



# Hard Money Loan Example for First-Time Borrowers

A Step-By-Step Breakdown of How REIA Hard Money Evaluates, Funds, and Protects Your Deal

## Borrowing Fundamentals

### Know Your Numbers



- Simple buying formula: **ARV × 70% – Repair Cost = Maximum Allowable Offer (MAO)**
- The MAO is the maximum amount we would lend towards the purchase price.
- Calculating the MAO helps borrowers stay disciplined and avoid overpaying.
- Be conservative in your ARV estimation—your lender's ARV will likely differ from yours.

#### Pro Tip

**Conservative ARVs make you look more prepared and trustworthy to lenders.**

### Capture Quality Photos & Videos



- Take clear photos/videos of every room, exterior, mechanicals, and neighboring homes.
- Pre-approved borrowers can access RHM's Borrower Property Documentation Guidelines (available in RHM Borrower Portal) for more details.

### Scope of Work (SOW)



- Your scope should "tell the story" of the project.
- Tie the SOW directly to your pictures/videos.
- Pre-approved borrowers have a full SOW worksheet template inside the Borrower Portal.

### ARV Assessment & Third-Party Reviews



- Expect your ARV estimate to differ from a professional evaluator's.
- RHM uses unbiased, 3rd-party ARV assessments to protect both borrower and investor.

### Down Payments (10–15%) for First-Time Borrowers



- Down payments keep the borrower and lender aligned.
- "Skin in the game" shows commitment and reduces risk for everyone.

# Sample Hard Money Loan Scenario

## 1 Project Inputs (Example Loan)

Input	Amount
ARV	\$300,000
MAO	70% of ARV (less repairs)
Purchase Price	\$170,000
Rehab Budget	\$65,000
Loan Term	6 Months
Interest Rate	15%
Points	4%
Fees	\$1,800

## 3 Borrower Out of Pocket Costs

Charge	Amount
Points (4% of \$210,000)	\$8,400
Underwriting Fee	\$600
Document Prep Fee	\$600
Escrow Repair Draws (up to 4)	\$600
Cash Toward Project	\$25,000
Total Cash Required	\$35,200

## 2 MAO Calculation

**Total Loan Max:**  
 $\$300,000 \times 70\% = \$210,000$

**Total Project Cost:**  
 $\$170,000 + \$65,000 = \$235,000$

**MAO:**  
 $\$300,000 \times 0.7 - 65,000 = \$145,000$   
(Suggested Purchase Price)

**Cash Required Toward Project:**  
 $\$235,000 - \$210,000 = \$25,000$

- Why This Matters*
- This safeguards the borrower.
  - Ensures the project isn't overleveraged.
  - Encourages financially sound deals.

## 4 Loan Terms

Summary Item	Amount
Loan Amount	\$210,000
Term	6 Months
Rate	15%
Monthly Payment	\$2,625