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Practically all [hard money lenders](#) undertake what is called property based loaning to their own clientele. Consequently the exact property which the investor desires to receive a mortgage for purchase will serve as collateral for the mortgage mortgage. These types of lenders use an LTV (mortgage to value) ratio that's a good deal less than what a standard bank might provide finance for.

Sixty five to seventy percent is a standard mortgage to value ratio for hard money. So if a investor wanted to purchase a property that cost one hundred thousand dollars a hard money lender would grant a mortgage for approximately sixty five thousand to seventy thousand dollars. The remaining amount of the cost of the exact property will have to funded with a down payment from the investor.

Conventional banks actually used to have down payment requirements similar to these modern hard money requirements. A fifty percent down payment was not uncommon just a few decades ago for people to put down for a mortgage on their own own home. Back then interest rates were more in line with market forces and so it was more expensive to borrow. People saved more as a result of these higher rates, which is always better than getting in more debt.

These days hard money loaning serves more short term borrowing needs. Usually hard money lenders give loans for a couple of months to perhaps a few years. Rates of interest will be quite a bit higher than what you pay to a bank. The higher rates are to compensate the lender for the increased risk he or she is taking on.

The borrowers are often funding real estate transactions that may be uncertain or highly risky given today's market conditions in the sector. So in case the investor cannot pay back the mortgage as agreed, the higher rate of interest acts as a sort of insurance policy against loss for the lender. And that is the reason for the higher down payment requirement as well. The investor is thus also incentivized to pay off the mortgage.

12 to 18 percent is a pretty typical range these days for hard money interest rates. The four or five percent that banks charge is obviously a lot lower than this. But with the rising monetary inflation of the Federal Reserve in the US, you may be justified in predicting both or these rates will go higher in the next few years.

Hard money lenders can grant loans very quickly and that is one of the reasons property investors rely on them so heavily. A lot of times an investor will find a deal that has to be pounced on quickly. And there is no way that waiting thirty days or more for a bank to grant a mortgage is going to work. Much faster than banks though, a hard money lender can sometimes undertake it in less that a week.

Quite a few hard lenders will actually make a sound commitment as to the specific day the funding will be available. Knowing that the money will really be there when they need it gives borrowers more confidence in the lender they are using.

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