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Hard money, bridge loans and asset lending

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

Today's recessionary economic environment - and stricter underwriting guidelines from traditional lenders - have combined to create significant market inefficiency.

Traditional lenders (banks and life companies) require that all three legs of a loan (credit, income and liquidity) be near perfect. Furthermore, the "approval process" with traditional lenders can be very time-consuming.

Not every good real estate deal however, has the luxury of time to wait-out a prolonged decision-making process. As well, 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 usually painful.

The prolonged approval process of traditional lenders generates many opportunities for high-coupon/ short term real estate lenders. These lenders seek safety, security, and a position of relative liquidity.

High-coupon/short term real estate lending (investing) achieves all of the aforementioned, and returns a very appealing annualized dividend.

When opportunity knocks , if you do not have the three perfect legs of a traditional loan and you must have an answer quickly and decisively, certainty of execution becomes crucial to your success.

This applies to all project types. As we all know, projects are wide-ranging in terms of scale and scope. Various project types include: Raw land, permitted land, subdivision infrastructure financing, condo conversions, rehabs, auction purchases, bank foreclosures, and bridge/acquisition financing, among others.

Each project (deal) has a unique story and the 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 are: Will the property value improve with funding so that the lender will be able to achieve repayment (through refinance or sale) within the prescribed period of time? If so, the chances for funding that project with a high coupon loan are significantly improved.

Generally speaking, high coupon loans are meant purely as a bridge financing to more traditional funding sources, or to stabilize the property and thereby facilitate a sale.

Borrowers pay a the premium (points and rate) for certainty of execution and deliverability.

Often times the biggest benefit of high coupon lending (for the borrower) 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 characteristics , also the Lender has local knowledge of the real estate market which can be very helpful to the borrower.

The three aforementioned factors always draw borrowers with strong real estate asset plays to high coupon lenders in order to quickly and efficiently implement the 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 implied, and specific, responsibilities for the lender underwriting the high coupon loan. Ultimately, the likelihood of repayment must be strong.

Successful underwriting ensures that the high coupon lender will have future funds with which to finance future real estate projects.

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; and evaluation of the character and experience of the borrower

While many business people may find the concept of paying higher coupons (10-14%) challenging to get comfortable with, embracing this type of funding is often times the difference between "doing the deal" (successfully), or missing a good reral estate opportunity entirely.

Good real estate opportunities always 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.

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