Ignite May Print Article

Subject Line: Hard Money Isn’t Cheap So How Do We Compete?

It doesn’t matter if you are looking to finance a home loan or a commercial real estate development, everyone wants to pay the lowest rate possible on borrowed money. It’s no secret that traditional institutions, such as small, medium and large banks, are typically able to offer much lower rates than private lenders like [Ignite Funding](https://ignitefunding.com/real-estate-ignite-funding/); so how is it that we remain an integral cog in the wheel of the lending industry?

Unless you work in the real estate development industry as a developer or a lender, you would not realize how many hurdles and caveats that borrowers can face when seeking or utilizing traditional financing. Banks have to be meticulous with their lending practices and tend to be borrower focused, which makes them notoriously slow. They are also restrictive on the [phases of real estate development](https://ignitefunding.com/real-estate-investment-types/) they will lend on and are extremely averse to increased liability, even at the expense of a credit worthy borrower with a proven track record. Below we go into greater detail on how private lenders like Ignite Funding help real estate developers overcome these obstacles by strategically implementing hard money lending into their best business practices.

***Banks have a very low threshold for liability.***

As we all know, banks are juggling a portfolio of loans on all different types of assets, not just real estate development. Banks also rely on their ability to generate loans that are qualified to sell in the secondary market. This means that if the borrower defaults and it is beyond the bank’s ability to achieve recourse on the loan, they can remove that liability from their book of business. However, due to federal regulations, banks are restricted in the amount of defaulted loans they can have on the books which affects their ability to sell loans in the secondary market and originate new loans. Juggling all of these different variables has greatly influenced the amount of liability that banks are able and/or willing to take on.

While this summation does not cover the entire scope of variables and history related to bank lending practices, being liability averse has been an underlying factor in sustaining the need for other sources of lending.

***Banks do not lend on all phases of real estate.***

Real estate development would not be possible without private lenders like Ignite Funding, and here is why. Historically, banks are most confident in lending on construction, and sometimes they will dabble in development projects. According to Pat Vassar, Ignite Funding’s Director of Underwriting, “This leaves a gaping hole in the cycle of real estate development. A borrower cannot even think about beginning a construction project without first acquiring the property, getting the property entitled and zoned, and physically prepping the property for construction.” Property acquisition and horizontal development are essential steps in the process and can require a significant amount of capital to complete these steps. This is why private lending, including hard money lending by Ignite Funding, continues to play a pivotal role by bridging the gap left by traditional institutions.

***Banks are slow to approve borrowers and fund projects.***

One of the major hurdles that borrower’s face when seeking traditional financing is that the banks’ underwriting process largely focuses on the borrower’s credit worthiness and credit history. This requires an onerous amount of paperwork and review of the borrower and the borrower’s company, even if they are a repeat borrower. This review process can take many months which can be detrimental to a borrower’s project timeline regardless of the phase of development. For example, delays in funding can cause the borrower to face increased acquisition costs or a missed opportunity to purchase a property. It can also cause delays in horizontal development and/or vertical construction; which, depending on what happens to the market during that time, can adversely affect a borrowers bottom-line and overall success as a company.

At Ignite Funding, while our underwriting process includes a thorough review of the borrower to ensure that they are a financially sound company, our main focus is on the piece of property and the borrower’s intended exit strategy. The reason being, Mr. Vassar says, “Even the best borrower is only good until they are not. At the end of the day, your main source of recourse is going to be the property you take back through foreclosure and if you are able to execute the sale of the property as it was intended. This is what we call a “loan-to-own” mentality, which means that even if they are a repeat borrower, if we do not believe it would not be feasible for us to successfully manage and sell a property to recoup investor principal, we will not fund the loan.” Maintaining capital preservation for our investors is a major influence in Ignite Funding’s underwriting standards.

***Banks can be cautious lenders to a fault.***

Due to the banks variable loan portfolio, this leaves them susceptible to any market fluctuations. This in turn makes banks apprehensive to taking on more liability during times of uncertainty, even with borrowers that participate in a market that is mostly unaffected. Banks will not only retract in originating new loans, but they will also cut-off a borrower mid-development, even if the borrower is showing no signs of slowing-down in their success to turn-over their product.

“We saw this happen last year [in 2020], with a couple of our long-term borrowers that typically rely on traditional financing for construction. The borrower was already struggling to build fast enough to meet the demand of a hot market, and for no reason of their own the banks shut-off their line of credit mid-construction. That would have spelled disaster for the borrower if Ignite Funding was not able to step-in and inject the funds needed to continue construction,” says Mr. Vassar. In this situation, the cost of halting production and potentially not being able to complete the project at all, more than outweighed the cost of the hard money loan.

Ignite Funding prides itself in its ability to continuously support the success of its borrowers, and in turn, provide quality investments to its investors. To date, Ignite Funding has facilitated 1,376 real estate investments funded with $907 million in investor capital, providing 51 borrowers in 16 states with the ability to acquire and develop over 12,000 acres of land, 8,100 residential lots and 3.5 million square feet of commercial space.

If you are interested in adding passive double-digit returns collateralized by real property to your portfolio, give us a call at 702-761-0000 or text the word “Investments” to 844-552-7022 to stay up to date on all available investment opportunities!

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