

Hard Money in a Changing Economy

Hard Money in a Changing Economy.

As many of you know, there has been a major shift in the sub prime mortgage market. In the boom years of the turn of the century, the mortgage market was inundated with exotic sub prime money for borrowers. Never has the mortgage community been so borrower friendly to people with low FICO scores, undocumented income and no employment verification. Many in the mortgage business have called this type of loan a "liars loan". Consequently, thousands of sub prime borrowers from coast to coast took advantage of the opportunity to get their piece of the American dream....home ownership.

For many, this turned out to be a wonderful opportunity to finally own their own home. Except for one small detail...the adjustable rate mortgage. Little did the borrower know that the initial interest rate was only a teaser to last a short period of time. To the dismay of many borrowers, the mortgage interest rate began to adjust and the "affordable" initial monthly payment began to rise significantly. In no time we began to see notice of defaults rise and foreclosure rates hit 20 year all time highs.

To make matters worst the same mortgage companies that were eager to lend mortgage money to this class of borrower has now said "no more for you". The mortgage companies are not able to sell the paper to the investors. Wall Street has very little appetite for a portfolio of mortgages in foreclosure.

I believe we are at the beginning of what I refer to as "mortgage meltdown" that may have consequences for many years to come. Having said that, where is the silver lining?

The answer is simple, there is no silver lining. However, there are several opportunities that borrowers can choose from. The most common approach is obtaining a hard money loan. A hard money loan is not intended to fix a long term problem but to offer a short term solution. Most hard money lenders loan on the value of the property taking in consideration the LTV ratio. Simply put, the hard money lender generally loans up to 70 to 75% LTV. The hard money loan gives the borrower options. Rather than lose the property to foreclosure, the borrower has gained a valuable commodity...time. Time gives the borrower the ability to sell, refinance, or rent the property without the impending event of foreclosure hanging over their head. Yes, hard money is more expensive than a conforming mortgage rate. The coupon rate for a hard money first trust deed is in excess of 10% in most cases. In addition hard money HELOC's or a hard money second mortgage is considerably higher yet. Considering the options, hard money or private money can be a very useful product in many cases.

The key to selling a hard money loan is being able to assist in determining an exit plan and working with the borrower to fully execute the plan.

This type of professional approach will not only help the borrower but may result in a subsequent loan for your pipeline.

Obviously, there is a tremendous opportunity for mortgage brokers to earn a great deal of income in this emerging market.

Remember, you are dealing with people's lives and the homes that their children live in. Have empathy and treat them fairly.

<http://www.pitbullmortgageschool.com/marketcommentary.htm>

About the Author

Mr. Hapsburg is editor of three published books, and holds a double major in English Literature from the University of Iowa, along with a degree in Economics from the Wharton School of Business. Winner of multiple writing awards, Mr. Hapsburg contributes articles on money, investing, and the world economic climate to numerous forums and accredited news outlets.

Source: <http://www.tntarticles.com>