



How a we offer leverage to Mid-South and Memphis Investors



Any new project requires having the right tools. It is also important to know how the tool works and to

make sure you're using them for the right job. Otherwise you might bring a hammer, when what you really need is a screwdriver. The correct tool gives you the leverage you need to effectively do the job better than you could do with your own two hands.

When it comes to real estate investing, one of the tool sets that you'll need is funding. If you have enough of your own cash, you could invest with just that. In fact, cash can be a very powerful way to convince a seller to work with you rather than with a buyer who is using bank-financing. However, if cash is your only tool then you are missing out.

Bank-financing is a tool that allows you to leverage your buying power. For example, if a property costs \$100,000 and you have that much cash, you could buy it yourself. However, if you can qualify for a bank loan worth 80% of the purchase price then you could potentially purchase five of those same properties with your available cash. Alternatively, you could purchase one property worth five times more than the original example property. This basic concept of leverage is one of the key things that make real estate such an attractive investing strategy.

Hard money loans are an additional tool that all real estate investors should be familiar with. One way to describe a hard money loan is that they are primarily asset-based loans vs. credit-based. What that means is that to qualify for a bank loan you typically need to have a minimum credit score, two plus years of consistent employment history, significant cash reserves and a low debt to income ratio. While a hard money lender may certainly look at and consider these factors, their primary concern is with the property that is being purchased and the plan for what will happen after the purchase.

For example, if the \$100,000 property in the above example would be worth \$200,000 if you only did \$40,000 in renovations then a hard money lender might loan you that entire \$140,000. This is strikingly different from a traditional bank loan where, in the same scenario, you would need to bring \$20,000 of the purchase price plus the \$40,000 in repair costs. Other hard money lenders might require that you come to the table with 10% of the purchase price and they will provide 100% of the renovation costs. Regardless of the specific terms, hard money lenders are typically more concerned with the property's potential than with who is

borrowing the money. That's not to say that you can be a complete financial dead-beat but your personal credit is a secondary consideration.

Another significant difference with a hard money loan is the time it takes to close. With a traditional bank loan, you might expect the time from a signed purchase agreement till the closing date to be 30 days, 45 days or even 60 days. That's because the lender needs to see an appraisal report, verify your income and have the underwriting department review the whole file. Investment Property Financing can often close the transaction in a matter of weeks or even just a few days.

These key benefits of hard money loans do not come for free. It's common to see origination fees (also called "points") ranging from 3% to 5% (compared to about 1% with conventional loans). The interest rates are often 10% – 15% (compared to 4% – 6% with conventional loans in today's market). These loans are typically expected to be paid in full within 6-12 months and the monthly payments are often interest-only.

As you work with these tools more, you'll learn that there are many benefits to utilizing local lenders. Investment Property Financing specialized in the Memphis and Mid-South market so we are quick to decide with the loan. The quicker they'll be able to make a decision on the loan. Some national lenders require specific inspections that are irrelevant in our area.

If you're looking for additional information on properties that would work well with hard money loans, [contact us](#) for a free consultation.