# HARD MONEY HANDBOOK

*Brought To You By Finley Capital*

## LEARN HOW TO USE HARD MONEY LOANS TO FUND YOUR DEALS



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# CHAPTER 1:

## INTRODUCTION TO HARD MONEY LOANS

Thank you for downloading this free report from Finley Capital to learn more about the 7 steps to guaranteed hard money loan approval. Please feel free to reach out directly to submit a loan application or even just to learn more about the hard money loan process in general. We are here to help you with your next fix and flip or BRRRR investment project!

The purpose of this report is to help you understand how to get the most out of your relationship with your hard money lender, how to make your loan application attractive to your lender, and most importantly how to obtain hard money loan approvals so you can take your real estate investing to the next level with a reliable funding partner you can count on for years to come.



## 1.2 WHY WOULD A BORROWER USE A HARD MONEY LOAN?

An investor who intends to buy, fix up and then sell or rent a distressed property would consider a hard money loan. Conventional banks and credit unions tend to shy away from lending on distressed properties, so a hard money loan is often an attractive alternative for an investor who does not have enough funds on hand.

A borrower who needs to close quickly on a property might also rely on a hard money loan because they can actually be funded in a much shorter period of time than a traditional loan, which takes between **30** to **45** days to go through a bureaucratic underwriting and appraisal process.

## 1.3 HOW IS A HARD MONEY LOAN AMOUNT DETERMINED?

A hard money loan is determined by the current and future value of the real estate asset. This differs from a conventional loan which is also secured by the real property, but relies much more heavily on the borrower's credit, income and overall estimated ability to repay the loan. Interest rates and origination fees for hard money loans are typically much higher than conventional loans because of their higher risk and shorter duration.

A hard money loan made by Finley Capital typically does not exceed **65%** of the estimated after repair value of the property. So, if the property is estimated to be worth $200,000 when fully renovated, the maximum loan amount would not exceed **$130,000**. Additionally, we typically will lend up to **90%** of the purchase price and up to 100% of the repair budget (assuming that total loan amount does not exceed that **65%** ratio). For example, if the purchase price was **$100,000** and the repair budget was **$40,000**, Finley Capital would lend $130,000 on that deal, because **$130,000** (calculated as: **$100,000 x 90% + $40,000 x 100%**) is only 65% of the property's after repair value.

### EXAMPLE LOAN BREAKDOWN

| | |
|---|---|
| Estimated After Repair Value (ARV) | $200,000 |
| Purchase Price | $100,000 |
| Repair Budget | $40,000 |
| Hard Money Loan amount | $130,000 |
| Cost of Capital (fees + interest) | $12,700 |
| Borrower Profits: | $33,300 |




## 1.4 HOW MUCH DOES A HARD MONEY LOAN COST?

A hard money loan is typically a short-term loan. Most hard money loans made by Finley Capital are usually from 1 to 6 months in length. Although every hard money lender has its own fee schedule, a typical hard money loan made by Finley Capital might charge the borrower a 12% interest rate and 3% origination fee along with a $700 processing fee and 3 $100 draw fees. So for a loan of $130,000 the total cost of capital assuming a 6 month loan duration would be $1,300 x 6 = $7,800 + $3,900 + $700 + $100 x 3 = $12,700. Although hard money loans appear expensive, this deal might still net the borrower (calculated as: $200,000 x -7% closing fees, - $12,700 cost of capital, - $100,000 purchase price - $40,000 repairs) they can be an effective way to close on a deal with $33,300 in potential profit when the borrower doesn't have enough cash to take the deal down themselves. Not to mention the borrower's cash on cash return is off the charts on this deal based on the leverage created from the hard money loan.

## 1.5 HOW DOES A HARD MONEY LENDER EVALUATE A LOAN?

Unlike conventional lenders that use complex credit score and income formulas, along with volumes of strict underwriting guidelines, hard money lenders utilize basic, flexible, common sense underwriting to analyze each deal. Every application is viewed from many creative angles to determine whether the property makes sense for a hard money loan and whether the borrower appears likely to execute on the plan to reposition it.

Now that we've outlined what a hard money loan is (and why you might want one), let's break down the loan process step-by-step.

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# CHAPTER 2:

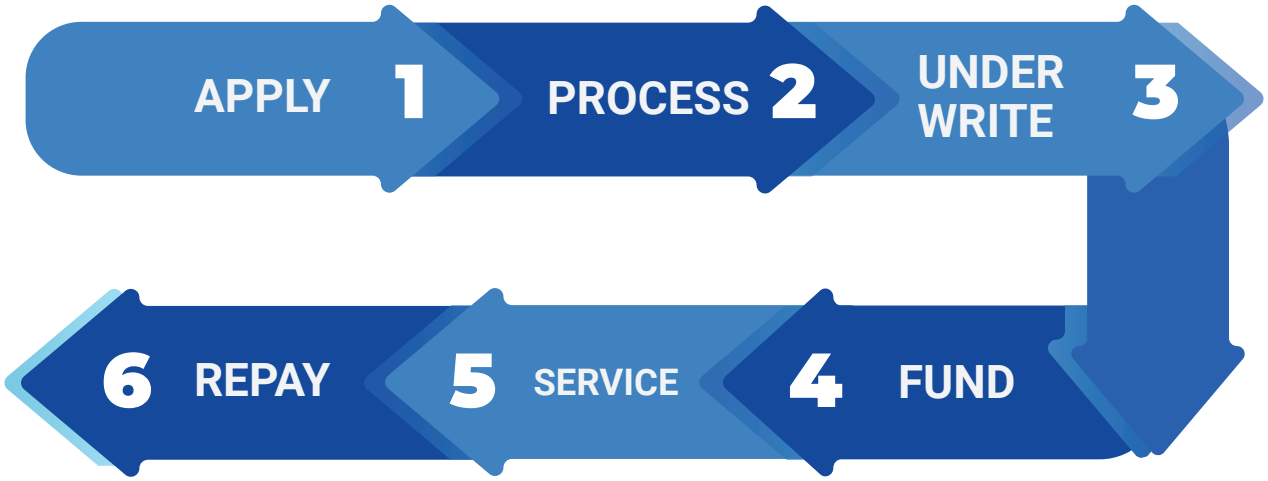
## THE HARD MONEY LOAN PROCESS

At Finley Capital we have broken down the hard money loan process into 6 stages: Apply, Process, Underwrite, Fund, Service and Repay. In this chapter we will break down each step in detail so you have a better understanding of what to expect along the way. Keep in mind these 6 steps are how we handle our loans, but other hard money lenders will have their own systems and procedures which may vary from ours. You can apply for a loan by visiting our website www.finleycapital.us.

### 2.1 APPLY

The hard money loan process begins when you submit your loan application and provide some basic deal details. These include the property address, your basic personal and corporate information, purchase price, renovation budget, estimated after repair value, loan amount requested, length of loan term requested, your exit strategy, and the requested close date.

The loan application details will be reviewed as soon as possible, and a term sheet will be provided to you for consideration. That term sheet will spell out the details of the loan offer including the loan amount, the interest rate, fees and charges, and other pertinent information such as a list of additional conditions which must be met by the borrower to obtain final loan approval. The terms listed on the term sheet are based on assumptions from the loan application, and they are subject to change after we underwrite the loan file in more detail. When you sign and return the term sheet, you will be transferred to the Process stage.



## 2.2 PROCESS

After your term sheet has been signed, a loan processor will reach out to begin collecting documents from you. There are three main categories of documents: personal, corporate, and property related documents.

You will be required to submit a copy of your driver's license, social security number, personal residence address, bank statements and other personal financial information such as an updated personal financial statement. You will also need to provide corporate information including your company's Federal EIN number, articles of incorporation, a certificate of good standing, and the actual operating agreement itself. Finally, the lender will want a copy of the purchase agreement, any addendums included, a scope of work for your repair budget (if applicable), exterior and interior condition photos and video, and your supporting comps to justify the after repair value of the property. At this point you may also need to provide contact information for the title and settlement company handling the transaction as well as your insurance rep name and contact info.

Once all required documentation and information has been submitted, your loan will be transferred to the **Underwriting** stage.

## 2.3 UNDERWRITE

At Finley Capital we underwrite the 4 C's: **collateral, character, capacity** and **credit.**

The **collateral** refers to details about the property including the purchase price, the scope of work, and the after repair value. These 3 numbers help to build the basic formula for calculating the loan amount. The underwriter starts by reviewing the contract documents and legal descriptions for accuracy. The condition of the property is then analyzed and compared to the scope of work you provide to see if they match up. Finally, the underwriting team builds an interval market analysis to estimate the after repair value of the property and will then adjust the assumptions you provided in your loan application accordingly. In some cases the underwriter may require a formal third party appraisal to be provided instead of the internal analysis.

Your **character** will also be underwritten by the lender. They will look at your background check, your references and social media presence. They may require letters of explanation for any past legal or financial trouble you may have had.

Your **capacity** to execute your business plan to buy, fix and then sell (or refinance) the property will be scrutinized by the underwriting team. Your bank statements, personal financial statements and overall financial picture will be looked at to see how well you would be able to handle cost overruns. Your past experience level will certainly also be taken into account.

Finally, your **credit** score and report will be pulled and reviewed. Some lenders have required minimum scores and others do not, but your credit score will certainly be taken into account when your updated loan terms are presented.

Once all underwriting conditions have been met, your lender will provide you with a formal loan commitment. At Finley Capital we provide a document we call a **Loan Commitment Letter** which provides an updated loan proposal (with any changes from the term sheet if applicable). Once you sign that document, your loan will transfer into the **Fund** stage.



## 2.4 FUND

itment and receipt of the declaration of insurance from the provider showing the borrower and lender as insured parties. The loan document package is drafted once a closing date has been set with the title and settlement company. The lender figures are sent to the title rep who will draft a closing statement for all parties to review, and wire transfers are scheduled.

Once your loan has been funded you will be transferred to the **Service** stage.

## 2.5 SERVICE

During this stage of the loan, you are working on improvements to the property and requesting draws from the lender. The draws are processed on a schedule and typically require you to provide evidence of repairs made, contractor paid receipts, and lien releases. After your repairs are completed, you will receive your final draw from the lender.

Once all repairs are completed you will then begin to work toward your exit strategy. Based on your plan, you will either market the property for sale or begin marketing for a tenant to rent the property.

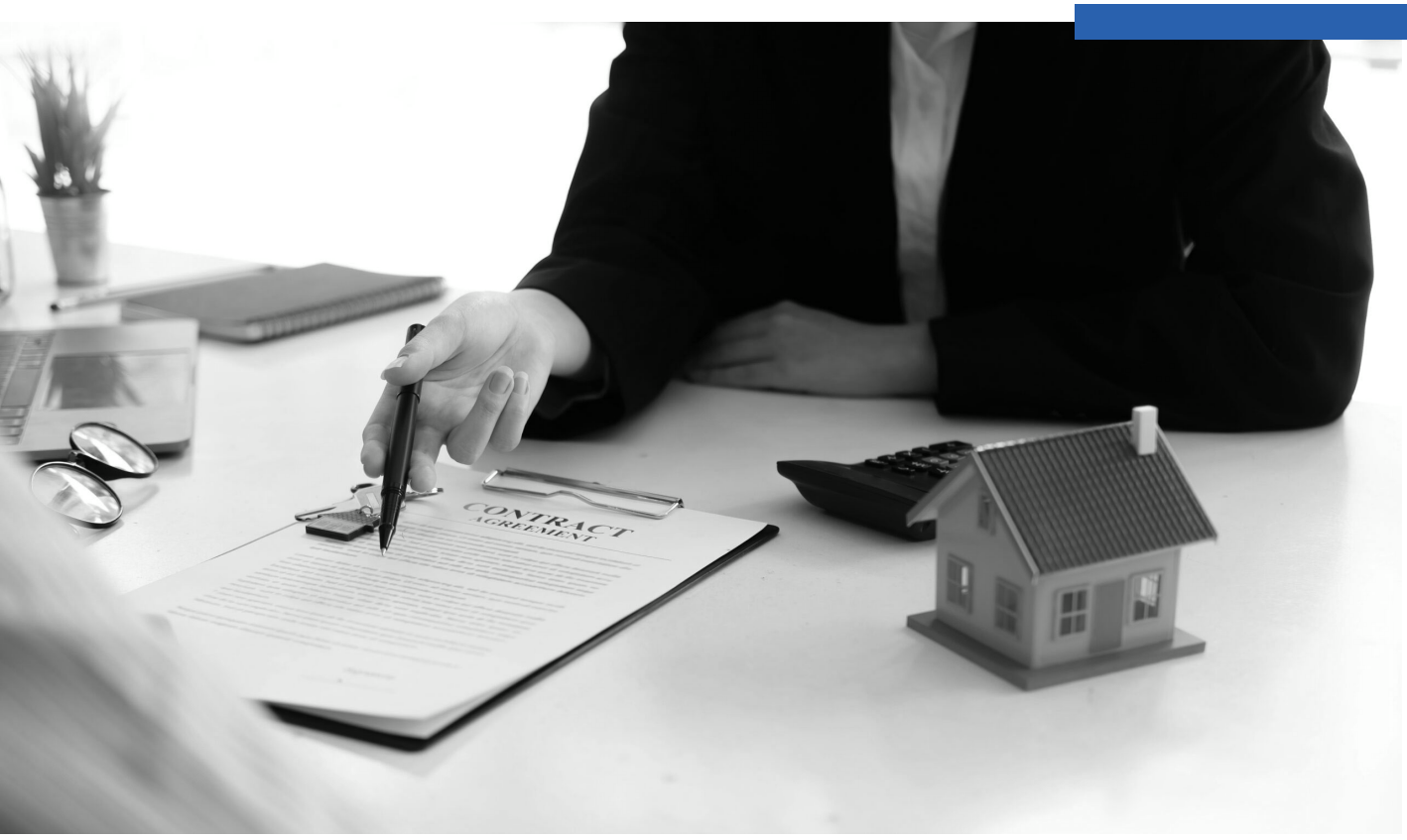
Once you have accepted an offer to sell your property or you have finalized your refinance loan application, you will move into the **Repay** stage to pay off your hard money loan.

## 2.6 REPAY

To request a "loan payoff amount" from your hard money lender you simply contact the lender and let him or her know you intend to repay the loan and need a payoff amount based on your anticipated closing date. Your lender will calculate this exact amount taking into consideration any unpaid (or overpaid) interest, any remaining draw funds, and any other charges or credits owed or due. The lender will include a "per diem" amount as well to let the title and settlement company know how to adjust the total payoff amount if the closing date changes.

Once the closing (or refinance) date is scheduled, the title company will once again send a closing statement to be reviewed by all parties including the hard money lender. Once loan repayment proceeds have been received, the lender will send a release of mortgage (or deed of trust) to be recorded with the local county recorder that will serve as a public record that your loan has been repaid in full.

These steps are a typical roadmap for the hard money loan process with most lenders, including Finley Capital. With that context, let's look at one of the most critical steps, Underwriting, in more detail.



# CHAPTER 3:

# THE 4 C'S OF UNDERWRITING A HARD MONEY LOAN APPLICATION

At Finley Capital we follow the "4 C's" of underwriting: collateral, character, capacity and credit. Let's take a closer look at each element through the eyes of the hard money lender to help you better understand how to increase the strength of your loan applications.

## 3.1 COLLATERAL

A hard money lender will begin the underwriting process by taking a close look at the current condition of the property to determine the estimated as-is value. They will then run an analysis to estimate the after repair value or "ARV". These valuations are done by comparing other properties in the local submarket that are similar in size, condition, layout and that have sold in the past few months.

Most hard money lenders also perform physical site inspections. Some hard money lenders may require an official appraisal to be performed by a third party appraisal company as a condition of loan approval, but most lenders instead conduct an internal evaluation, or rely on an estimate of value called a broker price opinion provided by a trusted real estate broker in the area. Be prepared that most hard money lenders are likely to settle on a very conservative estimate of the after repair value and may base their loan amount on that lower amount to further minimize their exposure to risk in the case of borrower default.

## 3.2 CHARACTER

Traditional banks are not able to look you in the eye to determine your character like in the old days of banking. They instead had to develop complex credit and income formulas to determine your creditworthiness for a mortgage. Hard money lenders, however, can look you in the eye, talk to you on the phone, or check your references to get a good feel for whether you are a trustworthy borrower. Keep in mind that your hard money lender will rely a lot on their estimation of your character.

A hard money lender will ask you to describe your experience in real estate investing and managing rental properties. Lenders are more cautious when lending to borrowers with little or no actual track record of success, so be prepared to be asked to come up with a larger down payment if you are a newer investor.

Another major factor a hard money lender will look at is your ability to communicate proactively. Lenders prefer to work with borrowers who are readily available and easily reachable. A good borrower sends all requested documentation into the processing department quickly and without complaint.

Lastly, a hard money lender wants to see that you are a person of your word as an honorable operator, because if something goes wrong in your project, they want to know you will step up and work your way through it without walking away from the loan.

## 3.3 CAPACITY

A hard money lender will analyze your financial statements to see whether you have the capacity to fund your portion of the project, make all your payments, and most importantly, whether you can absorb any inevitable cost overruns or delays. Be prepared to provide personal financial information such as recent bank statements, tax returns and a personal financial statement. You will also need to provide your operating agreement and other entity information for your purchase entity for underwriting purposes.

In addition to your financial stability, the lender wants to understand your exit strategy. Do you intend to refinance or to sell? If you intend to refinance, is your credit score high enough to qualify, and do you have a lender lined up already? Is your timeline to complete the project realistic and achievable? If your plan is to sell the property, does the lender feel you have a good chance at achieving your estimated after repair value, and what would the breakeven sale price look like? Can you and the lender both exit the deal safely in 30 to 60 days if necessary? You absolutely must have your exit strategy clearly defined before a hard money lender will approve your loan request.

## 3.4 CREDIT

Last but not least, a hard money lender will often review your credit history including your current credit score and may conduct a background check to assess whether you have any foreclosures, bankruptcies, liens or collections on your record. If you do have these items, you will be asked to provide more information and explanations, but you still may qualify for the loan. Most hard money lenders like Finley Capital do not rely solely on your credit history to determine your loan approval status, but these details do help to determine your ability to repay the loan.

This sounds like a lot (and it is), but don't worry. The final section will outline our 7 step process to follow for guaranteed hard money loan approval.



# CHAPTER 4:

## 7 STEPS TO GUARANTEED HARD MONEY LOAN APPROVAL

Every hard money lender has their own methods for underwriting and approving loan applications. At Finley Capital, we feel that when a borrower follows all 7 steps outlined in this chapter, it becomes much easier to say yes to the loan request.

### 4.1 STEP 1: FIND THE RIGHT PROJECT

Before you submit a loan application to your hard money lender, it is crucial that you underwrite the terms of the deal yourself in detail. Your hard money lender will evaluate the numbers on your loan application through the lens of a lender, so you will need to consider that perspective.

Each hard money lender has different lending criteria, but Finley Capital has a strict underwriting limit to lend no more than **65%** of the property's after repair value (ARV). So for example, if the purchase price is $50,000, the renovation budget is **$20,000** and the after repair value is estimated to be **$100,000,** Finley Capital might lend **90%** of the purchase price **+ 100%** of the repair budget, because that formula looks like: **($50,000 x 90% = $45,000 + $20,000 x = 100% = $20,000)** for a total loan amount of **$65,000** which **= 65%** of the **$100,000** after repair value. However, if the purchase price was **$60,000** in this scenario, your request for **90%** of the purchase price and **100%** of the repair budget would be **($60,000 x 90% = $54,000 + $20,000 x 100% = $20,000)** for a total of **$74,000**, which is **74%** of the property's after repair value. Clearly, you can see that the hard money lender would not be willing to offer these lending terms before you even submitted the loan application for consideration.

**LOAN COMPARISON**

| | Accepted Deal | Rejected Deal |
|---|---|---|
| Estimated (ARV) | $100,000 | $100,000 |
| Purchase Price | $50,000 | $60,000 |
| Repair Budget | $20,000 | $20,000 |
| Loan Amount (% of ARV) | $65,000 (65%) | $74,000 (74%) |

As a borrower you want to underwrite the deal yourself before submitting it to your hard money lender for consideration, because if your lender comes to the conclusion that you have requested more than their standard loan exposure limit, that lender will quickly lose confidence in your ability to understand the mechanics of a flip analysis and the financing involved with the hard money loan to fund it.

Before you begin submitting loan applications for consideration by a hard money lender, make sure you know your **individual success formula.** If you don't yet have a formula, consider joining an investor group to network with more experienced operators or find a mentor who can help you learn more about underwriting real estate deals. Your hard money lender may even be able to refer you to some of their other borrowers for this purpose, so keep that in mind too.

## 4.2 STEP 2: DEFINE A CLEAR EXIT STRATEGY

When you present a loan request to your hard money lender, one of the key elements to be considered is your plan to repay the loan down the road. Without a clear exit strategy on repayment, no hard money lender will fund your deal. Include a short executive summary with your application to your hard money lender describing in detail how you plan to repay the loan.

Typically the exit strategy on a flip is to resell it on the open market, and if that is the case then you should include your estimated listing price, marketing strategy, and any additional details such as your plan to stage the house, who your listing agent will be and their experience level, and any other details you can think of to be sure your plan is clear. Describe your ideal buyer for the house, where they will find the listing, and what level of interest exists in the neighborhood the property falls in. If your flip timeline is short, make sure you describe the financing options (and limitations) available to your ideal buyer. The more clearly you can describe how your flip is likely to be sold, the more confident your hard money lender will be that they will be paid back upon the sale of that property.

Some borrowers have other means to pay off the hard money loan in a short period of time. For example, you might be selling another flip that will close in 30 to 45 days, but the current deal you're looking at can't wait that long to close, so you need a short term hard money loan to take it down. That's fine, but be sure to provide all the details of that other transaction to the hard money lender, so they can understand how this loan will be repaid. Also, be sure to have a back up plan in case that sale falls through.

If you intend to **"BRRRR"** (Buy, Renovate, Rent, Refinance, Repeat) out of the hard money loan, then be sure to define who the refinance lender will be. Be specific with the loan officer's name, contact information and lending company name. Don't just assume you can refinance out of your flip (especially if this is your first deal). Refinance loan products have all sorts of restrictions around how long you have owned the property, your credit and income considerations, and most importantly the limits on the loan to value of the refinance. At Finley Capital, if our borrower plans to refinance out of our hard money loan, we typically require a very detailed explanation from the borrower on exactly what the plan is to achieve that refinance. Bring that plan to your hard money lender proactively, so they don't have to ask you for it. Not only will this technique of planning ahead help your overall business plan have more clarity, it will instantly increase your credibility in the eyes of your hard money lender.



## 4.3 STEP 3: SUBMIT A FULL LOAN APP

Although it is true that a hard money loan is based on the current and future value of the property, your character, capacity and creditworthiness are all still very relevant factors in the hard money lender's underwriting process to determine your ability to execute the business plan and eventually to repay the loan.

Most hard money lenders will conduct a background check, review your credit report, and dig into your financials to gain a clear picture of your credit profile. The more information you can include in your loan application, the more seriously you will be taken. Additional details will also be needed to underwrite your loan request so you might as well include them in your initial application. Corporate documents like the Federal EIN letter, your corporate articles of incorporation, certificate of good standing and of course the operating agreement for your company will all be required. Be sure to have them ready from the beginning.

Most hard money lenders will provide you a required document checklist. Present yourself as a professional by building a complete loan application package and submitting everything together. Your hard money lender will see how professional and thorough you are, and this will present your best foot forward.

## 4.4 STEP 4: INCLUDE COMPARABLE SALES AND PHOTOS

Every hard money lender has their own internal underwriting process to determine the current and future value of a property, and Finley Capital is no different. In general, the best way to expedite an internal BMA (broker market analysis) and/or formal appraisal is to provide relevant and accurate comparable sales data to demonstrate evidence for what you expect the after repair value to be for your deal.

Submitting comps with your loan application serves two purposes: it helps the underwriter get a head start on finding good comps to support your estimate of value, and it demonstrates your understanding of the market which further builds credibility and trust in the eyes of your lender. Be sure your comps are reasonable and accurate. Only include properties that are similar in characteristics (size, layout, condition, etc), close by in proximity (ideally less than half a mile away), and those which have sold recently (ideally in the past 3 to 6 months).

You should also submit comprehensive photos and video of the current condition of the property, including the front and back of the home. Pan around to show the street and surrounding areas. Include all the key elements of the home like the kitchen, bathrooms, basement foundation, mechanicals, windows, and roof. Don't be deceptive. Your hard money lender will likely conduct a site visit or require a third party inspection report, so be honest and open about the current condition. It's ok if things need to be addressed. The hard money lender understands you are likely able to buy the property at a big discount for this very reason.

## 4.5 STEP 5: BUILD A COMPREHENSIVE SCOPE OF WORK

The second key figure in the loan to value formula is the total scope of work budget for the deal. Always include a comprehensive breakdown of all the estimated repairs to be performed on the property in a line item format that breaks down both material and labor costs. Ideally, this repair budget is supported by written contractor estimates provided by your contractors as additional evidence for the underwriter to review. Make sure these bids are in writing, signed and professionally drafted. Only use licensed contractors and sub-contractors. Include a contingency for unexpected repairs as well.

Your lender will most likely require a draw schedule for funds to be released to you as repairs are made, so try to build your own schedule to show the hard money lender how you plan to safely renovate the property and protect the lender's funds at the same time. Your hard money lender most likely will already have a repair budget report broken down by line item. If they have one, be sure to request one from the lender in advance and fill it out in full to be included in your loan application.

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## 4.6 STEP 6: BECOME A STRONG BORROWER

Place yourself in the shoes of your hard money lender for a moment. What kind of borrower would you prefer to lend to? You want a borrower with lots of cash, great credit, tons of experience and high moral character, right? Ok, so try to become that kind of strong borrower.

Save up as much cash as you can so your personal financial statement looks stronger to the hard money lender. If you are borrowing **$65,000**, your lender would love to see **$20,000** to **$30,000** cash in the bank as opposed to **$4,500**. Cash shows the hard money lender that you have the means to finish a project that goes over budget, takes longer than expected, or otherwise eats into your personal finances.

Build your credit score. An **800+** credit score borrower is much more attractive to a hard money lender than a **585+** score. Which borrower would you rather lend to? Even though your credit score is not the sole determining factor of your loan approval, it certainly will be considered and your hard money lender might charge you a higher interest rate or lower the loan amount to offset additional risk they perceive based on your low credit score. So, build it up.

Lastly, gain some experience. A hard money lender values a track record very highly. If you have never done a deal before, then try to find a mentor who has and partner up with them on a few. Then, you can show your hard money lender some real world experience, before and after photos, past deal analysis, and more. Experience is huge.

## 4.7 STEP 7: BE PROFESSIONAL

This might seem like common sense, but it might be the most important step in obtaining loan approval from a hard money lender. Conduct yourself with professionalism at all times. Any time you are emailing, texting or talking to a lender or a team member of that lender, you are being scrutinized. A hard money lender does not want to work with an immature or unprofessional borrower. This is a business transaction. Treat it as such.

Make sure your social media reflects professionalism and integrity. Only post content that you would be proud to have your hard money lender look at. Show success with humility and grace. Include some of your struggles and adversity as well to demonstrate your ability to overcome them.

Once your hard money loan has been approved and funded, make sure you do everything you said you would. Finish your construction project on time, make your payments on time, and stay in constant communication with your hard money lender throughout the process. Be easy to deal with and pleasant at all times.

Following these 7 steps will likely lead to guaranteed loan approval on your next hard money loan application.

Thank you for downloading and reading the Hard Money Handbook. We hope it has provided clarity on the hard money loan process and how it can help you achieve your goals. Feel free to reach out to **Finley Capital** if you have further questions, or to discuss how we can help you fund your next deal. Go get 'em!



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