

# Sterling & York, Ltd.

*Capital Funding Facilitators & Advisors*

3661 Willow Mill Drive, Lawrenceville, Georgia 30044

(770) 487-9639 \* Cell (404) 281-1320

[Brian@SterlingandYorkLtd.com](mailto:Brian@SterlingandYorkLtd.com)

[www.SterlingandYorkLtd.com](http://www.SterlingandYorkLtd.com)



Brian K. Childress, Esq.  
Executive Vice President



## Hard Money Lenders

So many first time investors are curious about **hard money lenders**. Who are they? What is it? How do I get some? Is it beneficial? Let me share with you some of the basic principals about hard money lenders. First of all, lets determine what the term "hard money" means. When money is discussed between investors, it is considered to either be "soft" or "hard". Typically soft money is easier to qualify for and the terms are flexible. Hard money, on the other hand, is just the opposite. It is much more restrictive. Not in that it's more difficult to obtain, but the terms are very specific and much more strict. They have to be, because most hard money comes from private individuals with a great deal of money on hand. This is why hard money is also referred to as "private money". The money used for investment purposes comes from people, just like you and I, not a typical lending institution. So their first priority is to protect their investment capital. This is why the terms have to be so strict. If it were your money, you would want the same.

So what are some of the terms of "hard money lenders"? Obviously it varies from lender to lender. It used to be that hard money lenders would lend solely based upon the deal or property at hand. They would only lend up to a certain percentage of the fair market value of the property, that way in the event of default, the **hard money lender** would profit handsomely if they had to foreclose or sell to an end buyer. Now, you will find that many hard money lenders, if they want to stay in business, require more than just equity to qualify. This is because the laws now are favorable for consumers. Consumer protection laws, time consuming and expensive court procedures, and so on have forced some hard money lenders to become even harsher when applying for a loan.

It is good to know what the terms are when dealing with a **hard money lender** so you can find the one that will fit your needs. Here are some of the terms you can expect to see. Typically they will only loan you up to 70% ARV (after repaired value). This means that a hard money lender can loan you up to 70% of what the home is worth in repaired condition. So if you find a home worth \$45,000 in the condition it's in, and needs \$20,000 in repair work, and after it is repaired the current fair market value is worth \$100,000, then typically they can lend you up to \$70,000, which would cover the cost of the house and the repairs.

Other terms you can expect are high interest rates. Interest rates vary from 12% - 20% annually and terms can last for 6 months to a few years. Many times these rates vary depending on your credit score and experience. In most cases, there will be closing costs or fees to use hard money. Typically hard money lenders will charge anywhere from 2-10 points just to use their money. One point equals one percent of the mortgage amount. So charging 1 point on a \$100,000 loan would be \$1000. These are all important things to consider when choosing a hard money lender.

Other things to consider are how quickly funds will be available. Many times, when you find investment properties, you need to move quickly. Your ability to get access to money quickly can make all the difference. It's important to begin relationships with potential hard money lenders as quickly as possible. You also need to be aware of pre-payment penalties. Pre-payment penalties can really hurt your deal and cut into your profits substantially. Try to avoid pre-payment penalties.

Many **hard money lenders** today will also require you to fill out a credit application that may ask you for W-2's and or tax returns, your most recent pay stubs, and bank statements. Again, it's all about protecting their assets. Yet, some like the old fashion way where they only care about the deal so they do a drive by or physically look at the property. Again it all depends on whom you deal with.

When should you use a hard money lender? Hard money is great for beginning investors who may not have money or for those who have bad credit and cannot qualify. Investors also use hard money when they need to purchase quickly. Typical soft money or conventional loans take 30 days or more. Sometimes that is too long. Using a **hard money lender** is also a creative way to finance a property. Most like to call it "Nothing Down". If you can borrow enough money to buy the property, fix it up and then sell it under market value for a profit, then you've just made money without any of your own money. Sure it will cost you money to borrow that money, but the rewards outweigh the expense.

Now that you know a little more about hard money and how it works, you can make an educated decision if you want to go this route.