

Private Loans on the Rise

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If you have purchased or otherwise been involved in real estate, you may have encountered the term “Private Lender.” Such lenders (sometimes known as “hard money lenders”) make short-term loans (typically 12-24 months in duration but can be extended) which are secured by any type of real estate (residential, commercial, land, etc). The loans are funded by private investors as opposed to conventional or institutional lenders such as banks or credit unions. Private lending is increasingly popular in South Florida for a number of reasons and will likely continue to grow. This article will touch on the basics of private loans and the circumstances under which they can be an advantageous alternative to traditional financing.

Private lenders are primarily concerned with the value of the collateral property rather than the borrower’s credit, income and/or job history. For instance, borrowers who are unable

to obtain conventional financing due to a recent foreclosure, short sale, or job loss may still be able to obtain a private loan if there is sufficient “equity” in the property that is being offered as collateral. The loan amount is generally determined by calculating the ratio of requested loan amount and dividing it by the value of property. This is known as the loan to value ratio (“LTV”). By and large, private lenders will lend in a range up to 65%-70% of the LTV. Some private lenders may also consider the borrower’s plan for the property. As such, the borrower should be prepared to present a reasonable plan that demonstrates how they intend to ultimately re-pay the loan. Such plans typically focus on improving the property, “flipping” the property (i.e. re-selling the property), and/or procuring long-term financing when appropriate.

Private loans generally require monthly payments of interest only with a balloon payment at the end of the term of the loan. Actual interest rates vary based on the lender, property, and situation but are typically



in the 8% to 14% range. The loan origination fees (sometimes called “points”) can range from 1% to 5% of the loan amount. Since private loans carry high interest rates and loan origination fees, they are not appropriate for every circumstance. For instance, a borrower with good credit/income/employment history purchasing a primary residence, with no prior foreclosure/short sale issues, should pursue conventional financing at a bank, credit union or other institutional mortgage lender which would be at lower interest rates, provided there is not a significant urgency to close.

Many real estate investors utilize private or hard loans based on the ability of the lender to fund loans quickly. If title to the collateral property is clean, such loans can be funded within a week and sometimes earlier. The ability to close quickly gives investors a distinct advantage in tight real estate markets. Conventional/institutional loans, on the other hand, can take 30-45 days or longer to fund. Other typical situations for private lending include land loans (which generate no income), “fix and flips” (where the high interest rate does not deter the borrower, as it is a short term hold), and construction loans (which the

borrower can refinance into permanent conventional loans once construction is complete).

Based on the foregoing, there are certainly specific circumstances that may justify the higher interest rates and lender origination fees associated with private or hard money loans when conventional/institutional financing is either not available and/or not practical.

THE ELIAS LAW FIRM CAN HELP

If you need assistance with a private loan, feel free to contact The Elias Law Firm at 305-823-2300, via email at relias@eliaslaw.net, or visit us on the web at www.eliaslaw.net.



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Apply to Become a Member of the Transportation Trust

The Citizens' Independent Transportation Trust is recruiting new members for all areas of the County but currently has vacancies in Commission District 2, North Miami-Little Haiti area; Commission District 6, West Miami area and Commission District 7, Coconut Grove – Gables – South Miami area.

The Transportation Trust is the 15 member volunteer body created to oversee the expenditure of the proceeds of the ½ cent sales surtax. The surtax generates approximately \$250 million annually and is used for a broad range of projects including the Orange Line Metrorail extension to Miami International Airport, a new fleet of Metrorail vehicles and a broad range of municipal projects including 27 municipal trolleys.

Trust members review contracts requesting PTP funding, monitor the progress of Surtax funded road and transit projects and manage the PTP Municipal Transportation Program. There is a restriction, however, that members are not allowed to conduct business with the County during their tenure on the board.

Transportation Trust members are dedicated to advancing the community's vision for public transportation using their knowledge, skills and experiences and invites you to join by submitting your application to become a member. This is a volunteer position and members do not receive a salary.

Applications and additional information are available online at www.miamidade.gov/CITT or by calling Nya Lake at the Office of the Citizens' Independent Transportation Trust, 305-375-1357.

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