We Have One Goal:
To Help Real Estate Investors Grow Their Portfolio

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14 FAQs About Private Lending For Real Estate Investors

Ninety percent of all millionaires become so through owning real estate. – Andrew Carnegie

Private lenders offer diverse financing products to fit the needs of many different types of investor borrowers; and, terms and qualifications are generally more flexible as opposed to conventional lenders such as banks or credit unions. Many investors who don't fit the traditional bank model turn to private lenders to finance their properties. In today's competitive real estate lending market, it's important to have a basic understanding about private financing. Here are "14 FAQs About Private Lending For Real Estate Investors."

Q. What's the difference between private money lending and conventional lending?

A. Conventional mortgages conform to guidelines set by Fannie Mae or Freddie Mac which are quasi government entities. Most private lenders get their money from "capital partners" or "capital markets." Some even get their money from individual investors. Since private lenders don't depend on the FED, their capital partner (the supplier of the money) make the rules.

Q. What are the requirements when getting financing from a private lender?

A. Many private loans require a Debt Service Coverage Ratio (DSCR). So, the main focus is based on credit and the location & cash flow of the subject property. Employment, and Debt-to-Income (DTI) are irrelevant. Although there are a few exceptions, generally, tax returns are also irrelevant.

Q. What is the maximum number of private loans investors can get?

A. There is no maximum number. Private lenders don't care about the number of mortgages you have outstanding. Whereas conventional lenders maximum number of loans they can provide is 10 and they impose stricter qualifications when you want to qualify for more than four mortgages.

Q. What is the minimum loan size and value required for residential properties?

A. It depends on the lender, but most private lenders require a minimum loan of $75K. A few lenders offer a minimum loan amount of $50K. The minimum property value is normally $100k - $125K. However, this may vary for 2-4 unit properties. For commercial 5+ unit multi-families, the minimum loan amount can be from $100K - $500K+.

Q. What is the maximum LTV?

A. Typically 75% for a purchase, although, some lenders offer 80%. To refinance and take cash-out, 75% is typical, although some lenders offer 80% LTV. There are other lenders who offer LTVs lower than 75% to refinance and take cash-out.

Q. What rates do private lenders offer?

A. Rates vary widely. Currently, rental property rates are starting anywhere from 6.9% - 9%. If you are quoted an initial low rate that you like, try and lock it in if you can, because before you close, there's a very good chance that rate could go up. Especially in this current high inflation environment with interest rate continually rising.

Q. Are private mortgage loans reported on personal credit reports?

A. Normally, these loans are not reported on a personal credit report which is one of the reasons why most of these loans are referred to as business loans. However, if a real estate investor defaults on a loan, it may be reported on their personal credit report.

Q. What credit score is required for a private mortgage?

A. That depends on the lender – scores vary. Currently, some lenders have a minimum as low as 620, but don't expect a high LTV with a 620 score. If you want a reasonable LTV (70-80%), lenders typically require a 700+ score.

Q. Are there shorter terms than 30-year options?

A. A few lenders offer 5 and 10-year ARMs (fixed rate for 5 or 10 years then the rate will adjust). Many of these lenders get their capital from the same suppliers, so the terms are very similar.

Q. What is the Pre-Payment Penalty (PPP) on private loans?

A. When an investor pays a loan off early, a typical PPP on a 30 year fixed rate mortgage is referred to as a step down penalty which means the investor pays a percentage of the loan balance usually within the first five years of the loan. Example: If the loan is paid off the first year, the investor is required to pay 5% of the loan balance. If paid off the 2nd year, the investor is required to pay 4% of the loan balance. The same applies for year 3, 2 and 1. Many private lenders offer a pay down, which may consist of an increment of a point, for a lower PPP that may consist of a 3 year PPP.

Q. What seasoning do private lenders require?

A. It depends on the lender, however, most lenders require 3-6 months. There are a few lenders who only require 30 days. Many conventional lenders require seasoning of 6 months+.

Q. Do private lenders require investors to close in an entity?

A. Ninety percent (90%) of lenders require this.

Q. How quickly do private lenders close rental property loans?

A. It depends on the lender, but SFR typically close in 4 - 5 weeks. For portfolio loans (closing more than one loan), expect 5-8 weeks, depending on the size of the portfolio.

Q. What documents are required for a residential rental property private loan?

A. Although it depends on the lender, the documents typically required include:

1. Real estate contract
2. ID
3. Lease(s) if leased
4. Entity docs
5. Voided check

6. 2 Months full bank statements to verify for down payment (if a purchase) and reserves

7. Management agreement (if being managed by a company)

8. List of REO

“Real estate investing, even on a very small scale, remains a tried-and-true means of building an individual’s cash flow and wealth.” Robert Kiyosaki