SHERMAN BRIDGE
LENDING

How to Recognize When You Are Working with a Loan Shark

You need cash to purchase a distressed property so you can fix it up and flip it. The property needs plenty of repairs, and a traditional mortgage loan is too slow. You decide to turn to a "hard money" lender.

But when is the lender really a loan shark? (Wikipedia describes a loan shark as someone who offers loans at extremely high interest rates.) This checklist will help you weed out the loan sharks from a legitimate hard money lender.

- ☐ **Hidden Fees** Even if they aren't charged up front, high fees may be hidden from sight if they are rolled into the loan amount or can be requested of you at payoffs. This is a popular way for a loan shark to pad the bottom line and potentially get around local usury laws. Make sure that you receive full disclosure, up front, on any fees you are asked to pay, through the full term of your loan and even in the case of an extension. If your lender doesn't provide you with a clear breakdown of costs, upfront and throughout, it is a clue a shark is planning to get a big bite out of you.

- ☐ **Excessive Loan Points and Interest** A point is 1% of the loan amount. You will generally pay at least 1-3 points for the loan origination. But when the lender requires points of 4 or more to be paid at closing, or more than 14% interest, there may be a shark in the water.

- ☐ **No Paperwork** Loan Sharks are typically place more emphasis on the property than your success as a real estate investor. If the lender doesn't ask you to fill out a loan application, doesn't care about your credit score, and isn't concerned with your ability to repay the loan, you are likely dealing with a loan shark.

- ☐ **The lender wants to do the appraisal** If your lender is insisting on doing the appraisal in-house, be warned. The property value should always be determined by a third party. It would be ridiculous for a lender to allow the borrower to come up with the value of the underlying collateral. So why would you want the lender to determine it? Loan sharks will make this appear to be a cost saving convenience, but in reality it gives them the ability to decrease their risk and increase yours. If they undervalue the property that means you will be required to bring a bigger down payment to closing, which could put you in the danger zone if you have limited funds. If you cannot make the payments the shark can foreclose on the property at a bargain price, thus turning your downside into their upside.

- ☐ **No Broker's License or Lender's Registration** In most states it is not required to have a license in order to originate hard money loans for investors, although a lender that has gone out of the way to obtain one is establishing professionalism and trust by allowing the supervision of a major regulatory authority. This shows responsibly on the lenders part and is a sure sign you are NOT dealing with a shark.

**Consult this checklist every time you approach a broker or lender.
Real estate investing should be lucrative for you, not them.
Get a lender you can trust!**

Are you really excited about flipping a house, but not sure if you qualify? Find out now!