

## **Why is it called "Hard Money"?**

*Practical Tips to Enhance Your Financial Freedom  
From The Desk Of Joe & Bonnie Tufo*

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Don't be confused by the term "hard money." It doesn't mean that this money is difficult to find or obtain. Actually, it is some of the easiest money to procure. So why is it called "hard" money, you ask? Good question. In the world of finance, money is either "hard" or "soft."

Hard money has stricter terms and a clearly defined repayment schedule. Softer money has easier terms and a more flexible repayment schedule (e.g., debt service subject to available cash flow). In the case of private financing, the terms for hard money loans are exceptionally harsh with very low loan to values (LTV's), higher than market interest rates, and a lot of upfront points.

### **Typical Terms for Hard Money Loans**

Terms for these types of loans will vary from lender to lender and will depend upon the experience level of an investor as well as the length of an investor's relationship with a particular lender. Generally, a hard moneylender will provide a loan for 50-75% of the after-repaired value of a home at an interest rate of 12-18% for a period of 6 months to five years. They will also charge between 2-10 points as an upfront financing fee.

As you invest, you will discover that these terms will vary from lender to lender. Some will only charge interest while some will amortize their loans. Some will lend repair money; others won't. Some will place the repair money in escrow to be drawn out as the work is completed; others will let you leave the settlement table with it. Some will lend closing costs; some won't. Ultimately, when finding hard moneylenders, you will need to determine their terms and how they might fit into your plans as a wholesaler.

### **Lending Criteria for Hard Money Lenders**

Like terms, lending criteria also varies from lender to lender. Each has their own preferences with regard to areas in which they will and will not lend and types of investors to whom they will and will not lend. Some will check your credit, some will not. Some will do their own appraisals, some will not. Some will charge for an appraisal, others won't. Some will charge an inspection fee for each draw from the repair escrow, others won't. Some will only lend in certain areas while others will lend everywhere.

Some are more numbers-driven when it comes to decision-making while others go more on their feelings about you and/or the neighborhood. What about my credit? With terms so favorable to the lender, most hard money providers are concerned primarily with the value of the property, placing less emphasis, if any,

on the credit of the payor. They just want to know that in the event the payor defaults they will possess an asset from which they can extract their original investment and possibly more. However, this is not to say that lenders desire to go through the hassle and expense of taking back and reselling a property but merely to point out that due to the terms of the loan, private lenders are secured, and feel secure, whether a borrower pays or not.

### **Hard Money Lenders Are People, Too**

You must keep in mind that most hard moneylenders are private individuals. They are not institutional investors who have a set standard of guidelines dictated by the Federal Reserve. They can be flexible and they can be tough. They are people just like you and us. You can talk to them. You can befriend them. You can laugh and joke with them. They can be your neighbor, your doctor, your attorney, or your auto mechanic. They usually don't advertise that they lend money, but instead are found through word of mouth.

### **A Great Resource**

Hard moneylenders are a great resource for real estate investors, particularly a beginner with limited resources (e.g. cash and credit). Having a hard moneylender on your team enables you to confidently make offers on properties. It enables you to purchase properties when your offers get accepted, and it provides you with the funds necessary to do the repairs if needed. In fact, we have heard of some cases where individuals have even been able to borrow holding costs, but we have never met any lenders myself who will actually do this.

If you would like to apply for a hard money loan through The Mortgage Group, click on our website [www.mortgagefinancegroup.com](http://www.mortgagefinancegroup.com)

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