



WHY HARD MONEY LOANS ARE POPULAR

At first glance, hard money loans may seem intimidating, but with a smart investment strategy, they are in fact quite beneficial for investors. These kinds of loans have become more popular in recent years due to the volatility of the real estate and money markets, which necessitates acting quickly on investment opportunities. A hard money loan is one of the easiest way to secure funds before a price increase in the market makes the investment return less lucrative.

Despite high interest rates, most hard money loans end up benefitting borrowers in long term investment return. This is the case because most borrowers go into the loan knowing that they can repay it in a short amount of time, usually by freeing assets tied up in other properties. The high interest rates are a result of the limited underwriting that goes into each loan. Since hard money lenders use real property as collateral, they rarely look into the creditworthiness of the borrower. Instead they offset the risk by setting a low loan-to-value ratio and a high yield interest rate. This may seem risky for borrowers, but foreclosure is not beneficial for lenders and is often avoided.

The most alluring aspect of hard money loans is their timeliness. In an economy where values can change at a moments notice, securing a long term loan for an investment is simply not an option. If investors want to get the most return out of their investment, they need a loan which can provide funds immediately. For instance, if an imminent commercial development promises to increase property values in the area, then the earlier an investor can secure a stake in the development, the better. However, the investor's liquid assets may not be readily available; in order to act quickly, the investor will want to secure a hard money loan to give him or her time to reallocate finances.

Finally, hard money loans are a way to initiate multiple investments at once. Investors do not have to waste time securing individual long-term loans for each opportunity; instead, they can secure quick loans to begin developing all of their investments at once. Instead of dipping into equity to expand, businesses can use a hard money loan to begin expansion immediately, without devaluing their net assets. Hard money lenders bear the brunt of the initial investment, giving businesses and investors the financial flexibility to grow at an ideal time.

While a hard money loan may not be the best option for everyone, for investors capable of handling a high-yield loan, it can be a fruitful and worthwhile investment.