How to Select the Best Non Recourse Loan Lenders by Corwin Smith

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Non recourse loan lenders are hard to find, because few lenders want to risk giving out a loan they may not be able to recover fully. If you are looking for a loan against your self-directed IRA, start by assessing if your down payment is significant enough and property cash flow is strong enough to acquire a loan.

What most non recourse loan lenders look for is some amount of risk cushioning. In the case of an IRA loan for a property purchase, this could mean that the borrower is expected to offer a significant down payment through their IRA. Also, non recourse loan lenders will offer a loan only when they see sufficient likelihood of being able to recover the IRA loan balance.

That likelihood of recovering the loan is very much dependent on the right investment being made. If you are using an IRA loan to purchase real estate, for example, you need to ensure that the property will create a healthy cash flow into your IRA. That is, the rental amount should exceed the money spent on maintenance, taxes, and other expenditures associated with the property.

If you are buying and selling a rehab property using an IRA loan, the general rule of thumb is to invest in property that gains at least 30% more than the purchase price and improvement costs as an after repair value. The market being what it is, itâ€™s reasonable to expect finding distressed properties that, with a bit of renovation, can fetch an enviable profit.

Next, you will need to find non recourse loan lenders to fund the purchase. While the number of non recourse lenders is still small, it is greater than what it used to be years ago. Therefore, with the right investment choice, you will have far better chances of finding a lender.

Type of Property

Non recourse loan lenders are very selective about what kind of investment the IRA loan will be funding. Some lenders offer loans only for residential property, such as family dwelling units and apartment complexes. A few Non recourse loan lenders are more selective - they want the borrower to invest solely in single family living units. Other lenders are more open to loaning money to purchase high value commercial property. The type of lender you make application to, depends on the kind of real estate you want to purchase.

Interest Rate and Conditions

Due to higher risk, most non recourse loan lenders charge higher interest rates than normal mortgage or recourse loans. However, there are lenders who are willing to offer loans at lower interest, particularly if you have a very attractive investment that consists of low leverage, high cash flow, and strong collateral such as a newer built property.

The borrower should compare quotes before selecting a non recourse loan. Additionally, they should look at the payment plans. Some non recourse loan lenders permit borrowers to make interest only payments and others require larger principal and interest payments, thus reducing the amount of interest paid over time.

In particular, ask the lender if there is a prepayment penalty on the IRA loan. This is particularly important if you want to invest in rehab property, which is usually bought, renovated, and sold in a short period of time.

Based on the quotes offered by non recourse loan lenders, you should select an IRA loan that best meets your investment objectives. An IRA loan is a smart way to leverage your IRA without jeopardizing your other IRA assets.

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