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Mortgage advice: Hard money, bridge loans and asset lending

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There is nothing new about "high coupon"/ short term lending.

Presently the current recessionary economic environment - and stricter underwriting guidelines from traditional lenders - have created significant "market inefficiency".

Traditional lenders (banks and life cos.) require that all three legs of a loan (credit; income; and liquidity) be near perfect. However, not every good real estate deal has the luxury of time to wait-out a prolonged decision-making process. Furthermore, not every good real estate opportunity has three perfect legs.

Traditional lenders answer to boards of directors, credit committees, the Security Exchange Commission, and stockholders. Often times the newer and more stringent underwriting guidelines can be met, but the process is very time consuming.

The prolonged "approval process" of traditional lenders has created many opportunities to the high-coupon/ short term real estate lender. These lenders seek safety, security, and a position of relative liquidity. High coupon/short term real estate lending achieves all of the aforementioned, and returns a very appealing annual dividend.

When "opportunity knocks," if you do not have the three perfect legs of a traditional loan then you must have an answer quickly, decisively, and with the comfort of "certainty of execution."

Projects are "wide-ranging" in terms of scale and scope. Project types include: Raw land, permitted land, subdivision infrastructure financing, condo conversions, rehabs, auction purchases, bank foreclosures, and bridge acquisition financing, among others.

Each deal has a unique story and borrower must tell that story effectively and compellingly to the lender.

Usually, in a very short period of time the lender can determine if a particular deal meets his/her investment criteria.

The fundamental question to be resolved is: Will the property value improve with funding so that the lender will be able to achieve repayment within the prescribed period of time?

The loan is meant purely as a bridge to more traditional financing or to stabilize the property which will facilitate a sale. Borrowers pay a premium for "certainty of execution and deliverability."

Often times the biggest benefit of high coupon lending is avoiding the need to take on unwanted partners in order to secure needed capital to do the deal. Other benefits often include the ability of the lender to work with imperfect credit histories; and the ability of the lender to work with lower borrower liquidity requirements. The lender has local knowledge of the real estate market which can be very helpful to the borrower

The two aforementioned factors always draw borrowers with strong real estate asset "plays" to high coupon lenders in order to quickly and efficiently implement a borrower's real estate asset business plan.

Often times high coupon lenders are funded via individual/personal funds, family trusts; or an aggregate of small investors. Typically, the lender has a personal connection to the source. This connection creates a responsibility for each loan they approve. Lenders have an on-going responsibility to the equity sources that "fund" their lending activities.

While every lender has different goals for their portfolios, general underwriting criteria tend to be consistent. They include some of the following;

*Conservative loan to value (50 - 60%)
*Quick liquidation scenario (60 - 90 days)
*Investor returns annually (11 - 15% plus)
*First lien position almost always
*Evaluation of the character and experience of the borrower.

While many business people may find the concept of paying 14% plus interest (with points of 2-4 %) in many cases it is "deal or no deal" for the real estate entreprenuer. Opportunities require speed, clarity of business plan; and most importantly capital ("Cash is Always King").

High Coupon Lending meets all of the above requirements.

Currently real estate markets nationwide are adjusting after many years of over-extension. Miami Beach, Las Vegas, Southern California, Cape Cod, and New York City are a few examples.

This environment creates great opportunities for those who see them and can secure the capital to pursue them.

High coupon loans can be a key strategic asset in securing those opportunities.

If you choose to invest in the lending business please be aware of the lending laws and restriction in your state, always choose a

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reputable long standing real estate attorney, determine the area of your expertise within the industry and stick to it, create underwriting guidelines, and know the risks of each loan. The passive investor enjoys excellent returns while being in close touch with the administering lender however, local and regional lenders do not solicit investors as this is a violation of many different security laws. If you choose to be a passive investor then you must find a reputable lender and direct them as to your risk tolerance.

2009 may be the year you invest in real estate with your 401 K, CD account, or that stack of treasuries you bought after Wall St. let you down again.

As always proceed with caution, Happy New Year!

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