Real Estate Investing - Different Modes Of Financing In The Real Estate Business

There are certain popular modes of real estate financing including lending institutions, savings banks, commercial banks, investment banks, insurance companies, credit unions, brokers and individuals. The mechanics of each kind of financing differs from the other in certain ways and it is very beneficial to understand different modes of financing so that you can choose the one that suits you best.

Financing from banks:

This is the most commonly used mode of real estate financing. Commercial banks are the kings of this game. They can offer bigger loans for relatively longer period of time and at the lowest percentages. But commercial banks have a very strict system of evaluation for potential loans. In the current economic slump it is quite difficult to qualify for a bank loan. The other problem is that banks have a system of proposals and approvals which can take a lot of time for your actual disbursement. It is very likely that your seller will not be able to wait for such a long time.

Refinancing:

In technical terms, you can say that refinancing means securing a new loan in order to get rid of an old loan on the same property.

There are many reasons why people opt for re-financing their loans. Reduction in interest rates, extension in payment date or simply spreading the repayment over a longer period of time, are some of the reasons why people go for refinancing. Refinancing changes the amortization schedule of your loan resulting in reduced monthly installments

Bridge loans:

These are type of loans are used as an emergency measure in order to prevent foreclosure of a property. The bridge loan is repaid later. The rates of bride loans are higher than the usual bank loans. They are also for shorter period of time. They do not take as much time as required by banks to process an application.

Equity loan:

In this type of real estate financing, the equity in the property is used as collateral. A lien is marked on the property which results in its reduced worth. In order to secure such a loan, you must possess impeccable credit history. Equity loans are further divided into two categories: Closed end and open ended.

Since these loans are secured against the property, they are commonly referred to as secondary mortgage. The main difference between a home equity loan and home equity lien is that the later has an adjustable interest rate and it is of revolving nature. Whereas equity loans often come with fixed interest rate and is disbursed in its entirety

Private lenders:

There are people who have extra money in bank accruing a very low interest rate. They want to invest in real estate in order to get more return on their money. Since the loans are considerably secure in a real estate project, these people can lend you their money if you can satisfy them regarding the feasibility of a project. These people are not professional lenders and it is relatively easier to deal with them regarding the terms and conditions of the loan.

Unsecured lines:

You may not know it but you already have a real estate financing facility available with you in the form of your credit card. Credit cards are the best source for short term financing. You can get your limit enhanced and negotiate better terms if you make up your mind about using your credit card for investing in real estate. But you must always keep in mind that your unsecured lines must not be used for entertainment or buying latest gadgets.