Quick Reference Guide

LENDER COMPARISON: PROS AND CONS

PRIVATE MONEY/LIMITED PARTNER LENDERS

- Individuals who take a passive approach to real estate investing.

PROS

Non-formalized underwriting process.
Focused on the operator's track record and asset, rather than the operator's credit.
May or may not require loan documents.
Could be comfortable with a promissory note.
Will take senior and second positions.
If the lender and operators are experienced, it could be a quick close.
Typically do not require an appraisal.

CONS

Harder for newer investors to access this capital.
Typically, have limited capital to deploy.
Cost of capital may be higher.
Potentially lower leverage (I.e., you need to put more money down, meaning less money in your pocket to do the project).

INSTITUTIONAL LENDERS

- Typically have a "diversified capital stack" (I.e., use both their own capital and investor capital).

PROS

Lowest cost of capital outside of banks.
Higher leverage.
Quick closes.
Reliable capital.
Higher lending exposure per borrower vs private money.
Loan product diversity.

CONS

Stricter underwriting.
Adhere to lending guidelines.
Most of the time appraisals are needed.

(CONTINUED)

LENDER COMPARISON: PROS AND CONS (CONTINUED)

HARD MONEY LENDERS

- **These could be private, individual lenders :** (in which case the pros and cons are similar to "Private Money" and "Limited Partnerships" above) OR ... **could be institutional lenders using their own money plus investor funds:** (pros and cons for institutional hard money lenders are listed below).

  PROS OF "INSTITUTIONAL HARD MONEY LENDERS (See also "Private Money Lenders" above)
  Fast closings.
  Asset focused.
  Typically, no appraisals.

  CONS: OF "INSTITUTIONAL HARD MONEY LENDERS (See also "Private Money Lenders" above)
  Expensive capital.
  Lower leverage.
  Shorter loans (6-9 months).

"ALTERNATIVE" LENDERS

- A hybrid of all the types listed above.

  PROS:
  Most reliable capital in a changing economy.
  Faster closings than the bank.
  Less expensive than hard money.
  Medium to High Leverage.
  Flexibility in creating a variety of loan products.
  Higher lending exposure vs. private money.

  CONS:
  Stricter underwriting than hard money.
  Appraisals needed. *(Note: our lending company uses local appraisers, rather than appraisers from national companies, which can be inaccurate and slow the lending process).*

For a more detailed discussion of the differences between the types of lenders that are available to fund your next project, head on over to this blog post:

THE DIFFERENCE BETWEEN PRIVATE, LIMITED, INSTITUTIONAL, HARD MONEY AND ALTERNATIVE LENDERS