Hard Money Loans…

The Key to Building Your Real Estate Portfolio

Before explaining what a Hard Money Loan is, you might wonder who provides this type of loan. It's quite easy, a Hard Money Lender supplies funding for investors looking to purchase real estate and complete improvements to the property. Now, to your surprise, "Hard Money" does not mean it is hard to find or borrow. In reality, Hard Money Loans are one of the easiest forms of money to have access to. We will outline what a Hard Money Loan is and what a borrower should know when going through the process of buying a property utilizing a Hard Money Loan.

A Hard Money Loan is a loan based on valued assets. A Hard Money Loan is financed and ultimately funded to a borrower that is in need of purchasing a property that needs to be fixed or repaired. This concept might make some of you question using a conventional loan instead, which presumably offers a lower interest rate than a Hard Money Loan. However, conventional loans are provided by banks and banks typically do not consider lending a substantial amount of funds to borrowers interested in purchasing a distressed property, which needs repairs and fixes. Conventional loans are based on the actual value of a property at the time the loan is determined, either by going off the contract price or the appraiser's evaluation. Hence, banks find it more speculative and perceive a higher risk in issuing these conventional loans when regarding value of a distressed property. On the other hand, Hard Money Loans are based on the After-Repair Value, or ARV for short. The ARV is self-explanatory, it's just the estimated future value of the property after the repairs have been made. Normally, the ARV will be evaluated and calculated by the appraiser. That is therefore, typically, the purpose of why Hard Money Lenders and Hard Money Loans exist.

A bank may often lend to a borrower about 80% of the actual value of the property, while a Hard Money Lender will lend about 75% of the After-Repair Value of the property. To make it clearer, picture this common example of having a property that has a sale price of $50,000 and an After-Repair Value of $100,000.

- The conventional loan would only provide **$40,000** (80% of *sale price*) in helping you acquire the property.
- The Hard Money Loan would provide **$75,000** (75% of *ARV*) in helping you acquire the property.

Looking at the numbers, there is a significant difference in the resulting amounts of cash required to close between the conventional loan and the Hard Money Loan.

In conclusion, a borrower's best bet is to close with a Hard Money Loan when purchasing a distressed property to maximize the amount of cash on hand. Then, the borrower would want to be done repairing and fixing the property ideally within 3 months to seek refinancing its loan status. If you're wondering what refinancing is, it essentially means your Hard Money Loan will be substituted by a conventional loan after you have repaired and fixed the purchased property in order to attain a lower interest rate. That is why borrowers benefit in repairing the house as soon as possible. To sum up, these arranged procedures are executed through a title company to assist both the borrower and lender.