



Packaging Hard Money Loans – More Art than Science

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Everyday we are asked the same questions: “What documentation do you need?” or “What does a typical Hard Money loan package include?” This can be a very difficult question because every Hard Money loan is unique and the components that comprise a Hard Money loan package are specific to each loan. So, developing a complete, comprehensive loan package is really more of an art than a science. The loan package must include not only all significant data relevant to the loan and its collateral, but it must be presented in such a way that the prospective lender/investor finds it attractive. Additionally, each lender is unique and requires different information to be included in a Hard Money loan package. For example, lenders often differ in their documentation requirements regarding the issue of value. Some lenders do not require appraisals; others want appraisals in their name and want to choose the appraiser and the type of appraisal to be performed. Other lenders may rely on BPOs, comparative analyses, market surveys, purchase prices or calculated values based on the collateral’s operating performance or location. Each sophisticated lender will have his/her own requirements, which are usually based on experience.

Thus, the challenge in packaging Hard Money loans is not only to accurately analyze the quality of the loan, but to anticipate the needs and requirements of the lenders. The result

must be an easily read loan package, containing an analysis of the economic aspects of the loan and the necessary supporting documentation, which will allow you to quickly qualify your prospective lender. Poor or inadequate loan packages cause many false starts with lenders, lead to a breakdown in your relationships with borrowers and will waste a great deal of your time. Be prepared for the differences because there can be quite a few.

One of the best ways to forecast documentation requirements is to: identify a select group of lenders that fall within your funding guidelines; develop relationships with these lenders; and begin working with them. After you have established a working relationship with these lenders, you will be able to predict what documents will be needed. As you begin to pull together loan packages that satisfy your lenders’ requirements, you will begin to close a much higher percentage of the loans you present.

Any documentation list will adjust as new issues arise, such as unreconveyed loans or unknown judgments on the property. It is typical that a more in-depth examination of a Hard Money loan request will reveal unforeseen issues with the collateral. Do not be concerned. Often times, many of these stumbling blocks can be overcome by additional questions to the borrower and requests for documentation that better supports the loan package. If the value of the property can be confirmed

and the Loan-To-Values (LTVs) are within the underwriting guidelines, then chances are, with more effort and investigation, you can overcome the obstacles.

HERE ARE A FEW THINGS TO CONSIDER WHEN ASSEMBLING YOUR LOAN PACKAGE:

■ **Know Your Lender.** The information to be included in a Hard Money, commercial loan package is usually determined by the lender’s knowledge of and/or attraction to the property itself. Lenders are usually very familiar with a specific type of loan and the geographic area where the property is located. Because Hard Money loans are usually secured by commercial property and based on LTV ratios of that property, lenders may be more lenient or strict on the funding, depending on the specific area and market conditions.

Each lender has his/her own underwriting process. There are similarities but also important differences of which you should become aware. Some lenders like to assemble their own packages. Other lenders want the borrower or brokers to gather the descriptive and verifying information. Since lenders have their own loan specialties and preferences, you should determine each lender’s requirements and tailor your loan packages accordingly.

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■ **Know Your Market.** Each state and local agency has its own requirements (i.e., for endorsing projects, approving maps and disclosing information). Know the market in which you are working so that you can pull together the correct information for your lender. Also, make sure you understand the processes of your markets for foreclosure, planning, etc. The better you understand your market, the more credibility you and your package will have.

■ **Know Your Product.** Understand your collateral. Determine whether it is in a stage of development, where it is in the approval process, the regulations that affect it, its location and the status of the preliminary title report. This understanding will help you to determine the types of documentation you will need to make lenders comfortable in funding your loan. Nevertheless, objections may arise and will need to be overcome. But, a well-documented package is one way to reduce complications.

■ **Know Your Borrower.** Knowing your borrower is key to any transaction. Many times borrowers think they are helping by not fully disclosing their situation or project to the lender. Some borrowers hold back information they may not consider to be important, yet it may be information a lender requires. Almost always, this will waste everyone's time and efforts since detailed due diligence will uncover this information and may reflect negatively on the borrower or on the loan. Additionally, this approach hurts the funding process because delays in obtaining the proper documentation necessary to verify key facts prevent lenders

from familiarizing themselves with the loan. Lenders understand the complications of Hard Money loans. If the loan makes sense, they will fund it, especially if the LTVs are in line with their underwriting guidelines. So, the better you know your borrower, the better chance you have to pull together the proper documentation necessary to get your loan funded.

PACKAGING PROCESS:

There is a simple, three-step process you should understand when preparing your loan package: (1) write and submit an Initial Offering Summary for the lender's review (a one-to-two page overview of the salient facts); (2) identify a lender; (3) (if the lender is interested) obtain the lender's comprehensive list of documentation requirements. This process will not only help to increase your productivity but will also help to increase the number of loans you close.

DOCUMENTATION REQUIREMENTS:

If you are new to the Hard Money industry or simply wish to get a general idea of what is expected, the following is a helpful list of possible documentation requirements for your Hard Money, commercial real estate loan package. (Please note that this list is fairly comprehensive but is not exhaustive. Requirements may vary by lender, property, market, etc.) Some of the information is not used in the decision-making process other than to understand the factors surrounding the borrower or loan collateral. For easier review, the list has been divided into two sections: general package requirements and project specific requirements.

General Package Requirements:

General package requirements typically are required of every loan and will provide enough information to make residential loans and some other finished product loans. The following are documentation requirements typically required for all loans.

- Executive or Offering Summary with a property history
- Borrower's experience
- Most recent appraisal, opinion of value, BPO or comps
- Preliminary Title Report (if not available provide APNs or similar documentation)
- 1003 or commercial loan application (includes schedule of assets, net worth, etc.)
- Credit report or authorization to pull credit
- Color photos of the property – views from the front, rear, side, street and interior
- Schedule of monies invested in project to-date, including, if applicable, the purchase date, amount, etc.
- Property insurance agent contact information
- Use of funds schedule
- Pro forma financial
- Settlement sheet (HUD-1), purchase contract and escrow instructions for acquisitions
- Research and any other supporting documentation available (i.e., Notice of Default, foreclosure information, etc.)

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Project Specific Requirements:

Additional requirements are needed for construction, acquisition and development loans, as well as other loan types.

Construction Projects:

- Copies of construction plans and budgets
- Tax parcel number for each parcel
- Invoices for all soft costs incurred to-date with proof of payment
- Contract with general contractor (g/c) for infrastructure or, if borrower will be g/c, copies of contracts with all sub-contractors
- General contractor's license number
- Copy of all permits issued to-date
- Copy of department of real estate report
- Copy of all reports and studies, including geotechnical, environmental, traffic, etc.
- Stamped copy of preliminary or final plat map with all engineering drawings
- Construction timeline with draw schedule

Land Acquisition and Development:

- Environmental Reports (phase I, II and III as required)
- Environmental Impact Report (EIR) and Wildlife Studies
- Stamped copy of preliminary or final plat map with all engineering drawings (if applicable)
- Survey and Engineering Work copies
- Status of Entitlement Work (if not mapped, provide a write-up with government agency letters, notes, etc.)
- Development timeline with draw schedule

Income-Producing Property:

- Rent Roll (list of tenants, units, unit size, number of bedrooms, term of lease, current rent)
- Schedule of Leases (list of tenants, start date, lease expiration, square footage, mix, deposits and rent)
- Copies of all tenant leases or rental agreements
- Property: income from the last 2 years, expense statements and a year-to-date operating statement.

Ownership Documentation:

- Copies of all corporation papers: by-laws, incorporation certificate, articles, DBAs filed
- Copies of all partnership documents: filed certificate of partnership, partnership agreement, certificate of existence from the Secretary of State, LLPs, DBAs, Assumed Name Certificates, operating agreements
- Trusts: copies of filings, agreements, pertinent papers, etc.
- Certificate of good standing from Secretary of State

Borrower's Financial Documentation:

- Personal: if any borrower owns a business, obtain a financial statement and two years of tax returns on the business
- Partnership/L.L.C./Corporation financial statements on the entity, including two years history, assets and liabilities, and federal tax returns for the last two years
- Last two years of federal tax returns on each borrower/couple/general partner/guarantor (if self employed, collect a year-to date P&L)
- Personal financial statement on each

borrower/couple/general partner/guarantor, including two years history, assets and liabilities

- Verification of employment/income
- Copies of bank statements for the last 12 months

Miscellaneous: There may also be additional requirements such as:

- Verification of mortgage
- Copy of signer's driver license, social security card or passport
- A list of other lenders/sources approached and the reasons why they passed
- Inspection reports
- Signed copy of LOIs, commitment letters or other required lender documents
- Rehabs: lenders require future value of property, a copy of purchase contract and budget
- Bankruptcy discharge papers
- Loan reconveyance and judgment releases
- Foreclosure payoff demands
- Attorney letters of opinion
- Lawsuit settlements
- Copies of existing notes with statements and trust deeds
- Certificate of occupancy
- Hazard insurance policy
- Other court papers (i.e., documentation of a pending settlement or issues settled in court)

One key step to getting loans funded is determining how much documentation is enough, which comes with experience. The more documentation lenders or brokers ask for, the longer the loans may take to fund because of the time it takes to pull the documentation

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together. The more brokers/conduits are involved, the quicker packages come together. Brokers/conduits should assist with modeling, writing, requesting and couriating, which helps get packages funded faster and makes more efficient use of your time.

When preparing a Hard Money loan package, you need to be flexible and proactive. To achieve the fastest results, obtain the information your selected lender requires, based on your experience with the lender, the property, the geography and the criteria for funding.

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