

UNDERSTANDING HARD MONEY LOANS VERSUS FIX-AND-FLIP LOANS

Why you may be confusing the two and missing out on your best options

BY MICHAEL MIKHAIL

Fix-and-flip and hard money loans are among the most popular financing programs for investors in single and multifamily homes. Although they are two

and real estate industries believe they are the same. This the furthest thing from the truth.

Mortgage originators who work with these types of borrowers should know about the array of loan programs that are designed to meet clients' financing needs. There is something for everyone, regardless of the type of investor and their loan scenario.

Let's take a look at the differences.

HARD MONEY LOANS

A true Hard money loan is an asset-based loan, which means the financing is based on the loan to value (LTV) of the asset. Unlike the fix-and-flip

loan, it doesn't go through full underwriting, and there are no minimum FICO requirements for the borrower because it does not have many guidelines or criteria.

A hard money loan also doesn't have as many restrictions as one might think, considering that it's "just money." So, there's no worrying about bankruptcies, foreclosures, collections or any other restrictive factors.

Many states have non-judicial foreclosure laws that allow hard money lenders to get their money back quickly if borrowers default on a mortgage. These foreclosure laws make the lenders more comfortable doing a



WHY DO PEOPLE CONFUSE HARD MONEY LOANS WITH FIX-AND-FLIP LOANS? BECAUSE BOTH THE LOAN AND THE LAWS ARE VERY SIMILAR. THEY ARE BOTH PRIVATE MONEY TO AN INVESTMENT PROPERTY.

different products, many people both inside and outside the mortgage



high-risk loan, especially if they are holding the note and not selling it on the secondary market.

The biggest misconception borrowers have is that a hard money loan will have a high interest rate even if they are qualified and have a high credit score. The fact is you can receive interest rates and terms that are similar to conventional financing yet still retain the benefits of a loan with no income-verification requirements. Hard money is not a blanket statement that covers all private money loans.

Due to the lack of guidelines and underwriting, a true hard money loan is generally capped at 65% loan to value or less.

For example, you have a home worth \$1 million and you want \$500,000 against it (50% loan to value), you are able to receive the money within one to two weeks (from day of application), commonly as a first lien position because, again, it's just money. This example is normally in the form of a bridge loan, which is short-term financing for a period of 12 to 24 months.

One of the main reasons hard money loans are intended for investment properties only is due to the high-cost regulations and the unfortunate existence of predatory lending. For these reasons, you cannot put such high interest rates

and cost on an owner-occupied property.

FIX-AND-FLIP LOANS

Fix-and-flip loans are asset-based loans too. But, they are subject to more underwriting guidelines and criteria. While hard money loans focus solely on the asset, fix-and-flip loans consider both the asset and the borrower.

Why do people confuse hard money loans with fix-and-flip loans? Because both the loan and the laws are very similar. They are both private money to an investment property.

Virtually all fix-and-flip and hard money loans are funded by hedge funds. It is possible for the



money to come from the same place; however, the underwriting is completely different.

Contrary to hard money loans, fix-and-flip loans are usually sold on the secondary market and go through a full underwriting with vastly tighter guidelines. For instance, depending on the lender, fix-and-flip loans have a

minimum FICO requirement. Additionally, the borrower cannot have any late payments, foreclosures, judgments or bankruptcy on their credit for 24 to 36 months.

Further, a fix-and-flip loan is a rehab loan, meaning it's a loan that you use to acquire a property and then receive the funds to rehab that property in

short-term financing (12 to 18 months).

Depending on who you are working with, it is important to bring something dynamic to the table to help you close your loans quickly, efficiently and professionally. Make sure that when you move forward with a mortgage lender you know all the details of your loan, why they are utilizing that program and whether that loan program is being properly presented to suit your needs.

The biggest misconception borrowers have is that you must pay a high interest rate for a hard money loan even though you have a high credit score and are a qualified borrower. The fact is, you can

receive interest rates and terms very close to conventional financing while still utilizing a no-income verification loan. Hard money is not a blanket statement for all private money loans.

As you look for a lender, consider a provider that offers real estate investors both hard money and fix-and-flip loan programs, among an array of other programs. Further, ensure that your loan scenario is carefully curated by a senior loan officer or professional who can qualify the loan for a mortgage program that best suits your needs. This ensures that each scenario is matched with the lender's ideal and best possible program. ■



Michael Mikhail is the founder and CEO of Stratton Equities, a hard money and NON-QM lender to national real estate investors.

Having launched Stratton Equities in early 2017, Mikhail has always been an entrepreneur and innovator in the real estate market, purchasing his first home at 19 utilizing hard money.

Under Mikhail's leadership, Stratton Equities has grown into one of the biggest leaders in the mortgage and real estate industry across genres and platforms.