THE MORTGAGE PRESS

Hard money: Private money is the name of the game

ADDED: 03/10/2009

BY: Timi Pereira

KEYWORDS: private money, credit, private investors, hard money lenders, Goldenomega.net

Every day, we hear about the mortgage crisis in the media and how it is impacting the economy not only in the United States of America, but worldwide. The reality is, for better or for worse, that the global economy is based on credit.

Funds are usually borrowed to buy a home, a business, a car, or vacations on credit; to pay for home improvements, college tuitions, or an illness; or for other financial losses. This means that if the credit is dried up, our entire economy will collapse!

Traditionally, mortgage companies using private investors' funds were, and still are, the alternative solution to borrowing money, because banking institutions routinely reject loans. If the creditworthiness of the borrower, the value of the property, or the purpose of the loan does not fit the bank's exact, cookie-cutter criteria (even if the loan is secured by real estate), credit may be denied! But that does not mean that mortgage companies specializing in hard money loans do underwriting without due diligence, or without scrutinizing the deal. After all, their money and their investors' money are on the line.

Hard money lenders can get the borrower the money he needs by offering creative financing with cross collateral properties. Most hard money lender companies service their own loans by adding residual income, as their portfolio of unpaid loans grows in their books. And because they service their own loans, they make their own decisions for workout and forbearance agreements when the borrower falls behind with payments.

Tom Johnson at A.S.K. Investments Inc. in Stanton, Calif. says: "I have never foreclosed on a borrower in the past 14 years in business. I always work with my borrowers to assist them in keeping the loans paid and my investors happy." This is one of the benefits of dealing with the hard money lender directly, rather than talking to a loan servicing company or a bank.

As the hard money industry evolves, so do the investment vehicles for the private investors, which can be an individual, a company, a pension plan, an Individual Retirement Account, a profit sharing plan, etc.

The most popular format for a hard money loan is to have either a single beneficiary/investor loan or a multi-lender loan with fractionalized interest, where all the investors basically own the promissory note signed by the borrower and are directly assigned on the mortgage or deed with their undivided percentage of ownership. The latest investment vehicle and a more sophisticated form of investing is a 'pool.' In plain terms, this 'pool' is basically in the form of a Limited Liability Company (LLC), where the founder becomes the managing partner and each investor who brings capital into the LLC becomes a member of the LLC. Since a pool will be selling securities and shares, a proper permit by the U.S. Securities and Exchange Commission must be issued and the founder may need to obtain the proper license from his or her state regulatory agency.

Consulting a securities attorney or one who specializes in the formation of these types of pools and entities in your state is a must for legal compliance. The attorney will draft the pool prospectuses, which outline the type of loans, cost of the management fees and servicing fees the founder will collect, and many other relevant points clearly spelled out for the potential investors to know and understand what they are investing in and what is their approximate return and yield on their monies. In addition, from its inception, it is equally important to bring in a Certified Public Accountantsomeone who understands pools and their auditing requirements, and can discuss the pros and cons of a cash basis or accrual basis accountingwhen managing a pool.

The other piece of the puzzle is softwareone capable of handling the management of the pool assets, investor distribution of dividends as a cash payment or reinvestment, investor account statements, balances, history of distributions, trust accounting and reporting.

Timi Pereira is the founder, president and chief executive officer of Goldenomega.net. She may be reached at (866) 830-5147, ext. 203 or e-mail timi@goldenomega.net.