



How to Process a Hard-Money Loan in 20 Steps

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In a perfect world, each hard-money loan would follow the same process from origination to closing. But in the real world, no two are identical.

However, the following 20-step loan process can apply to any transaction — even if some steps are skipped or completed out of order.



- 1. Prepare a lead sheet:** Create it with all key, salient facts, including loan type, loan amount, the borrower, use of funds, loan description and the supporting documentation available.
- 2. Review loan criteria:** Utilizing standard underwriting criteria, review the lead sheet and loan submission for funding possibilities. The No. 1 reason for declined hard-money-loan applications is a loan-to-value outside standard guidelines.
- 3. Set up loan-tracking:** If the loan submission passes initial review criteria, set up the loan in a pipeline report using one of the pipeline-reporting programs.
- 4. Set ground rules for funding:** Inform all stakeholders of the funding's timeline, fee splits, rules and more. Make sure all parties agree on them.
- 5. Complete a loan application:** Most hard-money lenders will use Fannie Mae Uniform Residential Loan Application Form 1003 because it gives a good snapshot of the loan submission. Some lenders have their own commercial-loan applications. Adjust them appropriately.
- 6. Set pricing:** Based on the information received, determine the price of the loan or a good-faith estimate. Set loan fees, interest rates, terms and interest carries, and prepare the pricing.
- 7. Draft the fee agreement:** Work with the borrower so that all fees and basic terms are known and agreed upon before funding the loan.
- 8. Research stakeholders:** Acquire information on key stakeholders using various tools. Use the Better Business Bureau and regulatory agencies to verify the character of various stakeholders and check for proper licensing.
- 9. Prepare an offering summary:** Once you know you have a loan, create the summary with all salient facts, including acceptable deal terms, the loan-to-value rate and origination fees.
- 10. Request documentation:** Ask the borrower to prepare an executive summary with the loan's basic information. This includes the principal's experience, financial proformas and the use of funds. In addition, ask the borrower to submit all basic information needed to underwrite the loan, including but not limited to the appraisal, preliminary title report, credit reports and financial statements.
- 11. Shop the loan:** Use *Scotsman Guide's* lender matrix and shop the loan for your client. Pass the scenario by lenders until you find a good home for your loan.
- 12. Prepare a noncircumvent agreement and register client:** Create the agreement with the necessary stakeholders and register your client with the lenders. After knowing you are protected, copy and submit the loan package to the lender with all key information.
- 13. Obtain a Letter of Intent (LOI):** Get an LOI or approval based on the information you provide the lender. The LOI should give the basic terms of the loan, its closing timetable, its contingencies and more.
- 14. Open escrow:** This will trigger ordering a preliminary title report, used as the basis for the title-insurance policy. Obtain additional information necessary to close. This typically is delineated as contingencies in the LOI. Resolve all title issues, such as unreconveyed loans and judgments.
- 15. Get a commitment letter:** Obtain this letter once LOI contingencies are satisfied, which can take time. The letter will include a firm closing date and list any adjustments from the LOI.
- 16. Develop documents:** After issuing the commitment letter, have the escrow instructions, promissory note, deed of trust and any other documents prepared.

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17. **Execute documents:** Administer the documents in escrow, acquire signatures on all docs, notarize the deed of trust and submit to escrow for final review before the funding of escrow.
18. **Finish funding:** Once the escrow is funded, ensure documents are recorded and get verification. After escrow receives verification of recording, funds should be dispersed according to escrow instructions.
19. **Store files:** After receiving all executed documents from escrow, make copies of all correspondence. Stack the file with pertinent information. Keep all documentation for the required regulatory period.
20. **Monitor until reconveyance:** Continue to watch the loan and the payments to make sure there are no issues through to reconveyance. Once the loan is reconveyed, continue communication with your borrower to ensure all financing needs are met.

Ideally, loans would follow this process or something similar. Unfortunately, in hard money, you have to “kiss a lot of frog before you get a prince.” Many loan submissions never make it through the entire process, so only a few steps will come up in every instance. That’s just the nature of our business.

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