Hard Money Loans

Hard Money loans are not just for people with bad credit or no credit. They are also for people without ample assets for a down-payment on a house, not enough verifiable income, debt ratios that don't conform to the best loan requirements, insufficient cash reserves, people who need cash fast for an emergency, and many other reasons. Hard money loans are rarely offered by banks, big national mortgage companies, securities companies, or pensions. A hard money loan is a specific type of asset-based loan financing through which a borrower receives funds secured by real property. Hard money loans are typically issued by private investors or specialty companies.

From Wikipedia: Most hard money loans are used for projects lasting from a few months to a few years. Hard money is similar to a bridge loan, which usually has similar criteria for lending as well as cost to the borrowers. The primary difference is that a bridge loan often refers to a commercial property or investment property that may be in transition and does not yet qualify for traditional financing, whereas hard money often refers to not only an asset-based loan with a high interest rate, but possibly a distressed financial situation, such as arrears on the existing mortgage, or where bankruptcy and foreclosure proceedings are occurring.

The loan amount the hard money lender is able to lend is determined by the ratio of loan amount divided by the value of property. This is known as the loan to value (LTV). Many hard money lenders will lend up to 65–75% of the current value of the property. "Hard money" is a term that is used almost exclusively in the United States and Canada where these types of loans are most common. In commercial real estate, hard money developed as an alternative "last resort" for property owners seeking capital against the value of their holdings. The industry began in the late 1950s when the credit industry in the U.S. underwent drastic changes.

From inception, the hard money field has always been formally unregulated by state or federal laws, although some restrictions on interest rates (usury laws) by state governments restrict the rates of hard money such that operations in several states, including Tennessee and Arkansas are virtually untenable for lending firms.

The hard money loan mortgage market has greatly expanded since the 2009 mortgage crisis with the passing of the Dodd Frank Act. The reason for this expansion is primarily due to the strict regulation put on banks and lenders in the mortgage qualification process. The Dodd Frank and Truth in Lending Act set forth Federal guidelines requiring mortgage originators, lenders, and mortgage brokers to evaluate the borrower's ability to repay the loan on primary residences or face huge fines for noncompliance. Therefore, hard money lenders only lend on business purpose or commercial loans in order to avoid the risk of the loan falling within Dodd Frank, TILA, and HOEPA guidelines.

Because the primary basis for making a hard money loan is the liquidation value of the collateral backing the note, hard money lenders will always want to determine the LTV (loan to value) prior to making any extension of financing. A hard money lender determines the value of the property through a BPO (broker price opinion) or an independent appraisal done by a licensed appraiser in the state in which the property is located.

The interest rates on hard money loans are typically higher than the rates charged for traditional business loans. The interest rates could range from 10% to 18%. Despite this, such loan options are popular for their fast approvals, higher flexibility, less tedious documentation procedures and, at times, the only option for securing funds. End Wikipedia content.

Reasons to use Hard Money:

1. Need fast funds for a medical emergency.
2. Need to borrow funds for no more than 12 months.
3. Need cash to augment a short-term construction project.
4. Down-payment on new home while existing home is being sold.
5. You can loan the money out for more than the interest you'd pay on it.
6. Your house is being sold and you're moving into an old people's home.
7. You've got a sure thing on a horse running in the 5th race at Belmont.
8. You need to repay a loan to a guy from the Bronx named Guido.
9. You don't have a problem paying 18% interest with 5 points up front.

Here are some informative websites about Hard Money loans:

https://www.thebalance.com/hard-money-basics-315413

https://retipster.com/hard-money-101-everything-need-know-getting-started-hard-money-loans/

https://www.biggerpockets.com/renewsblog/2006/12/08/what-does-everyone-mean-by-hard-money/