As A Borrower, Why Pay More for a Private Loan When Banks Are Cheaper?

There is a saying that consumers want their services to be “speedy, cheap, and good,” but in the real world you can only have two of the three. Banks and private lenders are a great example of that:

- Banks are cheap, but they are definitely not fast, and most of them are not good.
- Private lenders are quick but not cheap, and some are good while others are not.

For most business purpose borrowers, time is money. They are looking for quick turnaround times, flexibility, and direct access to the decision makers who approve or reject their loan requests. They know business and investment opportunities can't wait—something traditional lenders seem oblivious to. Process, regulation, and red tape seem to be their primary focus.

1. SPEED

Banks typically take anywhere from 4 to 6 months to close a business loan, and sometimes longer. The industry is awash with examples of large and complicated loans taking a year or more. There are many classic (and true) stories where a disgruntled borrower decides a loan and the opportunity it represents are no longer worth the hassle, opting to sell the property instead of completing the project.

Borrowers working with private money lenders instead often see their loans funded within days and weeks, not months. This quick turnaround allows them to seize upon business opportunities and start producing necessary cash flow sooner rather than later.

As private lenders, Enact Partners is not regulated by the Federal Reserve, so our process is easier and faster, with a lot less hassle. With roots in land development and construction, Enact Partners brings a deep understanding of how vital speed and timing is to borrower success. We know there are times when borrowers need to close quickly to take advantage of investment opportunities or to defer capital gains or losses (or both), so we work with borrowers to structure loans to meet their unique needs, not only ours.

Working with a boutique-sized finance team like ours, borrowers soon learn that our streamlined process means they get to work directly with us, the decision makers, not a nameless, faceless loan bureaucracy beholden to burdensome regulations and paperwork.

2. CHEAP

Banks are definitely cheap. They typically charge 4% to 6% interest on business purpose loans, whereas private lenders would be in the 9% to 12% range.

While some borrowers are willing to deal with the extra headache of bank financing to save on interest costs, for others the speed and flexibility of private lending is worth the extra interest. This is especially true for short-term loans that are used to add value to the property, or where a private loan is a substitute for bringing in an equity investor. Equity partners typically charge an 8% to 12% preferred return and 50% of the net profit. When compared to the cost of an equity investor, a 9% to 12% loan *is* cheap.

There is also the cost to borrowers of missed opportunities. Loans that take too long to close or that can't be secured at all, mean borrowers have to pass on promising investments.

3. GOOD

When it comes to banking, what is "good" is up to interpretation. Most borrowers would argue that banks don't tend to be very "good" at loan servicing or even customer service. Federal regulations do force banks to create inefficient bureaucracies that require borrowers to provide seemingly endless amounts of paperwork, reports, tax returns, bank statements, and so on. As such, banks offer very little flexibility when it comes to loan structuring and resolving borrower issues.

There are good banks out there, of course, but on the whole the industry gets a low grade – coming off more as a lending opponent than as a lending partner.

Private lenders can be a mixed bag, but they tend to be mostly good, because they deal with much less regulation and paperwork than banks.

Enact Partners has an extensive background in real estate and business purpose lending, which we put to work for our clients, quickly making sense of borrower collateral, needs, and goals to design lending solutions that work for all parties.

Enact Partners also has the experience necessary to provide an effective loan draw process for borrowers that features frequent coordination and communication throughout the entire project, especially if things don't go as planned. The result is a collaborative environment that leads to unmatched expediency, transparency, and success.

Our goal is to fund borrower projects whenever possible. We do well when our clients do well.

THE BOTTOM LINE

Simply put, banks cannot compete with private lenders. In business, time is money, and funding delays for real estate and construction loans due to regulations and red tape add costs to any project. Much of the time, due to the short-term nature of real estate and construction loans, the savings on interest costs with a bank loan are simply not worth it. Plus, the cost of missed investment opportunities is incalculable.

The goal of Enact Partners is not only to build revenue-generating real estate projects or to build wealth. We also want to build long-lasting relationships with clients through teamwork, integrity, and quality service. To make that happen you have to be fast and good — and we're okay not being the cheapest option. After all, as the saying goes, "you get what you pay for."

Contact us about your borrowing needs. Enact Partners specializes in quick turnaround times, flexibility, and providing access to decision makers who can connect you to the capital you need to buy and develop property.

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