

ASK THE ADVISERS

The views and opinions expressed in "Ask the Advisers" are solely those of Keith Singer.



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Hard Money Lending

Hard money loans are loans secured by real estate that are made by individuals or companies that specialize in these types of loans. Because the underwriting of the borrowers is not as strict as with conventional bank lenders, the borrower will typically be required to put up more collateral, generally 40-50% of the appraised value. Hard money lenders typically charge higher interest rates (currently about 8-12%) than conventional lenders.

So why would a borrower willingly pay a higher rate and put up more collateral for their loan?

Occasionally borrowers need money quickly to meet deadlines and hard money loans can close much more quickly than conventional loans. Sometimes borrowers are unable to show sufficient historical income to qualify for a conventional loan. Other times the borrowers are in the business of buying a property, fixing the property, and selling it for a quick profit so the additional interest is inconsequential to them.

I have been working with a hard money lender who occasionally offers me loans to give to our advisory clients. His company recently made a \$900,000 3-year interest only loan with a balloon payment after 3 years to the owner of an income producing property that appraised at \$2.9 million. The lender offered me \$500,000 of the loan and 5 of our clients each invested \$100,000.

The loan will be serviced by the hard money lender who will collect the interest and pay my clients \$9000 per year of interest paid monthly. If the borrower defaults that could be beneficial for the investors as they will collect default rate interest of 18%. The servicer would foreclose on the property and offer it for auction on the courthouse steps.

If the property, which was appraised for \$2,900,000, sells for at least \$900,000 plus fees and costs the investors will receive all their investment back plus the additional interest. If you are not getting access to these types of secured loans and you want to receive a list of available loans as we get them text the word WEALTH to 954-462-3300.

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