SOFT MONEY:

Is It the New Hard Money?

By Michael Mikhail, Stratton Equities

"Soft Money" is a relatively new term in the private lending industry, an innovative approach to private money lending. A soft money loan combines similar guideline benefits of a hard money loan but at lower rates and costs.

While a soft money loan requires more underwriting than a hard money loan, it offers lower risks to both the borrower and the lender, making it a deeply attractive option to potential borrowers who find the concept, (but not the details), of a hard money loan appealing.

Hard Money Loans

Hard money loans have become the prime loan product for direct private money lenders. Due to the nature of an asset-based loan, utilizing this mortgage program is based on the Loan to Value (LTV) of the investment property in the loan scenario.

This type of loan program is appealing to both lenders and borrowers, because they require little underwriting, making them a quick loan for the applicant to get approved and a quick return for the lender on their money.

The high-risk nature of this type of loan as well as reservations from the 2008 housing market crash, may make some borrowers reluctant to pursue this type of asset-based loan. Real Estate Investors are attracted to a hard money loan because it has less underwriting and guidelines than a traditional mortgage.

However, with more flexibility comes a higher cost, which is why a soft money loan has become a cost-effective solution to a prospective borrower.

What is Soft Money?

Soft Money is an innovative new approach to private money lending which combines the benefits of both hard money loans and more traditional loans. First, a clarification on the name: the term ‘soft money’ in the world of lending is completely different than ‘soft money’ in the world of political campaigning. In the context of lending, the term ‘soft money’ implies that this type of loan falls somewhere between a hard money loan and a traditional mortgage.

A soft money loan requires more underwriting than a hard money loan, allowing it to have lower rates and greater security. It is based on both the borrower’s credit score and the property’s LTV and is usually a term loan rather than a bridge loan.

What makes a soft money loan groundbreaking in the mortgage world, is that a borrower can also build or repair their credit with a soft money loan, making it appealing to those with lower credit scores or those looking to rebuild their credit.

The combination of lower rates, credit building, and a longer time frame makes the soft money loan a better fit than a hard money loan for many borrower’s situations, particularly those interested in investing in a home or a more long-term property.

Why is Soft Money the Future of Lending?

Calling soft money ‘the new hard money’ may seem trite and contrived, but upon further reflection, soft money truly is the direction for the future of lending.

An innovative approach combining the benefits of hard money loans with lower risk, higher rates, and a term loan time-frame - soft money loans fit many borrowers far better with longer terms (12-18 months).

While the hard money loan is still the preferred option for many real estate investment scenarios, a soft money loan will become increasingly popular for first-time real estate investors, borrowers looking to build their credit score, and investors with a good credit history who are looking for less risk and slightly lower rates.

ABOUT THE AUTHOR: Michael Mikhail is the Founder and CEO of Stratton Equities, the Nation’s Leading Hard Money and NON-QM Lender to National Real Estate Investors, with the largest variety of mortgage loans and programs nationwide. Having launched Stratton Equities in early 2017, Michael has always been an entrepreneur and innovator in the real estate market, purchasing his first home at 19 using a hard money loan. Under Michael’s leadership, Stratton Equities has grown into one of the biggest leaders in the Mortgage and Real Estate industry across genres and platforms.

CONTACT: info@strattonequities.com | https://www.strattonequities.com/