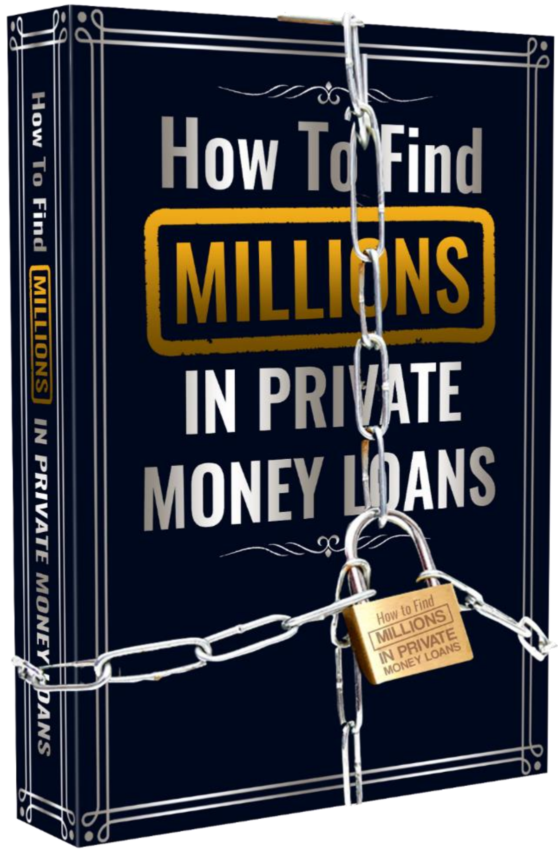

This book is a perfect complement to the 21 real estate incomes sources waiting for you inside my "Real Estate Income Stacking Handbook"…
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(Funding sources below…simply scroll down :-)

Hey Mark Walters… it's very nice to meet you!

For a quick intro… my grandfather started investing in real estate in 1937 during the Great Depression – he taught that skill to my father who taught it to me. My family's been sharing real estate strategies with good people like you since 1985.

I'm grateful to be a 3rd generation real estate investor…

…and happy to be able to share this report with you on how to find money for your real estate deals.

One of the biggest concerns I hear from subscribers is how to get money for their potential deals. I say potential because I believe this holds many people back from really starting to invest in real estate.

That means the life changing aspects of real estate investing are never realized because of this HUGE mental hurdle that keeps good people from getting in the game.

That all ends right now. I'm about to share many different ways that you can be finding cash for deals – along with some other creative strategies.

Due to SEC regulations on how investors can go about finding private lenders, it has gotten more challenging to lawfully find money for real estate deals these days.

There are some firms that have actually done much of the challenging work of finding private money for real estate investors like YOU. **Below are sources <u>available for a limited time</u> that have money you can use for real estate… With these scenarios in mind, below are AFFILIATE LINKS. If you buy something through them, I WILL BE PAID A COMMISSION. There's no extra cost to you, just wanted you to know and to stay FTC compliant. The links below are geared especially for investors and business owners.**

QUICK RESOURCES

►► GET UP TO $600K INVESTOR LOAN, 0% INTEREST, $0 DOWN, NO CREDIT CHECK: https://creatingwealthclub.com/funding-solution

►► GET 100% EQUITY, PRE-PROBATE DEALS: https://creatingwealthclub.com/pre-probate

►► GET MONTHLY "TAX YIELD" PAYOUTS: https://creatingwealthclub.com/tax-yields

►► GET 5,000 FREE PROPERTY LEADS: https://www.batchleads.io/otis

►► GET A FREE REAL ESTATE WEBSITE SET-UP: https://creatingwealthclub.com/website-set-up

Okay now that you how access to all kinds of good resources -

Let’s talk more about some of the different types of funding sources out there that real estate investors have to choose from…

Hard Money Loans Explained

There seems to be some confusion surrounding exactly what's meant by *hard money loans*. Let's clear that up right here at the top.

A hard money loan is a specific type of asset-based loan financing in which a borrower receives funds based on the value of a parcel of real estate.

Hard money loans are cash loans and typically offered at interest rates much higher than conventional commercial or residential property loans. Hard money loans are almost never issued by a commercial bank or other deposit institution.

These are high risk loans made to borrowers who don't fit traditional lending guidelines and regulations. Hard money lenders will lend to people with terrible credit and to homeowners who have a substantial amount of equity in their homes.

Usually 30-40 percent equity is required for a hard money loan, although some lenders may require less. Some lenders will even accept other assets such as stocks and bonds as collateral for the loan.

Hard money loans usually will have unfavorable terms, high rates and high closing costs, but they can still be very advantageous for many homeowners or investors who have no other options.

A hard money loan is a non-institutional loan made by a private lender or private fund that typically lasts anywhere from 2 to 18 months and carries a higher APR (Annual Percentage Rate) than a traditional loan. Hard money loans carry a heavier burden and interest rate for the borrower for the simple reason that they also pose higher risk for the lender.

The basic idea of hard money lending is that private individuals who have money to invest choose to loan that money, generally on transactions secured by real estate, with the desire to receive an above average return on their investment.

Hard money loan guidelines and typical transactions include:

▪ $30,000 to $10,000,000 per loan.

▪ Up to 70% loan-to-value improved-marketable structures.

▪ Residential and Commercial property acquisition, construction, refinancing, and cash out.

▪ Debt Consolidation, bankruptcy and foreclosure bailouts, and "Fresh Start" loans are common.

▪ Loans on commercial buildings, vacant land, and other properties.

Individuals vs. Institutions

Some private investors go on to form a corporate entity and utilize lines of credit as a source for the funds that they loan. This is where definitions get a little hazy because some private investors may begin to look like financial institutions.

Perhaps more important as a defining characteristic of private money is the process and criteria by which the money is allocated to loans. Private money is quite different than institutional money in the following ways:

- With private money lenders, there is generally greater flexibility with regard to the types of loans and circumstances under which money will be lent.

- The strength of the collateral is generally more important to hard money lenders than the qualifications of the borrower (though both are always considered).
- It is generally possible to place hard money loans very quickly. Income verification is rarely required, and appraisals are often not required.

- Hard money loans tend to be more expensive than institutional loans.
- The loans tend to be of shorter duration (5 years maximum in most cases).

For the purpose of this guide we will consider it a “hard money” loan whether it comes from a private lender or some sort of finance company.

Private money borrowers are, most often, solid individuals or businesses that have circumstances or opportunities that do not fit well into the rigid structures of institutional lending, and require speed or flexibility unavailable through more conventional means.

Real Estate

Hard money is generally used by real estate investors who are buying properties that they intend to renovate and either resell or hold and rent. Hard money loans are a good option for borrowers with:

- An extremely low credit score
- Only plan on holding a property for a short time
- Need purchase and rehab money in one loan
- Need fast cash

High Cost Loans

Hard money loans need to be high risk and therefore high cost loans, with average interest rates often in the range of 13% to 24%. Most are short term loans (6 months on average) and are structured so that the borrower is only making interest payments during the course of the loan, with the whole principle amount due at the end of the term.

Credit Scores can be as low as 550 for the few lenders that consider credit.

Hard money can be a good alternative for borrowers who need short term money, but don't fit "cookie cutter" financing. However before entering into a hard money loan, the borrower needs to have the entire purchase planned out, including a solid exit strategy for the loan.

Hard Money Loans are for people with little or no credit and little or no money. They carry high interest rates and heavy risk. But sometimes you just don't have a choice. It may make sense to pay those high rates than to lose a profitable deal.

Some say a downside to hard money loans is that lenders don't report them to credit bureaus. Your timely payments won't show up on your credit report, and therefore you won't be building positive credit. Most investors are more interested in building wealth than a credit score.

Less Paperwork

The term "Hard Money Loan" as it is referred to in the real estate lending world is a type of non-bankable loan. Usually this means a loan where the lender can approve the loan request based upon the value of the assets and the equity in the assets. That allows all parties to side step much of the usual time spent consuming documentation and verification that a lender might require to lend the same amount of money under conventional terms.

Typically hard money loans are made at 50-70% of a property's value. Since hard money loans are asset based, hard money lenders generally tend to take a conservative approach on the valuation of a property.

Hard money loans can be a last chance to obtain a loan when a traditional lender will not provide one. With today's secondary market for sub-prime loans dwindling, many consumers who normally could have obtained sub-prime financing are turning to hard money lenders. Savvy real estate investors have used them for decades.

Property Value

A hard money borrower receives funds, based on the value of a specific parcel of real estate, that are almost never issued by a commercial bank or other deposit institution.

y lender’s guidelines that we found policy at the time this way, "We sed value for a property, not the ıard money lenders.

realized in one year (our standard) 120 day) value – their standard.

It can lower your appraised value by as much as 25% to 35%.

As an example, 65% of $1,000,000 ($1,000,000 x 65% = $650,000) using a fair appraisal with one year marketing time is more than 75% of the “quick sale value” of the same property which might be $700,000 (75% x $700,000 = $525,000). Be aware of this issue when seeking loans."

The loan may be based on the **"quick-sale value"** of the property against which the loan is made. Some lenders will only fund in the 1st-lien position, meaning that in the event of a default, they are the first creditor to receive remuneration. Occasionally, lenders will subordinate to another 1st lien position loan; these loans are sometimes known as mezzanine loans or second lien position loans.
Loan guidelines change as the market changes so please view the above

as merely an example of different lending criteria as you begin to shop around.

Loan To Value (LTV)

Most hard money lenders structure loans based on a percentage of the quick-sale value of the subject property. This is called the Loan-to-Value or LTV ratio and typically falls between 60-70% of the value of the property. For the purposes of determining an LTV, the word "value" is defined as 'today's purchase price'.

This is the amount that a lender could reasonably expect to realize from the sale of the property in the event that the loan defaults and the property must be sold in a 1-4 month time period. This 'value' differs from an MAI appraised value.

Below is an example of how a commercial real estate purchase might be structured by a hard money lender:

65% Hard Money Loan
20% Borrower equity (cash or additional collateralized real estate)
15% Seller carry back loan or other subordinated (mezzanine) loan

Hard money is a term that is used almost exclusively in the United States and Canada where these types of loans are most common.

The hard money industry suffered severe setbacks during the real estate crashes of earlier decades due to lenders overestimating and funding properties at well over market value. Since that time, lower LTV rates have been the norm for hard money lenders seeking to protect themselves against the market's volatility.

Unregulated

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. These restrictions for several states have greatly affected such lending.

Thanks to freedom from regulation, the hard money lending industry operates with particular speed and responsiveness, making it an attractive option for those seeking quick funding.

However, this has also created a highly predatory lending environment where many companies refer loans to one another (brokering), increasing the price and loan points with each referral. This is sometimes referred to as “daisy chaining”.

Up Front Fees

There is also great concern about the practices of some lending companies in the industry who require up-front payments to investigate loans and refuse to lend on virtually all properties while keeping this fee. Borrowers are advised not to work with hard money lenders who require exorbitant up-front fees prior to funding in order to reduce this risk.

Before you apply for a hard money loan, consider applying with a subprime mortgage lender first for lower rates and fees. Hard money lenders charge excessive fees to high-risk borrowers, but will only lend 50% to 75% of the value of the property. On the other hand, subprime lenders offer loans to similar high-risk groups, but with better terms.

Lower Rates

Subprime lenders specialize in B, C, and D class loans. Even with a bankruptcy in your financial records, you can potentially still be approved for a mortgage with a subprime lender. To protect themselves from the higher risk of foreclosure, subprime lenders charge more through additional fees, points, and interest.

B credit borrowers will have 1 or 2 late mortgage payments in the past 12 months, of which several are 30-day late payments, and very few are 60-day late payments. No collections or charge-offs. LTV's for B credit ratings go no higher than 80% to 95%.

C credit borrowers will usually have collections or charge-offs on their credit report. Their LTV usually drops to 70% and interest rates start to rise drastically. These borrowers should not have more than 3 or 4 late mortgage payments, of which there are certainly not more than a few 90-day late payments.

D credit borrowers usually have a recent bankruptcy or foreclosure. Loans which apply to D credit borrowers are usually used to re-establish mortgage credit with the intention of a speedy repay and a refinancing. LTVs are normally no higher than 60 to 65%.

Hard money loans that are funded by private individuals require high interest rates somewhere between 12% to 18% or above. Depending on market lending condition and rates, this might be nearly double what a reputable subprime lender would typically charge. You can also expect to pay higher fees up-front with hard money lenders.

Reasonable Terms

Subprime lenders offer mortgage loans similar to that of traditional mortgage lenders. You can expect regular payments and terms, such as no pre-payment penalty fees.

However, hard money lenders may require a balloon payment in one to two years or other difficult terms. Hard money lenders also require that the borrower provide as much as 50% of the property's value as a down payment. This will ensure that in case of foreclosure there will be enough equity in the property to guarantee a profit for the lender.

Refinancing Option

Subprime lenders also offer refinancing, unlike hard money lenders.

Check to see what amount of time must pass of regular payments being made before subprime lenders will offer refinancing - so you can consider reducing your mortgage interest rate or tap into equity.

Hard money lenders are interested in high profits, so they will only deal with high interest rates and terms profitable to them.

With that said, we're all aware that because of the subprime mortgage mess in the past, subprime loans can become scarce.

History has shown that lenders revert back to offering these types of loans as time passes.

Reasons for Hard Money Loans

Hard money loans have their place in the financing world. Primarily used for property speculation and development, hard money loans can make sense for short-term borrowing. They can also be successfully used for purchasing non-traditional properties such as ranches, where the property value is not realized by a traditional bank.

There are many reasons for seeking private financing. Just to name a few:

- You have bad credit, minimal credit, or NO credit - Credit Impacted: low credit scores (below 500 FICO), no credit score, poor, damaged, bad, bruised, impaired or less-than-perfect credit, limited or non-existent credit, Late Payments, Slow Pays, Consumer Credit Counseling, Collections, Charge-Offs, Repossessions, Judgments.

- Tax Liens, Bankruptcy, Notice of Default, and Foreclosure. (Note: tax liens, current bankruptcy, judgments, clouds on title, etc., may require resolution prior to or at closing); Sufficient equity and the ability to repay the loan are generally more important than your personal credit;

- Loss of bank loans, for any reason, including, Turn-downs, declines and excessive conditions;

- You have a Loan (a borrower and / or a property) that falls outside the guidelines of traditional financial institutions and sub-prime lenders such as:

▪ Complete workouts to pay off heirs and partners of probate estates

▪ Estate and/or Property held in Probate (Trusts, Family Limited Partnerships

▪ Irrevocable Trusts, corporations, etc.)

▪ Current Notice of Default/Sale

▪ Distressed Property Purchase

▪ Property in Receivership

▪ Remove an existing NOD

▪ Tax Liens/Judgments, Other Liens (HOA, property taxes, etc.)

▪ Foreclosure Bailout

▪ Receivership

- Bankruptcy
- Cash-out Refinance
- Divorce
- Medical Emergency
- Investor Rehab and Flip

With "private lenders" the hard assets are the key.

Buying Foreclosures

Hard money loans are used with great success by those investing in foreclosure properties. They can provide the funds to buy during the preforeclosure period, and once the property becomes bank owned. During those periods in the foreclosure process the investor may often have time to inspect and value the property, and then meet with the private lender to arrange for the needed funds.

The advantages to buying properties from homeowners in default can only be measured by the individual investor. Some do not see enough reward; some think it's too risky, while others are plagued by moral issues.

Are you helping the troubled homeowner or taking advantage of their misfortune? Both the original lender and the homeowner lose in a foreclosure action. Neither wants it to happen. Both parties are motivated to resolve the situation. Motivated parties are the key to the process.

When you listen to the motivated home seller and find out what their biggest concern and goal for the property is, you can begin offering solutions that are mutually beneficial. In this way you approach from the position of being a helper. The timing is good too because they *really need help*, that's why they're motivated.

State Foreclosure Law

The amount of time the window remains open depends solely on state and local laws, as well as the behavior of the property owner. Some states sell properties within 90-120 days from the first notice of default – others take longer.

As for the moral question, keep in mind that by dealing with a homeowner in default, you not only help them, you generally rescue the loan and maintain the value of the property (and surrounding properties) as well.

If there’s enough equity in the property, there’s the potential to work out an arrangement that satisfies all parties and allows for a handsome profit. That's what pre-foreclosure investing is all about:

Investors follow these basic guidelines to help with a successful purchase and sale:

- Locate loans in default
- Evaluate choices and narrow selections
- Contact homeowner
- Inspect property and loan documents
- Determine homeowner's needs
- Calculate your selling price and profits
- Potentially negotiate with lender, owner and lien holders
- Close the deal, repair as necessary and sell

Locating Loans in Default

The Lis Pendens or NOD (Notice of Default) is the first public notice (document) that announces a loan in default, so it makes sense to start there. Access these notices at the county courthouse, newspapers that routinely advertise these notices or through a reputable Foreclosure Service Provider.

Evaluate Selections & Determine Potential

You know the default amount from the legal notices or service provider's information. Now you must estimate the property's market value. Subtract the default amount from the estimated market value to determine the gross equity in the property.

This figure also reflects your gross profit potential. If there is little or no difference in the amount of debt and the market value, move on to another property. If there is a big difference, there may be enough equity in the property to make a sizeable profit.

Contact the Homeowner

Not as easy as it sounds. The homeowner is probably being bombarded with letters and calls from attorneys and bill collectors and possibly even has creditors showing up at their door. The only way to contact the homeowner is by phone, mail or in person, and chances are you'll have a difficult time getting in touch with them.

Consider starting with mailings. Indicate in your letter that you are a private investor looking for property in that part of town. Let the property owner know that you may be able to help them with their house challenges.

Demonstrating an understanding for the homeowner's dilemma may help your efforts.

Be professional and gracious in your correspondence. Invite the homeowner to call you or visit your website at their convenience.

If you don't hear from them in a reasonable amount of time, say two weeks, follow up with another letter, perhaps worded a bit more urgently.

After they've visited your website above, and left all the details of their situation on the page, follow up with a phone call. Be courteous, never pushy.

When setting up an appointment to meet the homeowner at the house, make sure they understand that the meeting will be more productive and less time consuming if they have the loan, mortgage and insurance documents available, as well as any foreclosure notices.

If you're going to make an offer on the property, you must have the loan, ownership, and debt or lien information. You must also assess the condition of the property and the property owner. Combined with the market value and the default amount, you have many of the ingredients necessary to formulate your offer.

Meeting the Homeowner

Use common sense and dress appropriately, something casual but not sloppy. Be sympathetic. Does the homeowner need cash? Are they waiting for a bailout?

Will they go bankrupt? Find out. Review the loan and mortgage documents. Verify the loan amount, monthly payments, interest rates, taxes, etc. Review the insurance policies as well. Get all the pertinent information you can. Ask the owner if there are any other liens or judgments they may be aware of.

Inspect the property with the homeowner. Never comment on the owner's lifestyle, just the physical condition of the property. Point out the obvious defects or items in need of major repair. Use an inspection checklist and record your information and estimated costs of repair.

Preparing Your Offer

Determine the net equity in the property. This is the difference between the market value and the default amount plus liens and repair amounts. Negotiate with a subordinate lien holder when appropriate. You may consider offering to satisfy the lien for 20% of the amount? Chances are the lien holder will lose everything when the property sells at auction. Buying out the lien puts more equity in the property and more money in your pocket.

Remember to include closing costs in your calculations for the purchase and sale if you intend to flip the property. Also include the carrying costs, the mortgage payments, taxes, and insurance while you hold, repair, and then resell. Also include a seller's commission if you use a broker.

Include the cost of the hard money loan as you calculate every legitimate expense associated with buying, repairing, carrying and selling the property.

If a large enough figure remains, you may have a nice deal. This bottom line figure has to pay the homeowner for their property and produce a profit for you.

How much do you offer the homeowner? It depends on your negotiation skills and willingness to get the best possible deal.

Depending on the deal and amount of equity, some investors itemize every expense, show their calculations to the owner and offer to split the profits. Some itemize the expenses and pay the owner a percentage of the remainder on the bottom line. Others show the expenses, anchor the problems they represent for the homeowner, and then try to get the property for the lowest possible price.

The investor then earns their profits by the reduction in lien amounts as negotiated, savings in repairs by doing them themselves, negotiating a lower seller's commission, or selling the property themselves. Others still make offers based on the bottom line, and negotiate from there.

Investors turn to hard money when:

- A short-term loan is needed to build, rehab, or remodel real estate or make improvements to raw land prior to selling the property or refinancing into long-term permanent financing (note- hard money loans used for these purposes require a future value appraisal and construction documentation for approval);

- Property has characteristics making it difficult to obtain a bank loan, including but not limited to:

▪ Partially or nearly completed construction of building
▪ Property improvements – Rehab
▪ High Vacancy - Loan is needed to increase occupancy of income property
▪ Earthquake retrofitting;

- Quick funding for time sensitive loans; Once the investor has built a relationship with a private lender it may become possible to have the lender ready with the cash needed to buy at foreclosure auctions. This works best when the investor has one to three days to produce the money after placing the winning bid.

Quick Payoff

Investors will want to pay off hard money loans within a year or two, or sooner depending on the terms. Typically, you don't want to hold a hard money loan for a period of years. Most hard money loans will balloon in 1-2 years so make sure you plan ahead when using hard money to finance your purchase.

Hard money loan interest rates are dependent upon the real estate market and the money supply of hard money credit. Borrowers who default on hard money loans can be charged a significantly higher rate known as the "Default Rate".

Cross-Collateralization

In many cases a hard money lender will offer a smaller loan size based upon a lower "Loan to Value Ratio". This means they may opt to loan no more than 65% of the property value.

Therefore it’s not uncommon for real estate investors to offer additional real estate as collateral in order to obtain a larger loan amount. This is known as cross-collateralization.

Cross-collateralization is a term used when the collateral for one loan is also used as collateral for another loan. A real estate investor may need a hard money loan to buy a property, but their lender will not loan enough to make the deal work until the investor offers an additional lien on another property they own.

That increases the security of the loan to the lender's comfort level and they may increase the amount of the loan.

No Down with Hard Money

It’s popular among professional real estate investors to buy wholesale properties using hard money to purchase and rehab.

When the rehab is completed - you'll want to get a new loan with better terms that pays off the hard money loan – or sell the property quickly and realize your potential profit.

If you refinance, you may choose to take cash out of the property.

You may have to bring some money to closing on the hard money loan, but you'll hopefully get it all back when you refinance or sell, so you end up with no money out of pocket in the end.

This becomes not only a "no down payment" deal, but also a "cash back at closing" deal.

Here's a hypothetical example:

Purchase price $100,000

Repairs $15,000

Hard money loan $115,000

Purchase and repair - then get new loan to pay off hard money.
New loan is based on 90% of After Repair Value.

For our example, the ARV is $150,000 (ARV = After Repair Value)

90% of $150,000 is $135,000.
New loan for $135,000.
Subtract hard money loan pay off of $115,000 leaves $20,000.

You keep the extra $20,000 in cash, tax free since it's a loan, rent your house out and let the tenant pay the loan back.

Your gross profit is $20,000 cash and $15,000 equity. Total gross profit $35,000. Not too bad for a couple months work.

100% Financing Effects

We've all been aware of the effects of 100% LTV loans (and higher) in past years. Unfortunately, many banks and lenders had been very irresponsible in how they lend money and we've all seen the ill effects of these policies.

What many people don't understand is that *hard money lenders* typically are MORE conservative when underwriting a loan. Why is this? Simple, private money lenders need to make sure that the collateral is good so if they have to foreclose, they are secure and can sell the property in a timely manner.

Most banks use a property valuation that estimates a 6 month to 1 year market time for selling a property; a private equity lender has to sell the property in 90 days or less typically.

How does all of this relate to 100% financing? Simple, 100% financing does not exist in the traditional hard money world.

You need some money in the game. Yes, you as the borrower need to have a significant amount of cash at risk in the deal. Why? Simple, the lender needs to know that you're not going to walk away from the deal if there are problems.

Some lenders say that something like 80% of the people seeking a loan can't understand why they have to have cash in the deal. Lenders need to see that borrowers are willing to back up claims that they have a profitable deal. The best way to do that is by putting your own dollars into the deal.

If you're willing to do that then put a good information package together.

Include just how much money you're looking for, how the funds will be used and some information on your exit strategy. An exit strategy is what you plan on doing with the property – flip, hold, trade, etc. This will set you apart from the crowd and increase your chance of getting the loan.

ARV Rehab Loans

Hard money lenders get a lot of calls each day from people looking for ARV or As Repaired Value rehab loans. What most people seeking these loans don't understand is that just because they're dealing with a private money lender, they don't get money just by asking for it.

Often times the call goes like this:

Caller: Hi, I need a hard money loan for a property I'm buying from the bank.

Lender: We can help you with that. Can you tell me a little more about the deal, what's the purchase price, loan needed, rehab funds needed, etc.?

Caller: Well, I'm buying it from the bank and it's worth $750,000, but I'm able to buy it for $500,000. So, I need a loan for $500,000 to buy the property and then another $100,000 or so to rehab it.

Lender: Okay, what kind of money are you putting into the deal?

Caller: None, I need a hard money loan for the whole purchase price. But, the property is worth $750,000.

Let's stop the call example right here. This is where most people lose contact with reality. First, just about every lender I know is going to want the borrower to have some money in the game.

You need to have some cash in the deal if you expect to get a hard money loan. Yes, you believe that the property is worth $750,000 fixed up or even more than you're paying for it.

Without something to keep the borrower honest and tied to the property (aka: cash into the deal), lenders won't even talk about the deal. Using a private investor or hard money lender to obtain funds doesn't mean that you simply ask for the money, tell the lender that you're getting a smoking deal, and then they cut you a check.

There is still work involved, due diligence that needs to take place and parameters to follow.

So, how do you get an ARV rehab loan? Here are a few parameters to follow:

- Do you have cash into the deal?

- Are you purchasing the property for 65% (or so) of the future appraised value?

You can expect to potentially get this amount of dollars from a private lender on an ARV deal. So, you either need to get close to this number or come in with more cash to cover the rest.

That is most of it. Those two items are the most crucial. If you have deals that meet these two parameters, then you're more likely to get the funds you need to purchase as well as do the rehab work necessary to complete the project.

The Purchase Offer

Once you've done your due diligence and know the market value (ARV) and the estimated cost of repairs for a property, you can plug those numbers into a simple formula. The Maximum Allowable Offer (MAO) is ARV x 70% less repairs.

MAO = ARV x 70% - Repairs

Never pay MOA…and don't name the price first. Ask the seller, "If I were to pay all cash and close quickly, what's the least you could accept?" No matter what the answer, Follow-Up with "Is that the best you can do?"

If the seller's asking price is less than MAO and the deal looks good, then get the house under contract. Remember, MAO applies to all cash offers - generally "ugly houses" in need of repair.

Loan Process

The complete loan process from open to close of a private investor transaction is much faster and efficient than the traditional loan process. Following is a typical time-frame and process of this type of loan transaction.

Time Process

Day 1 Review of initial Loan Summary - if ok then...

Day 2 Review of standard loan application, credit report, and comparable sales information of property - if ok then...

Day 3 Private investor to drive-by property or appraisal (subject to private investor) - if ok then...

Day 4 Draw loan documents and signing - if ok then...

Day 5 Fund loan and prepare for recording.

Day 6 Record loan and close escrow.

Documentation Required

Following is a list of documentation often required in order to complete transactions - this list may vary case by case.

Standard Loan Application
Credit Report
Color Photos of subject property

Title / Prelim Report*
Escrow / Closing Attorney

Expensive Loans

First time hard money borrowers are often startled by the fees. Whether you go to a private lender or a broker expect to pay anywhere between 2 points and as many as 10 points in fees for a hard money loan depending on the market and situation.

You can expect an interest rate in the range of 9% and as high as 24% depending on the lender and the terms. The more complex the loan the higher the interest rate you can expect. Just remember the good old golden rule –

"Those with Gold make the Rules."

Attractive conventional loans from traditional lenders can be a challenge to qualify for – you must have good credit, often a nice down payment, and reserves in the bank.

If you don't qualify for a high LTV loan, a traditional lender will only loan you a portion of the purchase price. Even with equity in the property they'll often want you to put some of your own money into the purchase.

For example: You qualify for 80% LTV and the purchase price of the property is $80,000. Even if the property is worth $100,000 the bank would limit your loan to $64,000 (80% of $80,000). In order to get the $80,000 from the bank you would need to buy for $100,000, and put $20,000 of your own cash down.

Some hard money lenders may give you 100% of the Purchase Price but not 100% of the Value of the property.

Most hard money lenders have a ceiling of 70%-75% of the current value of the property or of the A.R.V. They want you to leave equity in the property. This is their protection in case of default. It will be a property they can sell quickly because of the equity.

Private loans are based primarily on the value of a piece of property, and the borrower's ability to repay the loan. These loans are considered to be bridge loans or temporary loans with terms of 6 months to 30 years, and are typically paid in Interest-Only payments, although amortized loans can be arranged.

In the event of an interest-only scenario, no principal is paid during the payment term, and a balloon payment for the borrowed principal is required at the end of the loan term. This is typically done through traditional refinancing of your property, or through new creative financing.

The following are two hypothetical examples of the type of costs that are often associated with a private loan:

Example 1:

$50,000 Second Mortgage: Interest Rate: 12-15%

Combined Loan-to-Value (total amount borrowed against property vs. verifiable value of property) will not exceed 70-75%.

Costs of Loan:
$7500.00 minimum Loan arrangement fee
$1595.00 processing & underwriting
$ 1350.00 escrow & appraisal costs

Example 2:

$300,000 First Mortgage: Interest Rate: 10-13% (Higher for construction or commercial)

Loan-to-Value (total amount borrowed against property vs. verifiable value of property) will not exceed 70-75%.

Costs of Loan:
$15000.00 Loan arrangement fee (5 pts.)
$ 1595.00 processing & underwriting
$ 3500.00 escrow & appraisal costs

The trick is to buy property below market value - hard money lenders like good deals.

Now all of the above may seem like negatives, but in the right situation the benefits of hard money can often outweigh the drawbacks.

This brings us to...

How to Use Hard Money

Here are some potential hard money situations to consider:

1) You need to move on a deal and close fast. Conventional financing with the rate rollercoaster, paper work requirements, underwriting guide lines, etc. can sometimes take a little while longer than you have to close; 30 to 90 days... or more. If you have a hot deal you can use hard money and close in as little as 2 days.

2) You want to purchase multiple properties over time. A traditional lender will want you to complete the entire process for each loan. On the other hand, after you've established a good payment record with a hard money lender, you may not need to submit applications for future loans.

3) You have a property that needs rehab or renovation. Hard money and rehab properties (fix and flips) go hand in hand. This is one of the best scenarios for hard money.

Here's how a hypothetical fix and flip scenario using hard money might play out:

Bob finds a house that needs some cosmetic repairs and possibly a new roof. The owner is selling it for less than fair market value to get rid of it at a current price of $200,000.00.

Bob determines the repairs needed and prices them out. After negotiating with contractors the cost to repair the house completely including a new roof is $35,000.00. Bob currently has $20,000.00 to put into repairs.

He wants to buy the property but conventional banks will not give him a loan for the purchase due to the condition. He knows that once he fixes the house, based on current similar homes in the same neighborhood, the home would sell for roughly $350,000.00.

In order to make $100,000.00 off of the property, he decides he needs a loan for $235,000.00 from a hard money lender. Since the property will be worth $350,000.00 after repairs, Bob can use the future repaired value to obtain a loan for 65% of $350,000.00, totaling $227,500.00.

Gary is a private money lender that specializes in financing people like Bob. Gary agrees to loan Bob the $227,500.00 for 6 months to a year with interest only payments and a small loan fee.

Now Bob has the money to purchase and rehabilitate the property and Gary is receiving interest only payments from Bob for 6 months to a year.

In the end, Bob was able to sell the home quickly for $320,000.00, Gary was then paid back the full amount of the loan at the time of the sale and Bob walked away with a nice profit.

Gary now stands ready to make another loan to Bob when he finds another property.

4) Most conventional lenders will only lend on properties in move-in condition, and you must complete any needed renovation or repairs. You must qualify for 100% financing if you want to get more than a portion of the acquisition costs. So if you are investing in properties to flip or wholesale, and they need repairs or renovations, then you need hard money.

5) Hard money lenders are lending on the current value or ARV. You can usually include renovation costs in the loan amount as long as the total costs don't exceed the lender's limit.

Most lend 50%-70% of the property's value. Let's say you have a property under contract for $50,000 and it needs $20,000 in rehab to get it into move-in condition and has an ARV of $100,000.

You can go to a hard money lender and get a loan of $70,000 ($50,000 + $20,000) or 70% of the ARV, which is 100% of the acquisition costs - meaning you've just completed a no money down deal.

It's a Matter of Equity

Hard Money/Bad credit home loans are a good fit for most anyone who has the equity to secure a loan but not the credit score to convince a bank to give them a loan. For these people, you may need to go with a private lender for a 12 to 18 month period.

In all cases, the general qualifying process is the same: the private lender uses real estate as collateral.

The real estate is reviewed to determine whether it holds sufficient value for the investor/lender to be willing to take the risk of making a loan based on this collateral.

The borrower's financial state and future potential is reviewed to determine the risk factors present. And finally, an exit strategy is reviewed to determine whether the loan will be completed satisfactorily within a given time frame. Depending on the results of this due diligence process, the private lender determines whether - and at what rates and terms - to fund the loan and how the loan should be structured…

- Balloon Payment Due; Refinance your initial balloon loan into a more traditional loan structure, on or near the date the balloon payment becomes due;

- You are a Foreign National with no long-term U.S. employment or other assets;

- Note Hypothecations (Loans secured by Assignment of Note(s) & Deed(s) of Trust);

These types of loans are referred to by many different names, such as, private money, private equity, equity, equity only, equity-based, equity-driven, or asset based.

- You need a cash equity loan with less than perfect credit and have a 1st mortgage with a negative amortization feature — with the right amount of equity after the required adjustment for the potential negative amortization you may qualify for a 2nd mortgage hard money loan;

- You want to remain anonymous. A borrower/investor may not want the transaction on their credit report or the mortgage in their name. Unlike most conventional financing, hard money lenders do not report to credit agencies and allow title to be held by an entity or Trust;

- You want to maintain your privacy. Sometimes individuals prefer to arrange private financing for reasons of privacy. For example, some people would prefer to buy a recreational property with private funds vs. institutional financing. They simply do not want their financial institution to know about all of their financial dealings.

- Creative transactions such as: interest only payments, partial deed release, and participations are usually considered.

Your Friend The Hard Money Lender

Having a hard money lender on your side when you're purchasing investment property can help you become more profitable. You'll be able to take advantage of opportunities as they become available.

Have you ever found a property with great equity and wished you could submit an offer immediately, knowing you could close within ten days? Being pre-approved with a hard money lender would help you to do this.

To be able to make multiple offers on many distressed properties listed with real estate agents, you will need a "Prequalification Letter" to submit along with your offers, particularly if the properties are REO properties (foreclosed properties owned by banks or mortgage companies).

Once you have been pre-qualified by your lender for a hard money loan, your offer will carry more weight.

The agent and the mortgage company will take you more seriously knowing that you can actually close on the property. Agents who deal in foreclosed properties will come to recognize you as a player in the real estate investment game, and possibly call you with deals others won't even know about.

Lower Offers

You can now make lower offers with some assurance that more of them will be accepted. You'll also be more confident that you can close and either rehab or wholesale the property.

What about when you sell properties to other investors? Will you need a hard money lender then? The answer on some deals may be yes.

Many prospective buyers for your wholesale properties won't be able to pay all cash, even though they sometimes claim they can. Most can't write you a check from their checking account and will have to borrow their funds.

In cases like this you may need to take control and lead them to the money.

Hard Money Lenders are a great resource for real estate investors, whether you're a beginner or a seasoned pro. Having a hard money lender working with you enables you to confidently make offers you could not ordinarily make. Hard Money enables you to carry through on your offers when they are accepted, and hopefully provides you with the funds you'll need to rehab the project if required, depending on the situation.

Broker or Direct Lender

Hard money lenders may be direct hard money lenders or hard money brokers. Most hard money lenders are, in actuality brokers. Some hard money lenders are both brokers and direct lenders.

In these cases, the hard money lender generally funds one or up to a few small loans per year and serves in the broker capacity to clients for the balance of loans.

Choosing whether to work with a hard money broker or a hard money lender is much like selecting whether to purchase real estate with the assistance of a real estate agent or whether to make an offer directly to the seller on your own.

Direct Lender

The advantages of working directly with a true hard money lender are immediately evident: you save money by going direct. Brokers are paid for their services via a percentage of the points you pay on a hard money loan.

Therefore, the more brokers involved in a deal, the more you're likely to pay in both points and percentage to accommodate that cost.

If you've selected a direct hard money lender who is a good match for your project, you'll be able to speak directly with the decision makers, avoiding the 'run around' that so many hard money borrowers fall prey to.

You hear that your loan is going through, only to be told the next day that lender #1 backed out and now your loan is on another desk in yet another direct lender's office. Even worse, your loan is on the desk of another broker who may know a broker who knows a lender who may want to fund your loan. Sometimes, the choice of direct lender is based more on the commission the broker will get than on your best interests.

By working with a direct hard money lender, you can avoid the 'run-around' and may be able to close more rapidly. After all, no one knows your situation like you do, no one can explain any extenuating circumstances better than you can, and no one is as committed to your business and your hard money loan as you are.

A Broker

A well-informed, honest broker will have the knowledge of and access to many of the direct hard money lenders in the US and will know where your loan has the best fit. A good broker will help you 'package' your loan to your best advantage, sharing information with you that will help you determine how much to expect based on the equity in your property, type of property you are collateralizing, the speed with which you need to close, and more.

A good broker will be able to help you complete the lengthy application and 'float' it to the best direct lenders for your situation. This may save you time and trouble in the long run and be well worth the 2-3% fee.

In the end, your choice to work with a hard money broker or directly with a hard money lender will depend on whether you have access to a direct hard money lender and whether you're prepared to discuss your project directly with the decision makers.

Finance Most Property

Most conventional lenders lend on either commercial or residential - if you find the right hard money lender, you can finance most property types with one lender.

Notice! You must have a well-defined exit strategy. Are you going to sell, trade, refinance, etc.? Hard money loans don't have long terms, but they do have high rates. They're like hot potatoes. Hold them too long and you will get burned.

If you have land without buildings on it, you need a hard money loan from a direct lender who funds land - look for this in the lending criteria of the hard money lenders you review.

If you need more than 65% of the purchase price of a property because you're going to rehab it, look for direct rehab lenders. Generally speaking, hard money lenders will lend up to 65% LTV.

If you qualify, rehab lenders can lend up to about 70% of the after-fix-up appraisal of the property. This will hopefully give you enough to buy the property, fix it and sell it, if you can move quickly.

Hard vs. Private Money

Broken down into its simplest form the main difference between hard money and private money is with private money you decide the terms, within reason. With hard money from a finance type of company the lender decides the terms of use.

Now this very basic difference has a lot of impact on your real estate investing business. One type of money is not necessarily better than the other, but you should factor in the difference.

Where does the money come from?

With either type of loan you're going to receive money from an outside investor. The investors know that real estate will offer a high return, so they are inclined to give you some dollar amount in exchange for a percentage of return.

Terms of Use?

Private Money - The terms of use with private money tend to favor that of the real estate investor. Why? Because you as the investor can set terms that fit the deal.

You ask the investor for $ X amount of money and in exchange they will be paid X% return. You can structure this so they receive a monthly return exactly like any lending institution structures a basic mortgage or you may want to give a higher percentage and pay the investor in one lump sum at the close of the deal.

You decide where to spend the money, when to spend the money, and how to spend the money. Some advise that you have your business set up so that a third party holds the money until you're ready for it. It could be an attorney… yours or the private lender's.

Always seek the advice of a good attorney before doing anything like this and what's covered in this guide.

The best part about using private money is you determine what's done with the money, because you're the real estate investor. You're the one with the skill and experience to make the deal work and potentially produce a profit for both of you.

The private money investor is not usually a partner looking over your shoulder. In fact, you may not even allow the private money investor to look at the deal. They're not real estate investors. It's likely that they won't understand many of the deal's subtle details.

Explain the Investment

Once you've connected with a private lender within the guidelines allowed by the SEC (such guidelines are not covered in this guide) – consider this…

Explain your deals are secured by real estate and usually don't exceed 75% loan-to-value (LTV) of the after repaired value of the home (if that's the case).

All you require is that they approve quickly (within 48 hours), and can fund within 7-10 days or less.

Once they've approved the investment, the funds are wired to the closing attorney to be held in escrow.

After the closing, the lender will receive such things as a Promissory Note from you (either personally, from your business entity, or both), a Deed to Secure Debt (mortgage) on the property, lenders' title insurance, and listed as a mortgagee on the hazard insurance policy.

(Consult your attorney for advice setting this up properly and lawfully.)

Hard Money - With hard money the lender has the power. The hard money lender lays down the terms of the deal. Everything from the percentage of return they'll expect to the type of deal you can do with the money.

If the lender wants you to do a rehab and then flip the house, that's exactly what you'll have to do. There's nothing wrong with this type of borrowing if you're confident that you'll be able to meet the terms of the loan.

Hard money does have its advantages and can be more useful depending on the deal. When working with a hard money lender it's always important that you have a signed agreement. The agreement can prevent the lender from stealing your deal.

Why Private Money?

When you're looking for a way to increase the number of real estate deals you're able to do, private lenders should be at the top of your list. Here's why...

1. Never miss a great deal again. Having ready access to a large supply of private money for real estate investing means that when that "once in a lifetime" deal comes along you'll be ready to move on it. You won't have to wait for conventional loan approvals and qualifications, and stand by while some other investor snaps up your great deal.

2. Eliminate the hassles and paperwork of borrowing. If you've ever gotten a conventional mortgage loan, you know what a mountain of paperwork is involved, not to mention all the jumping through hoops. When you use private money for real estate investing, much of that paperwork and hassle is done away with.

3. Maximize your borrowing potential. Because private loans aren't listed on your credit report, private money for real estate investing doesn't impact your credit rating or debt-to-income ratio. Your borrowing potential won't be limited by your income or credit score, so you should be able to do more and bigger deals if you so desire.

4. Keep your valuable credit free and available for other uses. When you need a loan for a car, boat, or anything else, your credit will be available. When you use private money for real estate investing, it doesn't show up on your credit report, so it doesn't impact your borrowing power in other areas. It's your credit, why tie it up in your real estate investments?

Nothing Attracts Deals Like CASH!

Having a reliable supply of private cash for real estate investing gives you two things you need to be successful - confidence and flexibility. Let me explain…

First, imagine that your real estate investing marketing is working like it should and you're getting calls from highly motivated home sellers anxious to get out from under their home loan payments.

Further, let's assume you're already in the middle of a deal or two, and you have, say, a quarter of a million dollars tied up for the next few months.

You get a call from Mr. Motivated who has already moved and is paying two monthly house payments. His vacant house, valued conservatively at $190,000, is costing him a cool $1200 each month…and he hasn't lived in it for 6 months.

He's willing – even anxious - to let it go, if you'll just cash him out of his mortgage to the tune of $132,000.

Unfortunately, your marginal credit rating won't permit another loan, your cash is tapped, and your house is already mortgaged to the hilt for those other deals you've got working.

How much confidence do you have on the phone with Mr. Motivated? My guess is maybe not much. But how much *could you have* if you knew you had access to a half million or so in private money for real estate investing?

Now when you get his call, instead of trying to make some impossible "no cash needed deal", you simply tell Mr. Motivated, "I'll be right over!". In a short amount of time you might have another good property under contract.

You have the confidence to do this because you know you have the access to cash to make the deal happen.

What about flexibility? How does private money for real estate investing give you that?

The answer is in the options private money gives you. Let’s face it, the number one stress inducer in real estate, other than tenants, is obtaining financing and working with lenders who require a lot of paperwork and hoop jumping.

Once you have access to private money for real estate investing, there are no more hits on your credit report, and nobody sees a list of your debts.

GLOSSARY of LOAN TERMS

The Players: In any loan transaction there are at least two parties. A “Borrower” applies for a loan. If determined eligible, a “Lender” provides a loan. There are many types of Lenders including banks, savings and loans, nonprofit organizations, public agencies and more. In some cases, a third party, the “Guarantor” will also be included in the transaction (see Guarantee).

Amortization: The period of time on which the repayment of loan principal and interest is based. Sometimes loans may have different amortization schedules and terms.

There are three basic ways to repay a loan: (a) in equal installments, each containing a blend of principal and interest; (b) in varying but regular payments which result from paying off principal plus interest on the amount actually borrowed; and (c) in very irregular principal payments often incorporating a larger final payment (see Balloon Payment).

Balloon Payment: The final payment of a loan that has a longer amortization period than term. For example, if a monthly payment is based on a period of 10 years, but the actual term is 5 years, a large payment (roughly half of the loan amount) is due with the final payment at the end of 5 years.

Bridge Loan: Short-term loan made in anticipation of long-term funding or financing.

Building and Real Estate Costs:

a. Soft Costs – Expenses, other than hard costs, incurred in developing a real estate project, including legal and lending fees, architectural and design fees, permits, etc.

b. Hard Costs – The direct costs to construct a building or structure, otherwise known as “bricks and mortar” costs, including acquisition of property, construction, equipment, etc.

c. Hidden Costs – Less visible costs associated with the facilities development process, such as staff and board time and attention.

d. Contingency Costs – A portion of the construction costs set aside to cover unexpected “hard” costs.

Building Reserve: A capital improvement reserve fund. Money set aside to pay for facilities upkeep: where the amounts can be large, the ultimate need a certainty, but where the exact timing is uncertain. These are often big-ticket items, like replacing the roof, which are difficult to accommodate in a single year’s budget.

Collateral: The property a borrower pledges to a Lender to secure repayment of the loan. Collateral could include: a lien on your house, equipment from your business, or a bank account. If the borrower defaults, the lender has the legal right to seize the collateral and sell it to pay off the loan.

Debt: Money, goods or services that one party is obligated to pay another in accordance with an expressed or implied agreement.

Debt Service Coverage or Debt Coverage Ratio: A calculation a Lender uses to determine ability to repay a loan. This calculation is typically expressed as a ratio.

Most Lenders have minimum debt service coverage requirements ranging from 1.05: 1.00 (i.e. the net income must be projected to be 5% in excess of the loan payment) to 1.25: 1.00 (i.e. the net income must be projected to be 25% in excess of the loan payment). DSC or DCR = Net Income (after all expenses excluding debt service) = 1.10 : 1.00 Total Loan Payment

Default: Failure to pay a debt or meet an obligation.

Equity: Represents the difference between an asset's market value and the amount of debt or other liabilities.

Fees: Charges by a Lender for making the loan. Fees can include a range of costs.

Forgivable loan: A loan made with the understanding that if the borrower meets certain requirements, repayment of the loan will not be required.

Guarantee: A promise by one party to pay a debt or perform an obligation contracted by another if the original party fails to pay or perform according to a contract. Loan guarantee or loan insurance programs are designed to make certain loans less risky for lenders, such as loans for community economic development projects and for small businesses like child care.

Interest: The cost of using loaned money, usually expressed as an annual percentage rate that a lender charges a borrower for the use of the principal over time.

Interest Rate: The amount a Lender will charge for the use of their funds. Interest rates vary greatly from loan to loan and are frequently tied to industry measures such as Prime Rate. For example, if Prime Rate is 4.75%, then a "Prime Plus Two Percent" rate would mean a loan with a 6.75% interest rate.

Leasehold Improvements: Renovations to leased space to suit the renter's needs. These may be paid for either by the landlord or the tenant.

Lien: A claim a Lender may place on property in return for making a loan. If a borrower is unable to make loan payments as agreed, it gives the Lender the right to try and collect repayment of the loan through selling the borrower's property. If the lien is placed on real property such as a house, this lien is often referred to as a "Mortgage" or a "Trust Deed."

Line of Credit: A set amount of money available for the Borrower to borrow as needed. The borrowed amounts are then paid back in installments determined by the Lender. A line of credit is distinct from a loan because after the money is paid back a borrower can access it and use it again, which makes it similar to a credit card.

Loan: Transaction wherein a Lender allows a Borrower the use of a sum of money for a specified period of time at a specified rate of interest.

Loan Amount: The amount of a loan is determined by how much the Borrower needs to complete the project and the Lender's assessment of the Borrower's ability to repay. Some Lenders may have minimum and maximum loan amounts.

Loan-to-Value Ratio (LTV): The ratio of money a Lender is willing to loan relative to the appraised value of the property or other security.

Mortgage: Security instrument by which the Borrower (mortgagor) gives the Lender (mortgagee) a lien on property as security for the repayment of a loan.

Operating Reserves: Funds set aside annually to be used to offset possible operating losses due to unexpectedly low revenues or unusually high expenses.

Points: An up-front fee a Lender may charge for a loan, expressed as a percentage of the loan amount. "One point" equals one percentage of the loan amount. Thus, one point on a $10,000 loan is $100 ($10,000 X .01).

Prime Rate: The rate, as announced from time to time by commercial banks, as the prime rate. (See Interest Rate).

Principal: The original amount of money borrowed, and the amount that the Borrower must pay back, not including interest.

Term: The agreed upon period of time for which a loan is made. A loan provided for 10 years has “a 10 year term.”

I hope this book helps you with your real estate investing efforts!

This is just the beginning of our journey together.

For more helpful resources…

Visit my website RealEstateIncomeStacking.com

Remember, whatever you’re trying to accomplish I know YOU can do it!

Mark Walters
3rd generation real estate investor

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