There is no doubt that today it is harder to get a bank loan for commercial real estate than it was several years ago. There are several reasons for this mostly related to the crash of 2008. As a result of the still lingering effects of the financial crisis that peaked almost five years ago, commercial real estate investors are looking toward alternative sources of capital for their funding needs. Private money lenders are one of the alternatives to a conventional bank loan.

Private lenders, often referred to as hard money lenders, have become a big source of capital for commercial real estate deals as institutional funding has become more difficult to obtain. It is a fact that privately funded commercial mortgages can have more flexible terms and can close faster than bank loans. It does not mean they are easy to get. At Primeau Funding we feel that an educated client will have greater success in their ventures. It is important to understand the differences between institutional funding and private funding so please read on.

The first of the seven differences we are going to look at is regulation. Banks are highly regulated. Banks must carry FDIC or other government insurance. Every state has a State Insurance Commission whose job is to closely monitor these banking insurance companies. Because this process involves a tremendous amount of bureaucracy, red-tape and rules bank loans are slow, banks are not flexible and there is quite a bit of paperwork and documentation involved.

Private lenders are private entities. They might be a single, wealthy investor or they could be a group of individuals operating under an LLC or Limited Partnership (LP). Either way they are not subject to the regulation of the banking industry.

Private money lenders still have to obey all anti-fraud laws along with all laws against unfair and deceptive business practices. Unlike banks they don't have to report their specific lending activity to any Government Agencies. Private money lenders are not subject to any Government licensing or chartering.

Due to less regulation, private money lenders can be extremely flexible in their underwriting criteria. There is much less paperwork and they can move very quickly if they like a deal.

This brings us to the next difference which is the time it takes to close the loan. Bank and other institutional loans typically take at least 90-180 days to close.

Private loans can close in a matter of just a few days if necessary but it generally takes about 30-90 days to closing. When it comes to speed, private money wins.
The third difference for comparison is the rate. Conventional loans rates are typically based on an established benchmark rate. The bank takes this base rate and adds an index to come up with a loan rate. At the present time conventional rates are on the average between 4.5% and 6.5%.

Private lenders generally don’t sell their loans to Government Enterprises or the secondary market as conventional lenders do. They are putting their money on the line and taking all of the risk. They make their profit on rate and points. Private money loan rates reflect this situation. Most private loans today are at a rate of at least 10% and higher.

Points are another item to look at. In very few instances will a bank charge more than 2 origination points on a loan.

On the other hand, private lenders will charge at least 3 points and as many as 5 or more depending on the deal and the risk involved.

The fifth difference to consider would be the terms of the loan. Most conventional lenders typically offer 3-10 year fixed terms on loans amortized over a 10-25 year period.

Private loans are almost always short term, bridge type loans. Private lenders usually charge interest only payments rather than amortize. The typical private loan term is 1-5 years and must be paid off in full at the end of the term.

The underwriting process is quite different between the two types of loans we are comparing. Because of the regulations, conventional lending institutions are full documentation, full underwriting lenders. First the property is fully underwritten then the borrower. Both must pass muster or the loan will be denied.

On the other hand private lenders typically lend based on the amount of equity in the property and not so much the borrower’s credit worthiness. Due to a more relaxed and flexible underwriting process, hard money loans require much less paperwork and documentation. The underwriting is much more straight forward with private money than it is with a bank loan.

The seventh and final difference we are going to look at is loan-to-value (LTV). Today even the largest, strongest banks won't lend more than 75% LTV. An LTV of 65% is typical unless a borrower has a lot of “skin in the game” and a strong balance sheet.

Private lenders will not exceed 65% LTV even for properties that have excellent cash flow. Underperforming or vacant buildings will be in the range of 50%-60% and land loans will come in considerably under 50% LTV.

Bank loans have their advantages but you must have excellent credit. Unfortunately a lot of people don’t have the credit it takes to get a bank loan these days. Although private lenders are more expensive and offer only short term financing, they may be a borrowers only option.

Primeau Funding can help you determine which method of financing will work for you and help you get the funding you need. Contact us today for you commercial real estate funding needs.
Effective Loan Package

Here are some key factors involved when submitting your loan package to Primeau Funding. There are just three documents we are interested in reviewing before we can provide you with our level of interest:

1. **Loan Profile:**
   Completing this form will provide us with a lot of key information about your funding request. (Not applicable for Wind Energy or Oil and Gas)

2. **Sources and Uses of Funds:**
   This form provides us with information about equity in the deal.

3. **Executive Summary:**
   This will assist us with understanding your project in full detail.

_Summiting an Executive Summary_

One to Three Pages (3 pages maximum) to include the following:

- State exactly what the project is.
- State a summary of the income for the stated project.
- State the background of the individuals.
- State the net worth of the individuals.
- State the amount of funds needed.
- State the amount of funds being furnished by the individuals.

Funding Available for Non-U.S. Residents

Primeau can provide financing for Non-U.S. residents. If you have a good project that needs funding but are not a resident of the United States, we can help. Contact us today if you are a Non-U.S. resident looking for funding.