

Opening a Door for Hard Money

When clients need immediate funds, hard-money lenders could be a place to turn

By **Marc Porter**, founder and CEO, Porter Capital Corp.

WHEN YOUR CLIENTS NEED immediate cash, a hard-money loan may be their best option. This nontraditional, nonconforming financing comes in the form of an asset- and equity-based, short-term loan.

Hard money can be used not only for real estate financing but also for other types of projects or problem-solving. Assets are used as collateral in exchange for immediate funding. Further, hard money has a place and a distinct purpose regardless of economic conditions.

Because these are nonconforming loans, interest rates for hard-money loans are independent of the federal bank rates. Rather, they depend more on current market conditions, the availability of hard-money credit from investors and the default rate.

As expected, interest rates and points on these loans often are higher than traditional bank funding because of hard-money loans' higher risk factor. But because banks have tightened their lending practices and qualifications considerably, commercial bank loans now are often much costlier and more difficult to acquire — leading numerous loan scenarios back to hard money.

Look at the situation

Private commercial lenders provide hard-money loans to clients who need temporary solutions. This often gives borrowers more time to sell or acquire a piece of property or to improve cash flow. Hard-money loans also may be a good solution when commercial borrowers are in a financial pinch because a property is incomplete or not marketable because of permitting delays or economic conditions.

One advantage of hard-money loans is that they are not based on income or credit score.



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Instead, they are based on the value of the holdings.

A hard-money loan may be appropriate:

- **For business acquisitions or mergers;**

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- **To take advantage of a bargain-priced commercial property**, where purchasing and financing is needed immediately;

- **When borrowers need capital to satisfy taxes**, to make business changes to comply with new governmental regulations or to pay fees levied by governmental agencies;

- **To stabilize a company facing a temporary cash crunch** because of unforeseen market or economic conditions;

- **To solve fiscal pressures immediately to sustain the business** until they can find a permanent solution;

- **To fend off a business buyout or hostile takeover;**

- **When bank financing is no longer available because of credit problems;**

- **To save a commercial property from foreclosure;** and

- **To manage debt and appease creditors during a bankruptcy restructure.**

Create a plan

When seeking a hard-money lender for your clients, gather essential information first. This will make due diligence easier on the lender. It

also helps show the lender that your borrowers are responsible business-owners with long- and short-term plans and a thorough understanding of their business, their fiscal situation and their need. Furthermore, it likely will expedite the process.

Help your client create a brief document that highlights:

- **The situation:** Briefly describe the problem. What were things like before the problem; how did the problem arise; and why is your client requesting a hard-money loan? Has your client attempted other types of financing? If so, what kind of financing, from whom and what were the results? Be honest and reveal as much information as possible.

- **The request:** Specify the loan amount needed and how the money will be used. Provide a financial statement to demonstrate your client's understanding of operating income, expenses, debt, assets, liabilities, liens, reasonable funding solutions and fiscal management to recover from this temporary setback. Prepare a personal financial statement, as well.

- **Property and asset description:** List the inventory and assets for your client or your client's company. Describe the property — including square footage, units, property enhancements or amenities. Include the appraised or estimated value based on comparables and photos.

- **Historical data/equity in the client's business:** Provide a history of the business, including when it was founded, the purchase price and how it was funded. Disclose how much the owner has invested and the equity the owner has in the company. List current investors, the board of directors, the management team and the number of employees.

- **Repayment/restructure plan:** What is the borrower's plan to pay down the loan? Can the borrower make monthly payments? Can the property produce income? What loan term is requested? Remember, these are short-term loans and are usually made for two years or less.

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Disclose the exit strategy: Will the borrower sell the business or property or refinance?

Find a reputable lender

There are a few ways to determine if you've found a reputable commercial hard-money lender.

First, look at the fees. Some lenders require hefty upfront fees to "investigate" or search for loans that best fit your client's needs. That's a red flag. These lenders will come up dry nearly every time and pocket the fee.

Reputable commercial lenders will charge a reasonable administrative and processing fee — and only after both parties agree that it is a good fit and that a financial solution exists. Also look for hidden fees. Lenders should readily disclose all their fees, which should be few and reasonable.

In addition, reputable companies will offer various financing options to structure a funding solution that best meets the client's needs. If a lender seems to be pushing or overselling a particular product, consider seeking a second opinion. Your objective should be to find a loan that is in your client's best interests.

Finally, you should expect good customer service from a hard-money lender. This means timely responses, direct answers, full disclosure, and no runaround or evasiveness. Most quality companies will assign a customer representative who will work with you and your client from the time of application to the close and funding of the loan. 