set

of comps is just as effective in establishing value as a good appraisal. Many of our borrowers are professional investors, and i feel that they are qualified

to perform the value analysis. This allows us to streamline the process. However, it is important to note that putting together a god set of comps is hard

work.

As a mainstream mortgage broker, I don't see much of this type of thing. Why should I be interested in private money?
To be perfectly frank, it is my belief that mainstream mortgage brokers are being squeezed out of the industry. Lenders are ramping up their operations to

better provide online loan sourcing directly to borrowers. We saw a similar thing in the travel industry over the past years. The travel agents that have

survived, and even thrived, are the ones who effectively established niches within the industry. It is my belief that the same will be true for mortgage

brokers. Plain vanilla loans can be easily processed in an assembly line fashion which easily translates to the world of the novice and a web browser. Niche lending, on the other hand, tends to be a hand-crafting of sorts, and cannot be easily automated. Look at private money. There are no absolute rules. Many

factors must be considered in making a decision and frequently those factors are intangible. Ultimately a high degree of thought work and common sense is

involved. Private money will always be a people process. So if you tell me, "I am not interested in private money because I don't do unusual loans," I say to

you, "You might want to reconsider."

As a mortgage broker bringing A transaction, how do they get paid?
It is simple. The broker brings the lender a borrower. The lender prices the loan to them. (Think of yourself as a wholesale buyer.) You price the loan to

your client, adding your fees as appropriate. You stay involved in the loan (or not) as you choose, and prior to closing, you submit a fee demand to escrow

and receive a check directly from the title company.

How do I go about doing a private money loan? Go to one of these providers and call a representative: www.rocklandcommercial.com,

www.californiaprivatemoneyloan.com, and www.interestratepolice.com

There are basically four steps.

First, run the concept by them. You may call and discuss the loan with them, or you may e-mail a summary, or you may use our online loan submission engine,

which will walk you through the process. If they like the project concept and feel that the numbers are acceptable, they proceed to the next step.
They review a complete loan packet. They ask that this be sent via overnight mail or delivered to the office (fax copy is not acceptable).
If all this checks out, They ask the borrower for a deposit (generally $500). This should be in the form of a cashier's check or money order. They provide a

conditional loan commitment letter at this time.

If the property checks out, They draw up the documents and close the loan through escrow.

Is the deposit check refundable?
If they close the loan through escrow, the deposit is applied as a credit to the loan fees. If they don't close the loan because (a) the borrower does not or

cannot perform or (b) the project upon inspection is "significantly" different than as represented, They keep the deposit to reimburse us for our costs.

Otherwise, if they fails to perform for any reason, they return the deposit to the borrower.

What needs to be included in a private money loan package?
A private money loan packet is generally fairly straightforward. For a list of our packaging guidelines, please visit: www.rocklandcommercial.com,

www.californiaprivatemoneyloan.com, and www.interestratepolice.com

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