

**REPORT**

# **HARD MONEY BROKERS**

**WHERE TO FIND THEM, HOW TO QUALIFY THEM,  
AND A SAMPLE OF QUESTIONS TO ASK THEM**

**This report was developed for students of  
THE BANKERS CODE**

## Section I: Where to Find Hard Money Brokers

Hard Money Brokers can be found everywhere. There's no rule of thumb or magical formula for finding them however. This report, we will help shed some light on where to find hard money brokers and how to qualify them.

Let's start with the obvious. When it comes to finding hard money brokers, simply ASK people.

Ask the following professionals:

- Real Estate Investors
- Real Estate Professionals
- Mortgage Brokers / Officers
- Real Estate Attorneys
- Escrow/Title Companies
- Other Hard Money Brokers
- Real Estate Investors Clubs (ask president and other members)

When speaking with your professional contacts, perhaps the term "private money lenders" or "private money investors", "hard money lenders" would resonate better than "hard money brokers." So always seek referrals from them.

Here are some other resources to find hard money brokers:

- Yellow Pages directories under Mortgage Brokers
- Classified section of newspapers (under "trust deeds for sale", "money to lend", "money wanted")
- Internet is an excellent reference resource. Try searching for "hard money" along with your city name e.g. "hard money", "san jose"
- [www.scotsmanguide.com](http://www.scotsmanguide.com)

It is not difficult to find hard money lenders. Just be mindful that successfully finding hard money brokers depends upon the circles that you run in, the people you approach about your deals, and how many people you make contact with. The odds lean in your favor when you increase your contacts, as well as the spheres for mining for those contacts. Remember, too, that you must *ask for referrals*.

Always be ASKING for referrals!

## Section II: Qualifying Hard Money Brokers

The most important requirements for a broker are openness and honesty. As in any business there are some unscrupulous brokers who are so aggressive that they have let their integrity lapse in order to “do the deal”. When one of these brokers is involved in a trust deed, the difficulties can multiply exponentially and negative information is often concealed so that he or she stands between you and the borrower. Indeed, they will do their best to keep you from having direct access to information about the loan. So, it is vitally important that you screen brokers.

There is no “best way” to find a good broker. A broker’s license offers no endorsement or makes no distinction between him and any other real estate salesman. However, knowledge of matters included in our course (The Bankers Code) should assist you in identifying the broker’s technical acumen. If, however, he or she assigns you to a representative, you will have no tangible way of knowing if that representative has the expertise or integrity you are looking for. Therefore, the best tools for screening this individual are to look for certain technical indicators, have faith in your ability to read their character, and use a healthy dose of skepticism.

### Indications of a Good (or Not So Good) Broker

A possible indicator of a good broker would be his or her affiliations and associations; for example, membership in a loan broker’s association. Loan brokerage is a complicated business, which requires adherence to laws that are as complex as those around the trust deed itself. Membership in such professional associations offers developmental opportunities, and often requires educational programs designed to keep the broker abreast of any variances or changes of the laws. In addition, members of these organizations are inundated with materials informing them of the law. Consequently, these associations offer a broker much more information than the broker who is not a member of the association would gather on his own.

Do not be deceived in believing that a broker’s growing business is a sign of the character of a broker. The loan brokerage business has been described as a “Catch-22” business because the more successful the broker becomes, the less time and incentive he has to keep up with the technical details. Most of the investing public is ignorant of these technical details to recognize incompetence, so this type of broker continues to enjoy his “success”. They are “good salesmen”.

### Determining a Broker’s Success

If you find a broker whose business has been successful for quite a while, however, that may indeed be a good recommendation. A broker’s business that has been successful and prospered over time, and produced continuous income for him, is a validation of his dependability and an indicator that other people have obviously found him reliable.

### Broker Appraisals

Some brokers do not know how to make an accurate appraisal of a security's value, and may recommend an independent appraiser, as an honest attempt toward an unbiased opinion of the value of that security.

If a broker makes the evaluation of the security, the timing is probably a better indicator of reliability. For instance, if his appraisal is made before recommending a trust deed, that may be an indication that he or she is considerate enough to not want to waste your time on a frivolous deal. However, it is important that this should be much more than a simple "drive by" or "windshield appraisal" of the property. This evaluation should include an examination of comparable sales in the neighborhood as well as consideration of other factors usually included in a normal appraisal. According to the law, this evaluation must be presented in writing if it is to be considered an "appraisal" at all.

We recommend you make sure they use a 3<sup>rd</sup> party appraiser.

### Avoiding Unsavory Tactics

In evaluating the hard money broker you want to work with, you should certainly cull the brokers who apply undue pressure on the completion of the transaction. Haste makes waste – which you definitely cannot afford. When you feel *obligated* to complete a deal, you need to seriously step back and re-evaluate the situation. Overt pressure is strong evidence that the broker's interest lies solely in his *own* commission. Never let a broker attempt to minimize the importance of your security by denigrating your role in the transaction. The best deals are "win-win" transactions, where everyone feels good about the deal and everyone gets their fair share.

### Broker Loan Escrows

There are some brokers who prefer to handle the loan escrow. If he or she is insistent on handling this part of the deal, you would be wise to question his or her integrity. Also, a broker who acts without proper authorization from whomever pays his or her commission is acting in violation of the regulations as established by California's Real Estate Commissioner. As a result of such actions, the broker is apt to lose his license.

### Pre-payment Incentives

We all like to celebrate our successes and share them with prospective partners, but when a broker brags about the number of *pre-payment penalties* that have been collected by their investors, this is another warning to avoid this broker.

What these brokers do is focus on borrowers who are already in financial distress, then they "churn" their investors' portfolio by forcing pre-payments of TDs. The thinking is that the troubled borrower will be pressured into selling the property to avoid foreclosure, and as a result, force an early payoff of the loan. The benefits are that the lender profits from collection on the pre-payment penalties and the broker looks good, as well as gaining a commission when the payoff money is reinvested. In this current

economy, though, this scheme isn't working as well now that more and more borrowers are using bankruptcy as a way to postpone or eliminate portions of their obligations.

### Mortgage Broker

Contacting mortgage brokers should be a good source of private lending deals. As you research these resources, it won't take long to learn which hard money brokers have good deals for funding and which have junk. Learning to distinguish which is which will help you avoid making costly mistakes and wasting time. For instance, if a private lending deal/trust deed has been shopped around to many investors, then it probably isn't desirable. To determine if that is the case, it's a matter of looking at the appraisal date, the date of the credit report, loan application date, or asking the hard money broker if the loan has been offered to others.

While it can be daunting to find an acceptable hard money broker, there is a way to speed up the process. And, it is a simple process: ask for referrals from other investors.

All states should have a way to check a broker's license status.

It is of utmost importance to find out what type of license the hard money broker has and if it is current. As an added step of safety, get a copy of their license for your files. It is also wise to get a copy of the license if the mortgage broker is a real estate agent, as well as the name of the real estate broker they work for. Any hesitation on the broker's part should give you serious pause in proceeding in dealing with this broker. The reasons a broker would not provide a copy of his license include a suspended license, they are a real estate agent who is not working for a broker, or worse, they are using a broker's license that was borrowed.

Another thing you should do is ask for a list of satisfied clients from the mortgage broker. If they are unable or unwilling to provide that list, you should probably walk away from this particular person.

In California, a quick check with the DRE (213-897-3399) *is a must* to determine the DRE mortgage broker's license status. You can find out if the broker is properly licensed, how long they've held the license, and if there are any complaints or disciplinary actions against that mortgage broker. That same information can be found at <http://www.dre.ca.gov>. Check online or with your state for the corresponding site for your state.

Another resource is the local Better Business Bureau. They can also check to see if complaints have been lodged against a particular hard money broker.

Unfortunately, some hard money brokers are not as ethical or as detailed as they should be. Too many of them are driven by high competition and often try to shortcut their deals. So, it is most important that you be as thorough as possible to compensate for their lack of diligence.

As in any profession, hard money brokers come in varying shades of honesty. It is wise to keep in mind that these individuals are, after all, working for themselves. So, you must be vigilant of their potential for sins of omission and commission as well as their providing accurate information.

If you don't obtain a loan from a hard money broker that you want to do business with, it's a good idea to keep calling back. They may have a new loan this week. While you don't have to be intrusive in your phone calls, you do need to remember that the "squeaky wheel gets the grease".

### SECTION III: QUESTIONS FOR PROSPECTIVE HARD MONEY BROKERS

1. What associations are you affiliated with?
2. What professional organizations are you a member of?
3. What, if any, broker training or educational programs have you attended?
4. How long have you been a money broker?
5. How many deals have you done?
6. What is the average size of the deals you have done?
7. What type of investment security do you specialize in?
8. Who will handle the loan escrow?
9. How do you handle pre-payments?
10. What type of license do you hold?
11. Are you licensed by CA Dept of Real Estate (DRE)? (*this is specific to CA, substitute your state body*)
12. May I have a copy of your license for my files?
13. Who does your appraisals?
14. Will I get a written appraisal of the property?
15. Do I feel pressured by this broker to move quickly on this deal?
16. Has this Trust Deed/Mortgage been offered to someone else?
17. Can you supply a list of satisfied clients?
18. Do know someone else who might be interested in investing in this type of security?
19. What is my gut saying about this person based on what he or she is saying?

*As part of your class 8-week assignment, you will be asked to generate and be given more questions to ask prospective hard money brokers.*