VABASSO MORTGAGE

Private Money Financing Guide

Hard money and bridge lending
Leverage, draws, and true cost
Designing the exit

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VABASSO MORTGAGE

Private Money Financing Guide

How private and hard money lending actually works: how deals are underwritten on property value and exit, how leverage and draws are structured, how points and rates price a short-term loan, and how to plan the refinance or sale that repays it.

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Written by Vabasso Mortgage Editorial Team · Reviewed by Vabasso Mortgage Licensed Advisory Team
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In short

Private money — often called hard money — is short-term real estate financing funded by private capital rather than by banks or the agencies. It is underwritten primarily on the property's value and the borrower's exit plan rather than on documented personal income. Terms typically run six to twenty-four months, pricing includes origination points plus an interest rate well above conventional financing, and repayment comes from a sale or a refinance into permanent financing.

Key takeaways

- Private money buys speed and flexibility, not a low rate. The correct comparison is the cost of the loan against the profit or opportunity the loan makes possible.
- Underwriting is property-first: value today, value after repair, and the credibility of the plan to repay. Income documentation is light, but the exit is scrutinized heavily.
- Leverage is usually expressed twice — as a percentage of purchase price and as a percentage of after-repair value — and the lower of the two controls the loan amount.
- Rehab funds are almost always held back and released through inspected draws. Budget working capital for the first phase of work before the first draw funds.
- True cost is points plus interest plus fees over the actual months held, not the quoted annual rate. Short holds make points the dominant expense.
- Most loans are business-purpose and vest in an LLC with a personal guaranty. Owner-occupied consumer private money is rare and heavily regulated.
- Plan the exit before closing. The refinance lender's seasoning, leverage, and documentation rules should be known on day one, not discovered in month nine.

Who this guide is for

- Fix-and-flip investors financing acquisition and renovation on a single facility
- Buyers who need certainty of funds and a closing measured in days
- Auction and foreclosure purchasers working against hard deadlines
- Investors buying properties too distressed to qualify for conventional or DSCR financing

- Owners bridging between a pending sale and a new acquisition
- BRRRR investors who will refinance into DSCR financing after stabilization
- Builders and developers financing small infill or spec projects
- Borrowers whose income documentation cannot be assembled within the closing window

Table of contents

01

What is private money financing?

Private money is real estate financing funded by private capital — individual investors, family offices, private credit funds, or specialty lenders that raise and deploy their own money rather than depositing and lending like a bank. The loans are short-term, secured by the property, and made on terms set by the capital source rather than by an agency guideline.

The industry uses several names for roughly the same product. Hard money is the oldest term and emphasizes the hard asset behind the loan. Bridge loan emphasizes the timing role, spanning the gap between two positions. Fix-and-flip loan describes the most common use case. The underwriting logic is consistent across all of them: the property and the exit carry the file.

What separates private money from conventional lending is not risk tolerance so much as the question being asked. A conventional underwriter asks whether the borrower can afford the payment for thirty years. A private lender asks whether the property is worth enough today, will be worth enough after the work, and whether the borrower will realistically be able to repay in twelve to eighteen months through a sale or a refinance.

That narrower question can be answered quickly, which is the entire product advantage. A file that would take forty-five days through a conventional channel can often be underwritten and funded in seven to fourteen days, and occasionally faster on a repeat borrower with a familiar property type.

02

When private money is the right tool

Private money is expensive capital. It is the correct choice when speed, flexibility, or property condition make conventional financing unavailable, and when the transaction generates enough value to absorb the cost comfortably.

The clearest use case is a property that cannot be financed conventionally today. A house with a failed roof, no functioning kitchen, or active code violations will not pass an appraisal for conventional or even most DSCR financing. Private money funds the acquisition and the repair, and the finished property then qualifies for permanent financing.

The second use case is time. Auction purchases, estate sales, and competitive off-market deals frequently require proof of funds and a two-week close. A private lender can meet that timeline; an agency lender generally cannot.

The third is bridging. An owner who has found the next property but has not closed the sale of the current one can borrow against existing equity to move first and repay from the sale proceeds.

Private money is the wrong tool when the property already qualifies for conventional or DSCR financing, when the timeline is comfortable, or when the projected margin is thin enough that a few months of carry would erase it. Paying two points and eleven percent to acquire a stabilized rental that would have qualified for a DSCR loan at a far lower cost is a self-inflicted wound.

Private money is likely the right tool when

- ☐ The property cannot pass a conventional or DSCR appraisal in its current condition
- ☐ The closing deadline is shorter than a conventional underwriting cycle
- ☐ The seller requires certainty of funds and minimal contingencies
- ☐ The transaction includes a renovation budget that must be financed alongside the purchase
- ☐ You are bridging between a pending sale and a required purchase
- ☐ The projected profit or equity capture comfortably exceeds total financing cost

Look at conventional, DSCR, or portfolio financing instead when

- ☐ The property is already habitable, rentable, and appraisable as-is
- ☐ You have sixty days or more before the closing deadline
- ☐ The projected margin would be materially damaged by three to six months of carry
- ☐ The plan is a long-term hold with no near-term refinance trigger
- ☐ You have no defined, documented exit within the loan term

03

How private lenders underwrite a deal

Private underwriting is a compressed review of four things: the property, the plan, the borrower's capacity to execute, and the exit. Income documentation may be minimal, but that does not mean the file is unexamined. The scrutiny simply lands in different places.

Value comes first. The lender establishes as-is value through an appraisal, a broker price opinion, or an internal valuation, and — where rehab is involved — an after-repair value based on the scope of work and comparable finished sales. The after-repair figure is treated skeptically, because it is the number most often inflated by optimistic borrowers.

The plan is next. A scope of work with line-item costs, a contractor selection, a permit assessment, and a realistic timeline tell the lender whether the budget is credible. A scope that assumes a full gut renovation completed in eight weeks for a fraction of local costs signals inexperience.

Capacity is assessed through experience and liquidity rather than through a debt-to-income ratio. Prior completed projects reduce pricing and increase leverage. Verified cash to cover the down payment, closing costs, first-phase construction spend, and several months of interest carry is nearly always required.

The exit closes the analysis. If the plan is a sale, the lender looks at days on market and pricing for comparable finished product. If the plan is a refinance, the lender looks at whether the finished property will support the takeout loan — most often a DSCR loan sized on rent, or a conventional loan if the borrower will occupy or can document income.

What underwriting reviews

- ☐ As-is value supported by an appraisal, broker price opinion, or internal valuation
- ☐ After-repair value supported by finished comparable sales in the immediate area
- ☐ Line-item scope of work with realistic local labor and material costs
- ☐ Contractor licensing, insurance, and prior project references where required
- ☐ Permit requirements and any open code enforcement or municipal liens
- ☐ Borrower track record: completed projects, property types, and markets
- ☐ Verified liquidity for down payment, closing costs, first-phase work, and interest carry
- ☐ Credit review — usually for major derogatory events rather than for a score threshold
- ☐ Title condition, existing liens, and clean vesting into the borrowing entity
- ☐ A specific, dated exit: sale listing plan or refinance takeout parameters

> Experience is the single largest driver of both leverage and price. A borrower with three to five documented completed projects will typically see materially better terms than a first-time investor on an identical property.

04

Leverage: loan-to-cost, loan-to-value, and after-repair value

Private money leverage is usually expressed through more than one constraint at the same time, and the loan amount is set by whichever constraint binds first. Understanding which one controls your deal is essential to knowing how much cash you actually need at closing.

Loan-to-cost measures the loan against the total project cost — purchase price plus renovation budget. A lender offering ninety percent of purchase and one hundred percent of rehab is quoting in loan-to-cost terms.

Loan-to-value measures the loan against the property's current as-is value. On a purchase, this usually mirrors the price. On a refinance or bridge, it is the controlling number.

After-repair value caps total exposure against the finished value, most often in the sixty-five to seventy-five percent range. This is the constraint that most frequently reduces a quoted loan amount at the eleventh hour, because it is the one that depends on an appraiser's opinion rather than on contract figures.

A worked example: a property under contract at $400,000 with a $100,000 renovation budget and an after-repair value of $600,000. At ninety percent of purchase and one hundred percent of rehab, the indicated loan is $460,000. At seventy percent of after-repair value, the cap is $420,000. The lower figure controls, so the loan funds at $420,000 and the borrower brings the difference in cash.

Typical private money leverage constraints (illustrative ranges)

Constraint	Typical range	What it measures	When it binds
Loan-to-purchase	80% – 90%	Loan against contract price	Light or no rehab deals
Rehab funding	90% – 100%	Portion of budget financed (held back)	Heavy rehab deals
Loan-to-cost	80% – 90%	Loan against purchase plus rehab	Balanced projects
Loan-to-after-repair-value	65% – 75%	Total loan against finished value	Deals with optimistic ARV
Bridge loan-to-value	60% – 75%	Loan against current as-is value	Refinance and bridge requests

> Ranges are illustrative of common market structures and are not an offer of terms. Actual leverage depends on lender, market, property type, borrower experience, and project scope.

05

Rehab holdbacks, draws, and inspections

Renovation funds are almost never advanced at closing. The lender funds the acquisition portion and holds the rehab budget in a controlled account, releasing it in stages as work is verified complete. This protects the lender from funding a project that stalls, and it shapes the borrower's cash flow more than any other feature of the loan.

The mechanic is straightforward. The borrower completes a phase of work using their own funds, requests a draw, and the lender orders an inspection — increasingly a photo or video inspection rather than a site visit. Once the completed work is verified, the lender wires reimbursement, typically within two to five business days.

The consequence is that the borrower funds each phase before being repaid for it. A project with a $120,000 budget released in four draws requires roughly $30,000 of working capital in continuous rotation, on top of the down payment and closing costs. Underestimating this is the most common cause of stalled projects.

Draw discipline matters. Batch small items into meaningful draws to avoid paying repeated inspection and wire fees. Keep permits current, because an inspector who finds unpermitted work can hold a draw. Manage lien waivers from every contractor and material supplier as work completes, since an unreleased mechanic's lien can block both the next draw and the eventual payoff.

Draw process discipline

- ☐ Confirm the number of draws included and the fee for each additional draw before closing
- ☐ Match the draw schedule to real construction phases, not to arbitrary dollar amounts
- ☐ Hold enough working capital to fund the largest single phase before reimbursement
- ☐ Photograph completed work thoroughly and consistently for every request
- ☐ Collect signed lien waivers from every contractor and supplier as they are paid
- ☐ Keep permits pulled and inspections passed ahead of each draw request
- ☐ Track the timeline between request and funding so the next phase is not idle
- ☐ Never let a contractor's payment schedule run ahead of the lender's draw schedule

06

Pricing: points, rate, fees, and true cost of capital

Private money pricing has two dominant components and several smaller ones. Origination points are charged up front as a percentage of the loan amount, commonly one to three points. The interest rate is charged monthly on the outstanding balance, commonly in the high single digits to low teens depending on market conditions, leverage, and borrower experience.

Because the term is short, points dominate the true cost of capital. Two points on a twelve-month loan add roughly two percentage points to the effective annual cost. Two points on a four-month flip add roughly six percentage points, because the same fee is amortized over a third of the time. Fast projects are not automatically cheap projects.

Interest is charged in one of two ways, and the difference matters. Interest on the full loan amount — sometimes called full boat or non-dutch — accrues on the entire commitment including undrawn rehab funds from day one. Interest on drawn balances only — sometimes called dutch or as-disbursed — accrues only on funds actually advanced. On a rehab-heavy deal, the difference over a twelve-month hold can be several thousand dollars.

Beyond points and rate, expect an underwriting or processing fee, a valuation fee, a document preparation fee, draw and inspection fees, and often an exit or payoff fee. Ask for a complete fee schedule in writing and calculate total dollars, not quoted percentages.

Illustrative total cost on a $400,000 loan at 2 points and 11% interest

Hold period	Points	Interest (full balance)	Fees (est.)	Total cost	Effective annualized
4 months	$8,000	$14,667	$3,500	$26,167	≈ 19.6%
6 months	$8,000	$22,000	$3,500	$33,500	≈ 16.8%
9 months	$8,000	$33,000	$4,000	$45,000	≈ 15.0%
12 months	$8,000	$44,000	$4,500	$56,500	≈ 14.1%

> Figures are illustrative arithmetic on a hypothetical loan, not a rate quote. Actual pricing varies by lender, market, leverage, property type, and borrower experience.

07

Term length, extensions, and default mechanics

Private money terms typically run six, twelve, or eighteen months, occasionally twenty-four. The term is a hard maturity date, not a soft target. On the maturity date the entire balance is due, and there is no automatic conversion to a longer loan.

Projects run long. Permitting delays, material lead times, contractor turnover, and slow markets are routine, and a meaningful share of loans reach maturity before the exit is complete. This is why extension terms deserve as much attention at closing as the rate does.

Most lenders offer one or two extensions, commonly three to six months each, in exchange for a fee — often a half point to one point of the loan amount — and sometimes a rate increase. Confirm before closing whether extensions are contractual or discretionary. A discretionary extension is not a plan.

If the loan matures unextended, default interest applies. Default rates are punitive by design, frequently in the high teens to mid twenties, and late fees compound the pressure. Foreclosure timelines on business-purpose loans can be considerably faster than on owner-occupied consumer mortgages.

Prepayment works in the opposite direction. Some loans carry a minimum interest guarantee — three to six months of interest owed regardless of how quickly the loan is repaid. A fast flip against a six-month interest minimum pays for time it never used, which should be priced into the deal before the offer is written.

Term questions to resolve before closing

- ☐ What is the exact maturity date, and is it measured from funding or from the note date?
- ☐ How many extensions are available, at what fee, and are they contractual or discretionary?

- ☐ Does the rate increase on extension, and by how much?
- ☐ What is the default interest rate and when does it begin?
- ☐ Is there a minimum interest guarantee or prepayment penalty?
- ☐ Is interest charged on the full commitment or only on drawn funds?
- ☐ What notice is required for payoff, and is there an exit or payoff fee?
- ☐ What events beyond nonpayment constitute default — stalled work, lapsed insurance, unpaid taxes?

08

Entity vesting, guaranties, and business purpose

The overwhelming majority of private money loans are business-purpose loans made to an entity rather than consumer loans made to an individual. Title vests in an LLC or corporation, the note is signed by the entity, and the principals sign a personal guaranty behind it.

The business-purpose distinction is substantive, not cosmetic. Consumer mortgage regulation — ability-to-repay rules, disclosure timing, and servicing requirements — attaches to loans secured by an owner-occupied residence for personal, family, or household purposes. Business-purpose loans sit outside that framework, which is precisely why they can be underwritten and closed quickly.

That is also why private money for a primary residence is rare and heavily constrained. Lenders who will do it are subject to consumer rules, which slows the process and narrows the product. Anyone considering occupying a property financed with private money should raise it explicitly and early; misrepresenting occupancy on a business-purpose loan is loan fraud.

Practical entity mechanics: form the LLC before the offer where possible, keep the operating agreement and certificate of good standing current, ensure the entity name on title exactly matches the note, and obtain a separate EIN and bank account. Insurance must be a builder's risk or vacant-property policy naming the entity as insured and the lender as mortgagee — a standard homeowner's policy will not satisfy the requirement on a vacant renovation property.

Entity and closing document readiness

- ☐ Articles of organization and current certificate of good standing
- ☐ Operating agreement listing all members and authorized signers
- ☐ EIN letter and a dedicated business bank account
- ☐ Entity name matching exactly across title, note, mortgage, and insurance
- ☐ Personal guaranty terms reviewed and understood by every guarantor
- ☐ Builder's risk or vacant-property insurance with the lender named as mortgagee
- ☐ General liability coverage where the lender requires it

☐ Business-purpose certification signed accurately as to occupancy and use

09

Designing the exit before you close

The exit is the loan. Everything else is a detail. A private money loan is a bet that a specific repayment event will occur within a specific window, and the borrower should be able to describe that event in concrete terms before signing.

Sale exits depend on finished pricing and absorption. Analyze days on market for comparable finished product in the same submarket, not the neighborhood average, and build a realistic marketing and closing period into the timeline. Selling costs — commission, transfer taxes, concessions — routinely consume six to nine percent of the sale price and must be modeled.

Refinance exits depend on the takeout lender's rules, and those rules should be confirmed before the private loan closes, not after the work is done. Three parameters govern: seasoning, which is how long the property must be owned before the new appraised value can be used rather than the purchase price; leverage, which caps the takeout loan; and documentation, which determines whether a DSCR, bank statement, or conventional file is the path.

For a stabilized rental, the most common takeout is a DSCR loan sized on the property's rent rather than on personal income. That means the exit hinges on achieving a rent level, which means the renovation scope should be designed toward that rent — not toward the borrower's personal taste.

Every project deserves a written secondary exit. If the sale does not happen at the projected price, can the property be rented and refinanced? If the refinance appraisal comes in low, is there cash available to buy down the balance? A loan with only one exit is a loan with no margin for the ordinary.

Exit planning before closing

☐ Name the primary exit — sale or refinance — with a target month
☐ Confirm the takeout lender's seasoning requirement in writing
☐ Confirm the takeout leverage cap and the documentation type required
☐ Model selling costs at six to nine percent if the exit is a sale
☐ Model the stabilized rent and debt-service coverage if the exit is a DSCR refinance
☐ Identify a written secondary exit and the trigger date for switching to it
☐ Verify the exit is achievable inside the loan term with a two-month buffer
☐ Confirm the private loan has no prepayment penalty that penalizes an early exit

> The most common cause of a distressed private money loan is not a bad property. It is a good property with an exit that was assumed rather than verified.

10

Running the numbers on a project

A private money deal analysis has five stacks: acquisition, financing, construction, carry, and disposition. Missing any one of them produces a profit projection that will not survive contact with the project.

Acquisition is the purchase price plus closing costs — title, survey, transfer taxes, and inspections. Financing is points, underwriting and valuation fees, and document preparation. Construction is the scope of work plus a contingency; ten to fifteen percent is a working minimum, and older or coastal structures warrant more.

Carry is the expense that most analyses understate. It includes monthly interest, property taxes, insurance, utilities during renovation, HOA dues, and any security or maintenance cost, multiplied by the true hold period rather than the optimistic one. Disposition is commission, seller concessions, transfer taxes, and closing costs on the sale, or the origination cost of the refinance.

Sensitivity testing is the discipline that separates durable investors from lucky ones. Run every deal at the projected case, then rerun it with the after-repair value reduced by ten percent, the budget increased by fifteen percent, and the timeline extended by three months. If the deal still works under all three simultaneously, it has real margin. If it fails under any one alone, it is a thin deal that requires everything to go right.

Project cost stack

Build every line before writing an offer.

- ☐ Purchase price and purchase closing costs
- ☐ Origination points and lender fees
- ☐ Valuation, inspection, and draw fees
- ☐ Renovation scope of work at line-item cost
- ☐ Construction contingency at 10–15% or more
- ☐ Monthly interest across the realistic hold period
- ☐ Property taxes, insurance, utilities, and HOA during the hold
- ☐ Extension fees if the timeline may exceed the term
- ☐ Sale commission, concessions, and closing costs, or refinance origination cost
- ☐ Working capital reserve to fund each construction phase before reimbursement

Stress tests every deal should pass

- ☐ After-repair value comes in 10% below projection
- ☐ Renovation budget runs 15% over

- ☐ Timeline extends three months beyond plan
- ☐ Market rent lands 10% below projection on a refinance exit
- ☐ Interest is charged on the full commitment rather than on drawn funds

11

Document checklist

Private money files are lighter than conventional files but not empty. Speed comes from having the package ready before the offer is accepted, because the underwriting window is short and a missing entity document can cost the days the loan was chosen for.

Borrower and entity documents

- ☐ Government-issued photo identification for every guarantor
- ☐ Articles of organization, operating agreement, EIN letter, certificate of good standing
- ☐ Two to three months of business and personal bank statements evidencing liquidity
- ☐ Track record schedule listing completed projects with addresses, dates, and outcomes
- ☐ Credit authorization; explanations for any major derogatory events
- ☐ Schedule of real estate owned with balances, values, and monthly obligations

Property and project documents

- ☐ Fully executed purchase contract with all addenda
- ☐ Line-item scope of work with costs, phases, and timeline
- ☐ Contractor bid, license, and certificate of insurance
- ☐ Permit status or a written assessment of permits required
- ☐ Photographs of current interior and exterior condition
- ☐ Comparable finished sales or rent comparables supporting after-repair value
- ☐ Preliminary title commitment and payoff figures on any existing liens
- ☐ Builder's risk or vacant-property insurance quote naming the lender

12

The process, step by step

A well-prepared private money transaction moves through a predictable sequence. Knowing the sequence lets you place your documents ahead of each step rather than behind it.

From term sheet to funding

- ☐ 1. Consultation — property type, scope, timeline, exit, and experience reviewed

- ☐ 2. Term sheet — leverage, rate, points, term, draw structure, and fees quoted
- ☐ 3. Application and deposit — valuation and third-party reports ordered
- ☐ 4. Valuation — as-is and after-repair value established
- ☐ 5. Scope and budget review — line items, contractor, and permits validated
- ☐ 6. Title and insurance — commitment issued, builder's risk bound, liens cleared
- ☐ 7. Entity documents — vesting, guaranty, and signing authority confirmed
- ☐ 8. Final approval — leverage confirmed against the controlling constraint
- ☐ 9. Closing and funding — acquisition funded, rehab budget held back
- ☐ 10. Draw cycle — phased work completed, inspected, and reimbursed
- ☐ 11. Exit — property sold, or refinanced into permanent financing

> Typical timelines run seven to twenty-one days from term sheet to funding when documents are ready. The most common delays are missing entity paperwork, insurance bound late, and title issues discovered rather than anticipated.

13

Private money compared with other financing paths

Private money is one option among several for investment and transitional properties. The right choice depends on property condition, timeline, and how the borrower's income can be documented.

DSCR financing is the natural successor to private money on a stabilized rental. It is long-term, sized on the property's rent rather than personal income, and priced far below private money — but it requires a property in rentable condition and typically imposes seasoning before the improved value can be used.

Conventional and portfolio financing offer the lowest cost but demand documented income, an appraisable property, and a longer timeline. A no-ratio or bank statement loan sits in between, removing income documentation friction while retaining long-term structure and a materially lower rate than private capital.

A home equity line on an existing property is often the cheapest source of acquisition capital for investors who have equity, though it is slower to establish and puts a primary residence at risk. Many experienced investors run a line of credit for down payments and use private money only for the acquisition and rehab leverage.

Financing paths for investment and transitional property

Path	Term	Underwrites on	Relative cost	Best fit
Private money	6–24 months	Property value and exit	Highest	Distressed property, fast close, rehab
DSCR loan	30 years	Property rent vs. payment	Moderate	Stabilized rental, long-term hold
Bank statement	30 years	Deposit-based income	Moderate	Self-employed borrower, any occupancy
No ratio	30 years	Credit, equity, reserves	Moderate to high	Income hard to document at all
Conventional	30 years	Documented income and DTI	Lowest	Appraisable property, documented income
HELOC on other property	Revolving	Equity in existing home	Low to moderate	Down payment and working capital

14

Florida market considerations

Florida is one of the most active private lending markets in the country, and it carries local variables that materially affect both underwriting and project economics.

Insurance is the first. Property insurance cost and availability shape carry expense more in Florida than in almost any other state, and a vacant renovation property requires a builder's risk or vacant-property policy that is priced well above a standard homeowner's policy. Obtain a bindable quote during due diligence, not after the term sheet.

Wind mitigation, roof age, and the four-point inspection drive both insurability and the refinance exit. A roof approaching the end of its documented life can make a finished property difficult to insure at a reasonable premium, which in turn complicates the takeout. On many Florida rehabs, the roof is an exit requirement rather than a cosmetic upgrade.

Coastal and 30A-corridor projects along Destin, Santa Rosa Beach, and Panama City Beach combine high finished values with elevation, flood-zone, and coastal construction control line requirements. Permitting timelines in these jurisdictions are frequently longer than inland markets, and the loan term should reflect that.

Condominium projects across South Florida carry structural reserve and milestone inspection requirements that can affect both financeability and value. Confirm the association's reserve study and any pending special assessment before underwriting the exit.

Short-term rental exits in Orlando, Kissimmee, and the coastal panhandle depend on municipal and association rules that change. A refinance sized on short-term rental income requires that the use be permitted where the property sits and that the documentation the takeout lender accepts is achievable.

Florida due diligence items

- ☐ Bindable builder's risk or vacant-property insurance quote before the term sheet is signed
- ☐ Roof age, wind mitigation report, and four-point inspection status
- ☐ Flood zone determination and elevation certificate where applicable
- ☐ Coastal construction control line and elevation requirements on coastal parcels
- ☐ Municipal permit timelines, impact fees, and open code enforcement
- ☐ Condominium reserve study, milestone inspection status, and special assessments
- ☐ Short-term rental legality at the municipal and association level if that is the exit
- ☐ Property tax reassessment following transfer, which raises carry after closing

15

Common mistakes and how to avoid them

Private money failures follow recognizable patterns, and nearly all of them are preventable at the analysis stage rather than the execution stage.

The recurring mistakes

- ☐ Overstating after-repair value using neighborhood averages instead of finished comparable sales
- ☐ Budgeting no construction contingency, or a token five percent on an older structure
- ☐ Running out of working capital because rehab funds are reimbursed rather than advanced
- ☐ Assuming an extension will be granted when it is discretionary in the loan documents
- ☐ Discovering the takeout lender's seasoning requirement after the renovation is complete
- ☐ Ignoring the difference between interest on the full commitment and interest on drawn funds
- ☐ Underestimating carry by modeling the optimistic timeline rather than the realistic one
- ☐ Renovating to personal taste rather than to the finish level the exit price supports
- ☐ Failing to collect lien waivers, which blocks a draw or delays a payoff
- ☐ Binding the wrong insurance policy type on a vacant property
- ☐ Choosing a lender on headline rate alone without a complete written fee schedule
- ☐ Having a single exit with no written fallback if the primary exit stalls

> Every one of these is caught by the same two habits: verify the numbers with third-party evidence, and write the fallback plan down before closing.

16

Next steps

Start with the exit, not the acquisition. Confirm what the takeout lender will require, then work backwards to the scope, the budget, and the leverage the deal can support.

Bring a specific property or a specific buy box to a consultation. Private money terms are deal-driven, and a general question produces a general answer. With an address, a scope, and a timeline, terms can usually be quoted quickly.

Have the entity, insurance, and track record package assembled before you need them. The speed advantage of private capital is only real when the borrower is as fast as the lender.

> Private money and hard money financing terms — including rates, points, leverage, term length, draw procedures, extension options, exit requirements, and eligible property and occupancy types — vary by lender, capital source, project, market, and borrower experience. Private money is generally a business-purpose product and is not available for every transaction or in every state. This guide is educational and is not a loan approval, a commitment to lend, a Loan Estimate, or legal, tax, or investment advice. Terms change frequently; current requirements should be confirmed with your licensed mortgage advisor.

Frequently asked questions

What is a private money loan?

Short-term real estate financing funded by private capital and secured by the property, underwritten primarily on property value and the borrower's exit plan rather than on documented personal income.

Is private money the same as hard money?

In practice the terms are used interchangeably. Both describe short-term, asset-based, privately funded real estate loans.

How fast can a private money loan close?

Commonly seven to twenty-one days, and occasionally faster for repeat borrowers with a familiar property type, provided entity documents, insurance, and title are ready.

What credit score do I need?

Requirements vary widely. Some lenders are largely credit-agnostic on business-purpose deals; others price by score. Major recent derogatory events usually need explanation and seasoning.

Do I need to document my income?

Generally no in the conventional sense. Lenders verify liquidity and reserves rather than calculating a debt-to-income ratio.

How much money do I need to bring to closing?

Typically ten to twenty percent of purchase price plus closing costs, plus enough working capital to fund the first construction phase before the first draw is reimbursed.

How is the loan amount determined?

By the lowest of several constraints — percentage of purchase price, percentage of total cost, and percentage of after-repair value. The after-repair cap most often controls.

What is after-repair value?

The appraised value the property is expected to reach once the scope of work is complete, supported by comparable finished sales in the immediate area.

Are rehab funds given to me at closing?

Almost never. They are held back and released through inspected draws as each phase of work is verified complete.

How long do draws take to fund?

Usually two to five business days after an inspection verifies the completed work. Confirm the specific lender's cycle before planning the construction schedule.

What is the typical term?

Six, twelve, or eighteen months is standard, with twenty-four available from some lenders. The maturity date is a hard deadline, not a target.

What happens if my project runs past the maturity date?
Extensions are commonly available for a fee, often a half point to a point plus a possible rate increase. If no extension is granted, default interest and late fees apply.

What are points?
An origination fee charged as a percentage of the loan amount at closing, commonly one to three points on private money loans.

Why are points so expensive on short holds?
Points are a fixed cost spread over the hold period. Two points over four months costs roughly three times as much annualized as the same two points over twelve months.

Is interest charged on the whole loan or only on what I've drawn?
Both structures exist. Interest on the full commitment accrues on undrawn rehab funds; interest on drawn balances only accrues as funds are advanced. The difference can be significant on rehab-heavy deals.

Is there a prepayment penalty?
Frequently there is a minimum interest guarantee — three to six months — rather than a conventional prepayment penalty. Confirm it before planning a fast flip.

Can I use private money for my primary residence?
Rarely. Most private money is business-purpose and secured by non-owner-occupied property. Consumer-purpose private lending exists but is limited and subject to full consumer mortgage regulation.

Do I need an LLC?
Most lenders require entity vesting on business-purpose loans, with a personal guaranty from the principals. Form the entity early so it does not delay closing.

Will I have to sign a personal guaranty?
Almost always. The entity holds title and signs the note, and the principals guarantee performance personally.

What insurance is required?
A builder's risk or vacant-property policy naming the lender as mortgagee, plus general liability where required. A standard homeowner's policy will not satisfy a lender on a vacant renovation property.

Do I need investing experience?
Not always, but experience materially improves both leverage and pricing. First-time investors should expect lower leverage and a closer review of the contractor and scope.

Can I finance a ground-up construction project?
Some private lenders do fund ground-up construction, generally at lower leverage against total cost and with a more structured draw schedule than a rehab loan.

Can I use private money as a bridge loan?

Yes. Bridge use against an existing property's equity is common, typically at sixty to seventy-five percent of as-is value, repaid from the sale of that property.

What is the most common exit?

Sale of the finished property, or a refinance into a DSCR loan once the property is stabilized and rented.

What is seasoning and why does it matter?

Seasoning is how long you must own the property before a refinance lender will use the new appraised value rather than your purchase price. It is often six months and directly controls when the exit can occur.

What if the after-repair appraisal comes in low?

The takeout loan shrinks and you cover the gap with cash, extend and rent the property, or sell at a lower price. This is the scenario the ten-percent stress test exists to reveal.

How do I compare two lender quotes?

Convert both to total dollars over your realistic hold period — points plus interest plus every fee plus extension cost — rather than comparing headline rates.

Are private money loans available in Florida?

Yes, and Florida is one of the most active markets. Insurance cost, roof condition, flood zone, condominium reserves, and permit timelines are the usual local constraints.

Does a private money loan report on my personal credit?

Business-purpose loans vested in an entity frequently do not report to personal credit bureaus, though the personal guaranty remains an obligation. Confirm with the specific lender.

How do I get started?

Bring a specific property or buy box, a scope of work, a timeline, and your entity and track record documents to a consultation. With those in hand, terms can usually be quoted quickly.

Tools, related pages, and next steps

A stronger plan begins before the application. Understand the loan, prepare the funds, estimate the payment, and take the next step with greater clarity.

Calculators

→ Investment Property Calculator vabasso.com/calculators/investment-property
→ Mortgage Payment Calculator vabasso.com/calculators/mortgage-payment
→ Closing Costs Calculator vabasso.com/calculators/closing-costs
→ Cash Flow Calculator vabasso.com/calculators/cash-flow

Loan programs

→ Private Money Loans vabasso.com/loan-programs/private-money
→ Dscr Loans vabasso.com/loan-programs/dscr
→ Investment Loans vabasso.com/loan-programs/investment
→ Construction Loans vabasso.com/loan-programs/construction
→ Renovation Loans vabasso.com/loan-programs/renovation
→ Bank Statement Loans vabasso.com/loan-programs/bank-statement
→ No Ratio Loans vabasso.com/loan-programs/no-ratio

Related reading

→ Mortgage Glossary vabasso.com/mortgage-glossary
→ Guide library vabasso.com/resources/guides

Next steps

→ Apply now vabasso.com/apply
→ Mortgage Readiness Assessment vabasso.com/pre-qualify

Sources

Program rules referenced in this guide are maintained by the applicable agency, investor, and lender. Confirm current requirements with your licensed mortgage advisor and official program guidance before making decisions. Editorial review dated 2026-08-02.

Disclosure

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