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# 8 Ways to Gauge a Lender

Know what to look for when seeking a direct private-money funding source

IN TODAY'S ECONOMIC CLIMATE, THERE is no longer a full array of funding solutions for all types of borrowers, credit, collateral types, etc. If the deal does not fit into traditional bank or government-sponsored-enterprise (GSE) financing, there may be only one other option: private money.

As soon as a deal exits the bank and GSE platforms, however, brokers may find themselves in a muddy world where many potential funding sources are not true direct lenders. In the A-paper arena, it is easy to distinguish direct lenders, but in the private-money sector, it is often not as clear.

When seeking private-money lenders, brokers likely will encounter pretenders — ranging from brokers that pose as direct lenders all the way to organized and seemingly large companies. So how do brokers make sure that they get their clients in the hands of a real and reputable lender?

The following eight factors can help you determine if a potential funding source is a direct lender — or if it is not.

## 1. Detailed website

First, the lender should have a functioning and detailed website, and you should scrutinize the site's content. For instance, the site should include a page that displays deals that the lender has funded — not just closed. The more detailed the funding placards are, the better. For instance, the site may describe the deal, tell a little bit about the transaction, show pictures of the property and, if it's a rehab or finish-construction deal, show pictures from every draw inspection.

If words like “arranged,” “partnered,” “in conjunction with” or “capital partners” appear under representations of closed loans, be suspicious. These words may



Illustration: Dennis Wunsch

be skirting the fact that the company brokered, rather than funded, the loan.

## 2. Presence of private investors

Borrowers who have deals that previously would have been funded by a bank are more often seeking lending via private money, either through individuals or mortgage funds and pools. Typically, a direct lender's website will have some kind of link or portal for new or existing investors. Look for links for new investors to get more information and for existing investors to log in to view their portfolio, fund performance letters, etc.

This should not be a deciding factor in your analysis of a lender, as many funds

have a separate entity or website for investors that is segregated from their originating division. It is, however, still a good variable to investigate.

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### 3. Testimonials

If brokers and borrowers are happy with a lender's service, they often will write a testimonial letter and give the lender permission to post it on its website. Look for multiple testimonials that include identifying information for the broker or borrower (e.g., name, company name, phone number, etc.).

Examine the testimonials closely. Do they actually address a funded loan? Or do they simply address or praise an individual and a service? Any testimonial brings validity to the service provided and an individual's professionalism, but that is not what you are after. Lenders provide funding solutions, and their testimonials should address real funding transactions.

### 4. Warehouse lines

Not all private lenders have a warehouse line, but if they do, then they likely can give you a verifiable reference for the credit facility that provides them with the line. If a lender has significant credit extended to it for the sole purpose of funding loans, then it is likely a legitimate lender. This is obviously a step in the right direction regarding verification.

### 5. D.O.C. fund

Most mortgage funds are registered by their state's department of corporations (D.O.C.) or similar department. Because they have a registered fund does not mean that they have the liquidity to fund your loan file, however. If they do have money available, they should have proof of funds, and it should be easy to verify that, as well. If a lender hesitates or offers excuses as to why it cannot provide you with validation, be wary.

### 6. In-house servicing

As private lenders are getting squeezed by tightening government regulations, it is becoming increasingly difficult to make a meaningful profit off discount points. Because of this decrease in margins, many real private lenders service their own loans to reap revenue and increase margins. For those that service their own loans, ask for a quick tour through their servicing portfolio. Different companies have different privacy policies, but any reputable lender should have no problem providing proof of its servicing platform.

Typically, lenders will use servicing systems and software. They also may outsource it to a subservicer and allow you to log in and walk through their portfolio.

### 7. Proof of funding

When lenders fund a loan secured by a deed of trust or mortgage-security instrument, they leave an easily accessible public-information trail. If a potential funding source is indeed a direct lender, then it should be able to give you data to independently verify and validate its lending. For example, it should have recorded security instruments, which you can see by pulling a title or property profile that shows it as the lender of record.

Ask the lender for a list of addresses for deals it funded last month — or better yet, last year. Take the provided data and randomly open property profiles or title reports to validate its claims. If it is the lender, it will show up as the lien-holder.

Most title companies also will give you a chain of recorded deeds for free. If a lender is not willing to give you this information, it may be best to walk away.

### 8. Upfront fees

In this environment, if a lender requires your clients to deposit an upfront fee, you may want to keep looking. If its profits are earned over time by borrowers who make their payments or from points charged on closed transactions, then there should be no reason to require a deposit or upfront fee.

Many lenders may try to validate their reasons for requiring a deposit or fee. The rationale usually is that they need to protect themselves from brokers and borrowers who misrepresent deals.

If a lender requires upfront fees, however, then it may not be underwriting the deal properly to make sure that it has a high probability of funding pursuant to its internal guidelines.

Of course, there is the typical appraisal for which borrowers must pay, as well as an environmental fee, depending on the collateral. If the lender collects this fee, however, be suspicious. This fee should not be payable to the lender. Borrowers should submit those funds directly to the service-providers.

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Mortgage brokers are continually looking for the best funding for their clients, and today, that often means turning to private-money financing. Finding a legitimate source of funding can be difficult, but by examining the above eight factors, brokers can avoid the pretenders in the market. Successfully finding funding for your clients' deals — without wasting time and possibly money with false lenders — will bring added value to your relationship with borrowers. ●