



Where to Turn for Private-Money Clients

Three key business partnerships could lead to a bounty of motivated borrowers.

There are a few key elements to successful private-money (aka, hard-money) transactions. First, borrowers must have enough motivation. In addition, borrowers must see great value from the loan. If the value doesn't exceed the cost of funds, the loan — and your reputation as a mortgage professional — is at risk.

In addition, when value to the borrower is high, brokers likely will see plentiful referrals. Borrowers often are motivated when they have a carrot in sight and a ticking clock.

But where can mortgage brokers find motivated borrowers to whom they can provide substantial value and who have loans that are attractive to private-money lenders?

There are three potential referral sources to which you can turn for clients. By tapping these sources and building trust with them, you could increase their private-money client base.

1. Trial and acquisition attorneys

Many businesses are buying out partners or facing forced separations. Many also are chasing money through lawsuits, which often end with a cash settlement. In these situations, time is of the essence.

These business-owners likely are worried about continuing legal-defense costs as a distraction from running their business. They often think a quick cash settlement might be the cheapest approach in the long run.

This is where you as a mortgage broker can help. These settlements often run into the millions; in the case of the partner buyouts, the buyer often receives assets including real estate equity, potentially. Borrowers often are strong financially and have good credit. But they need speed and certainty for a deal because the clock is ticking.

To tap into this market, reach out to trial and business-acquisition attorneys. Let them know that private-money funds for their clients may be available within a couple of weeks, if there is enough equity for collateral. Remind them that their clients can sell assets or refinance to retire the loan when they have the time to do so after the settlement.

By getting a private-money loan, these clients can make or save a great deal of money.

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2. Estates' trustees or attorneys

Estate settlements are tailor-made for quick private-money loans. The scenario typically goes like this: Someone dies and leaves behind a free-and-clear property. Although this type of property typically is residential, that's not always the case.

When a commercial property is left, it can have a big equity. This is where you have value as a mortgage broker.

The estate often is equity-rich and cash-poor, with no personal signatures available or income generated. There are estate taxes to pay, property fix-up needed to maximize value and other bills needing urgent attention. The estate's properties are later listed for sale to pay everything off. The process for liquidating the estate can take a couple of years.

As a broker, however, you can help with a private-money loan that will help the process go smoothly. Payments can even be factored into the loan or can give the trustees some extra capital to buy them the time they need to market the property for maximum value.

Estate attorneys and trustees never go out of style, and they don't fluctuate with the economy. They can provide you a stable source of private-equity deals to service at a high level.

3. Small local banks

Banks today need liquidity badly. Many are even willing to take less than borrowers owe them to get some liquidity quickly. Some may accept most of their owed capital now and wait for the rest, if there seems to be a logical, short-term repayment plan.

Consider the example of a bank with a small builder client that has a property listed for sale and a construction loan due. The builder needs another year to market the property, however. You can help provide a private-money loan to pay off the bank, thus giving the builder a six- to 12-month interest reserve with no prepayment penalty.

The pressure is therefore off the builder, the bank has its cash back and there is a logical plan for repayment because the property is listed for sale.

You have now built trust with the bank as a closer and as a problem-solver.

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If you develop relationships and build trust with referral sources such as trial and business-acquisition attorneys, estates' trustees and attorneys, and small local banks, you likely can receive two to three deals per year from each. Imagine building relationships with more than one in each category; you'll likely see your deal flow stabilize and increase.

By following these steps with your new referral sources, you could be well on your way to building longstanding relationships and a quality deal flow. **SFG**

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