

# Hard Equity Loans:

## *An Overview*

By Gary Opper, Approved Financial Corporation, Weston, FL  
954-384-4557 Fax 954-384-5483

### **Introduction**

Need to close a loan *quickly*? Need a flexible lender with flexible terms? Need a no questions asked loan? A Hard Equity Loan may be the answer.

Hard Equity loans defy a plain and concise definition. Different people define Hard Equity loans differently. Mortgage lenders, mortgage brokers, borrowers, federal and state regulatory agencies and others have varying definitions of a Hard Equity loan.

A Hard Equity loan is a loan based on the real estate property without significant regard to:

- The borrower(s)
- The borrower's income
- The borrower's employment
- The borrower's credit report or credit score
- The borrower's debts
- The borrower's tax returns
- The borrower's assets

A Hard Equity Lender values the real property value based on his personal experience or a real estate appraisal.

### **When to Use A Hard Equity Loan**

What do you do when you run out of lenders and your borrower's mortgage is still not closed? A Hard Equity loan may be the answer for you and your borrower's need. A Hard Equity Loan requires little or no documentation. Therefore, if the borrower is unable or unwilling to provide the information or documentation needed for a conventional loan, a Hard Equity Loan may be appropriate. A Hard Equity Lender does not look at debts, credit, income, employment or tax returns. Hard Equity Loans are also appropriate for loans that need to be closed quickly. A Hard Equity Lender may offer flexible terms that can match a borrower's needs. Flexible terms include:

- A time period with no payments, such as no payments for 90 days
- A lower initial interest rate
- A no monthly payment mortgage with just a future balloon
- An interest only time period and then a long term self-amortizing mortgage
- A second or third mortgage

Also, a Hard Equity Loan may help a borrower reestablish stability after a foreclosure, bankruptcy, a divorce, the death of a family member, the loss of a job, credit problems or a business failure.

### **Benefits for the Broker**

Financially, mortgage brokerage points and fees may be higher than on a traditional loan. Professionally, you solved a borrower's financial needs.

A borrower's loan is flexibly structured to fit the borrower's needs and not a lender's matrix of programs developed by a Wall Street prompter. A broker talks directly with the lender; not a processor, an underwriter or account representative.

A Hard Equity Loan closes in a few days as compared with two to six weeks for a traditional mortgage. There is no documentation to stall the loan from quickly closing. Therefore, a Hard Equity Loan can save up to five weeks of processing, documenting and headaches. Imagine how many more loans you could close if you could spend your time marketing instead of processing!

### **Benefits for the Borrower**

A Hard Equity lender will probably overlook many items that are critical to a traditional lender. These overlooked details include:

- Foreclosures
- Bankruptcies
- Judgments
- Credit dings, dents and damages
- Unreported income
- High debt ratios
- Unknown source of down payment
- The number of total outstanding mortgages.

Hard Equity Loans are quick and the terms are flexible. A borrower or his broker deals directly with the lender.

## **Disadvantages for the Borrower**

The disadvantages of a Hard Equity Loan are obvious. The interest rate is generally higher and the loan to value is lower than a traditional mortgage. A Hard Equity Lender looks at the real estate value carefully based on the actual sales comparables in the area.

## **Terms**

Generally, a Hard Equity Lender lends up to 65% loan-to-value on an owner occupied single family residence. The loan-to-value may be reduced, depending on the lender, for other real property. Other types of real property include nonowner occupied real property, vacant residential real property, a condominium, a townhome, mobile home, mobile home with land, vacant land and commercial real property.

Usually, loan-to-values up to 50% are available on commercial real property. For vacant land, the maximum loan-to-value varies from 30% to 50%; however, a Hard Equity land lender is relatively rare.

The interest rates vary from a high of the maximum interest rate allowed by the state where the real property is located to an interest rate as low as several points above the nonconforming rates. The lengths of Hard Equity mortgages vary from six months to 30 years. Most Hard Equity Lenders' amortization periods range from interest only to a 30-year fully amortized loan. Generally, smaller loans are self-amortizing. Most Hard Equity mortgage lenders charge from none to several lender points. The lender may also charge a lender inspection fee, a document preparation fee, underwriting fee and a prepayment penalty. Hard Equity Lenders do not have "par plus" pricing.

## **Your Hard Equity Lender**

A Hard Equity Lender is an entrepreneur. A lender tends to lend in a local area and, occasionally, statewide. A true Hard Equity Lender is a direct lender. The closings are fast since the decisions are made quickly by the direct lender and not by a committee, board or some underwriter. Also, the terms are very flexible since the decisions are made locally.

## **Hard Equity Loans Are Logical**

Why are Hard Equity Loans only at 65% loan to value? Hard Equity Loans are fast and generally with no questions asked. Therefore, the loan to value is lower because of the unknowns. The unknowns may include items related to the borrower: credit status, total debts and debt ratio. Also, the unknowns include items related to the property: the actual real estate value, a survey, roof condition, termite infestations, an interior inspection, etc. There may be minor problems with the title that a Hard Equity Lender may overlook that a traditional lender

may not overlook. Overall, the property or the person involved in the transaction may be “damaged”.

### **Action Plan**

1. Seek out a professional direct Hard Equity Lender. Talk with the lender and determine the general underwriting criteria, general terms, conditions and rates.
2. Set up procedures today so that every loan that is turned down is analyzed as a potential Hard Equity loan. This includes loans that are turned down immediately by your mortgage employees, loans that are turned down by your lenders and loans that go "bust" at the closing table.
3. Let your mortgage colleagues know that you are now doing Hard Equity loans. Your mortgage associates may be able to introduce you to a Hard Equity lender in your area.
4. Continue with your successful advertisements whether it is the yellow pages, newspapers, community papers, radio, television or direct mail. In your future advertisements indicate that you do Hard Equity lending. Each community addresses this differently, so study ads from your area to see how a Hard Equity loan is addressed. Examples include, “Hard Equity loans”, “bad credit - OK”, “bankruptcies - OK”, “no credit - OK”, and “no credit turn downs.”

### **Conclusion**

A Hard Equity Loan may be the answer when you need to close quick or your client can not or will not provide the required documents for a conventional loan.

Hard Equity lending may increase your income. Implementation of this Hard Equity program could yield gains of 20 percent or more in commission and fee income.

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*Gary Opper is President of Approved Financial Corporation, Weston, Florida. Approved Financial Corporation is a licensed mortgage lender. Mr. Opper has been a Florida Hard Equity Mortgage Lender and National Note Buyer since 1984. Also, he does mortgage consulting. He has a CPA and a CFP license. Opper is past president of the FAMB-Miami Chapter and the FICPA – Gold Coast Chapter. Opper is a member of the NAMB, FAMB, AICPA and the FICPA. Mr. Opper is available to speak to your group. Please contact him to arrange a speech for your event. He may be reached at (954) 384-4557, fax: (954) 384-5483, or e-mail: [approv01@aol.com](mailto:approv01@aol.com).*

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