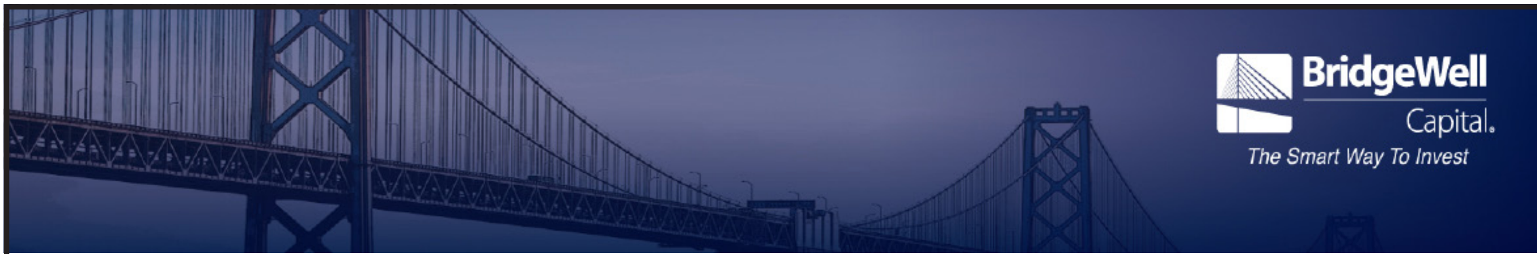

Understand the Different Forms of Leverage

October 20, 2019 by John Parrett, President of BridgeWell Capital LLC

John Parrett is the Founder and President of BridgeWell Capital, a national lender specializing in funding real estate investment projects. John has over 30 years of experience in the business and has successfully developed major commercial and residential projects. He is a licensed general contractor, real estate broker, and mortgage lender. He has participated in over 2500 successful residential flips and funded over $300MM to real estate investors throughout his career. He hosted a national radio program on real estate investing and is a recognized speaker and educator in the industry. John graduated from Purdue University with a degree in Building Construction Management.

There are 2 main types of Financial Leverage in RE investing: Equity and Debt.

1. Equity: refers to providing the financial source of capital with a piece of the deal, such as a percentage of ownership and profit. Essentially you are taking on a "Partner", and all that implies. Your new Partner will likely want a certain amount of project control with decision-making authority, progress and financial reports, and a substantial share of the profit, such as 50%. If you execute a solidly profitable RE investment project, this form of financial leverage will likely be your most expensive.

2. Debt: refers to obtaining financial leverage by obtaining financing from a lender in exchange for a promissory note that is commonly secured by a mortgage on the property. There are several common types of lenders and sources of capital. Private Lenders are typically private individuals that loan their own money. Professional lenders are companies that specialize in providing capital to RE investors. Their source capital may be their own internal, private sources, or institutional sources such as government lending programs. Professional lending sources may be Banks or Mortgage Lenders. Mortgage Lenders that utilized their own capital or use private capital sources are often referred to as "Hard Money Lenders". Hard Money Lenders are typically the easiest and fastest lenders to get funding from.

A common strategy of experienced and sophisticated RE investors is to use a combination of sources of Financial Leverage. One example might be to use an "Equity" funding source, i.e. a Financial Partner, for the down payment and closing costs and then fund the bulk of the required capital with "Debt", i.e. a Hard Money Lender. Another example might be to fund a portion of the down payment and closing costs with subordinate debt, commonly referred to as "Gap Funding". This "Gap Funding" would then be secured with a 2nd mortgage. The bulk of the deal would then be funded by a Hard Money Lender that would hold the 1st mortgage. This is a common financial structure used by big Wall Street transactions. Some of those deals might have 1st, 2nd, 3rd, and 4th levels of funding priority, or subordination.

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