How Do You Obtain An Unorthodox Loan?

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By: Joe the Investor

An unorthodox loan is defined as a loan that is not obtained through the common lenders or through the common channels. It may be a situation where your income is variable, your purpose for the loan is not conventional, you own a business or a loan is for investment purposes. Since the typical proof of income, tax return, employer reference or account statement likely will not apply to you, there is information that you can use to expand your options for getting a loan.

Who Is the Lender?

The first variable to consider is: Who is the lender? The underlying questions here are: What types of risk are they willing to take and how flexible are they in applying a solution for these risks? The typical lender of choice for people is a bank. Banks are known for being conservative and conventional in their lending practices. Therefore if you have risks that are not standard, you will likely not get the best deal on your loan, or the loan may come at a high cost. The banks should not be ruled out because there are cases where exceptions are made depending on how the loan is approached. Other lenders that are available to you as a borrower are private lenders, smaller institutions or mortgage brokers. Private lenders are lending their own money and may cater to real estate deals or business deals. Smaller institutions like credit unions or smaller banks may not as stringent as the major banks. Mortgage brokers are people that can shop around and find the best deal from among many different lenders, both traditional and non-traditional. If one type of lender is not providing you with a satisfactory loan, try another type of lender.

What Are the Lenders' Concerns?

Depending on what the money is borrowed for, there are different options available.
The underlying themes in getting a loan for the lender is: Can I trust you the borrower to pay the loan back on time? Is the thing you are borrowing money for valuable over time? What risks are there that the current circumstances will change, putting me at risk? Will I make enough money to make this loan worthwhile? If you can prove that you are able to pay the loan back and the risks are under control, you can obtain a loan a high percentage of the time.

What Is the Money Being Borrowed For?

If you are seeking a loan for an asset that generates income or is likely to appreciate in value, the risks concerning the loan can be confined to looking at only the asset. As an example, if you are seeking a loan for a rental property, and there is a history of consistent income over a long period time, this loan would be considered lower risk. Whether the borrower has any other income may not be relevant. The borrowers' assets and financial history may also not be important. A similar example can be a business with a proven track record of income. If statements from an unbiased third party can show how much the business earns, the history of the borrower may be disregarded in this situation. If the real estate considered is a piece of land that has a long horizon before it is developed or a new business without a track record, the lender may resort to asking for something else as collateral or trusting that the borrower himself is creditworthy.

Does the Borrower Have Other Ways of Paying the Loan?

The borrower may want to borrow money to buy a piece of land that has no income, but there are 5 other rental properties that are paid in full and are earning income that far exceeds the value of the loan. The risk of this venture is low provided that the lender has access to these rental properties as collateral. If they do not and the land is being appraised as a stand-alone situation, the lender may refuse the loan or charge a much higher interest rate. Other means to pay back a loan are a business that is generating a lot of cash flow or guaranteed investment income from another source.

What Is the Possibility That Market Conditions May Change?

This is a risk that can affect conventional and unorthodox loans alike. The risks are different depending on the situation. If the risk of non-payment is coming from an economic recession and widespread layoffs, the conventional loan may get riskier if people lose their jobs and cannot pay the loans back. A real estate correction may mean that the value of residential homes may plummet, making the collateral worth less than the loan, creating a loss on foreclosure. For an unorthodox loan, the risks may be more specific. If the loan is for a small auto parts manufacturer and there is a massive recall on their key client, the revenues of this business may decline significantly whereas other auto parts businesses are not affected. Real estate in a certain area may dive due to crashing oil prices and not dive in an area dominated by senior's residences. A natural disaster in one part of the country may devastate the local economy in that area but not in the surrounding areas. The lender has to assess these risks before the loan is made and depending on what the conditions are at the time, some loans would be perceived to be riskier than others.

Who Else Are You borrowing Money From?

Lenders want to know that they are the first person who will get paid. If you are not the first person, there is a priority sequence where you would be second, third etc. This would mean that the first person gets access to the collateral first in a foreclosure. They would also get first access to any residual payments if there are not made on time. If you are borrowing from more than one lender, the lenders following the first lender may be taking higher risks and the cost of these loans will be more expensive.

Obtaining an unorthodox loan is more complex than a conventional loan, and more work would have to be done to secure this loan. There are however more options available depending on what the situation is, and these would have to be explored in detail and kept in mind as the needs change for both the borrower and the lender.

Contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what your options are. **Note: This site is intended for people who want to learn about the world of investments and how to research for themselves. If you would like to buy or sell investment products, or specific advice on investment products, tax or legal issues, please consult your investment advisor, accountant or legal counsel.**