The Private Lender Playbook

How Individual & Hard Money Lenders Operate Safely and Profitably in 2026

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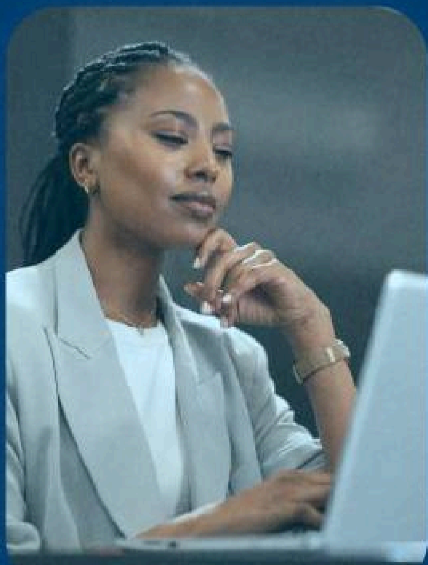

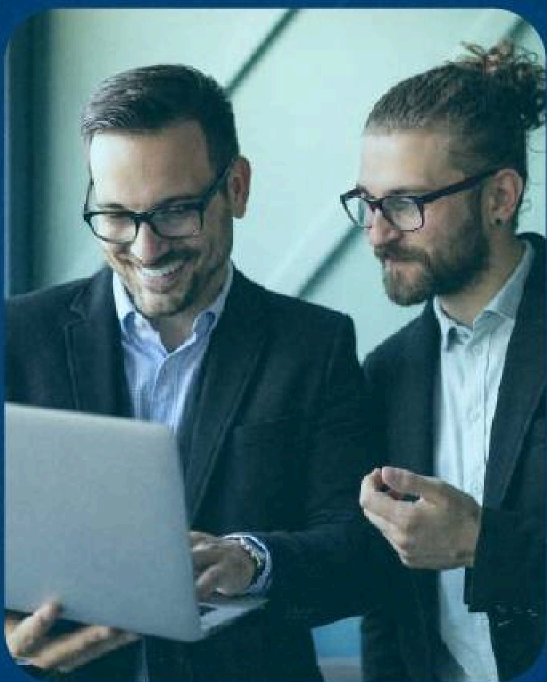

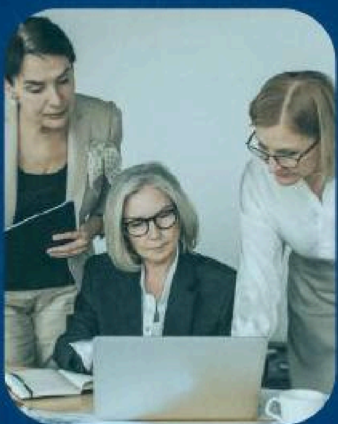

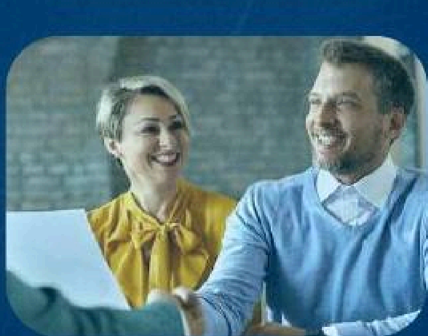

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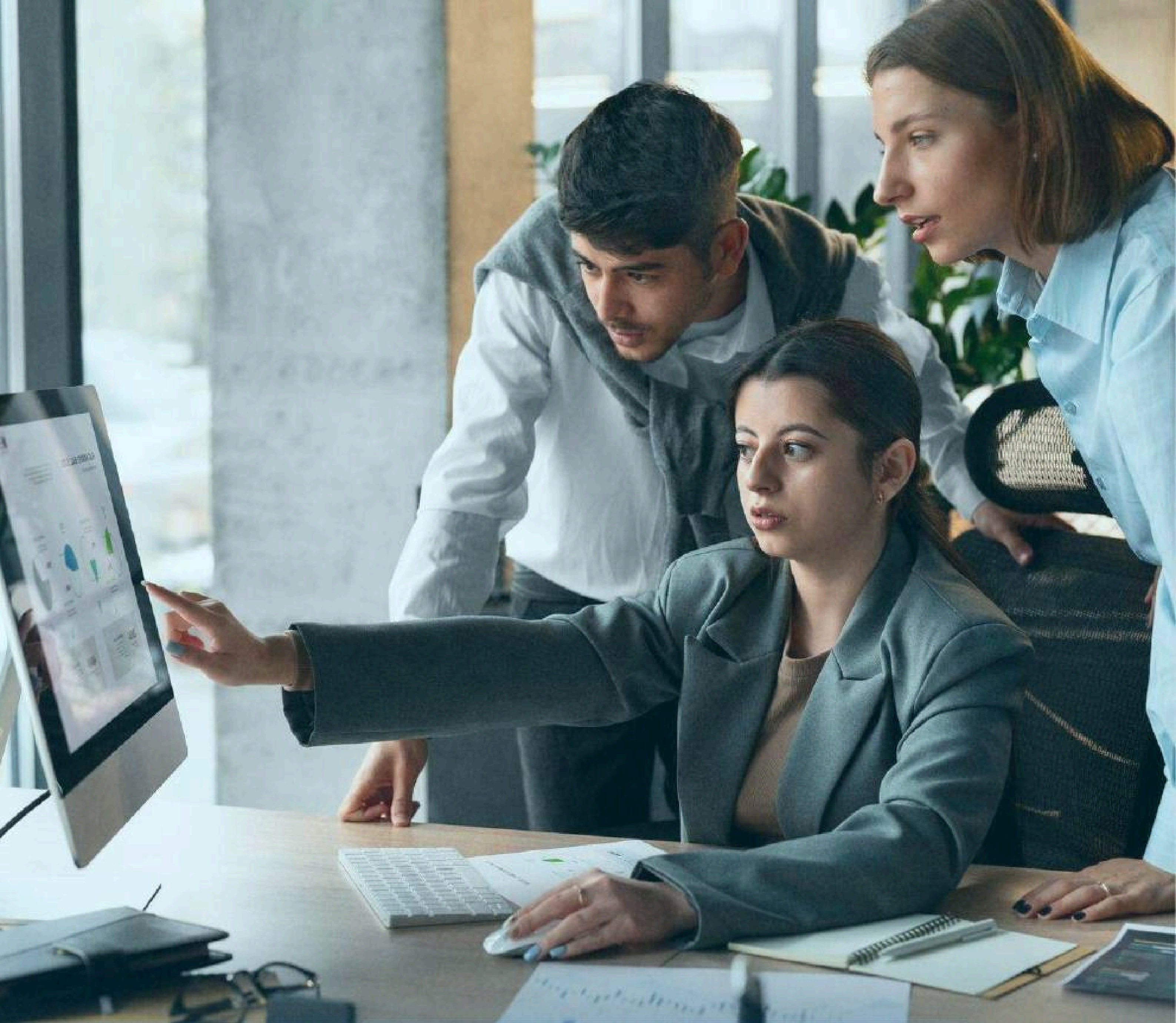

Chapter 1:

Introduction: The 2026 Private Lending Landscape

1. Introduction: The 2026 Private Lending Landscape

Private lending has moved from a niche strategy to a mainstream alternative capital source, and the market is booming.

But here is what I am seeing on the ground: regulations are tightening, borrowers are sharper, competition is fiercer, and most lenders still operate like it is 2015. That is your advantage.

In 2026, lenders who operate systematically outperform those chasing every deal or offering the lowest rates. They lend defensively and profitably.

You have probably already realized that aggressive lending is a fool's game. One bad portfolio can wipe out years of gains. Successful lenders build processes that prevent blowups.

The 2026 Market Reality

Here is a snapshot of where we are headed:

Factor	2025 Status	2026 Outlook
Borrower Sophistication	Rising	Accelerating: borrowers know their options
Regulatory Scrutiny	Moderate	Increasing: states tightening lending laws
Competition Intensity	High	Very high: more institutional players entering
Interest Rate Environment	Stabilizing	Higher for longer: affecting ARVs

Rehab Cost Inflation	Persistent	Moderating but still elevated vs. 2019
Capital Availability	Abundant	Selective: easier for proven operators

The key takeaway: the market rewards discipline and punishes sloppiness more than ever before.

The Operating Advantage

Over the last decade, I've noticed that lenders with boring, disciplined systems survived the toughest markets. They documented every loan the same way, applied the same underwriting process to every borrower, and enforced the same collections protocol every time, even when it was uncomfortable.

On paper, many of them looked less aggressive than their competitors. In reality, they were still standing after others had to sell portfolios at a discount or shut down entirely.

This playbook is about building that kind of resilience into your lending business. The goal is not just to make money in good times, but to stay alive and credible when conditions tighten.

How to Use This Playbook

You do not need to read this front-to-back. Start with the sections most relevant to where you are:

- Starting out: Sections 1-7 cover the foundation (structure, deal flow, underwriting, risk controls, legal/compliance)
- Growing your portfolio: Sections 8-13 cover operations and scaling (borrower management, servicing, capital management)

- Raising investor capital: Sections 10 and 14 cover reporting and investor relations
- Handling a crisis: Section 12 covers survival scenarios

Each section stands alone but builds progressively. The concepts in later sections assume you have the fundamentals from earlier ones in place.

Key Terms Used in This Playbook

If you are new to private lending, here are some terms you will see throughout:

Term	Definition
LMS	Loan Management System: software that tracks loans, payments, and documents
ARV	After-Repair Value: what a property will be worth after renovations
LTV	Loan-to-Value: your loan amount divided by property value (lower is safer)
LTC	Loan-to-Cost: your loan amount divided by total project cost
DOM	Days on Market: how long properties take to sell in an area
DSCR	Debt Service Coverage Ratio: rental income divided by debt payments

Now, let us get into what separates the lenders who survive from those who do not.

Chapter 2:

What Defines a Successful Modern Private Lender

2. What Defines a Successful Modern Private Lender

They have five non-negotiable traits:

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1. Risk-First Thinking

Every decision starts with one question: What is my loss scenario here?

Before you ask how much you can make on a deal, ask what happens if the borrower stops paying. What happens if the property does not sell? What happens if rehab costs double? If you cannot answer those questions with a clear plan, you should not fund the deal.

2. Repeatable Systems, Not Gut Decisions

Gut decisions help you to a point. They do not scale. What works when you are managing five loans falls apart at fifty.

You need three things in place:

- A standard underwriting checklist applied to every deal, no exceptions
- A documentation package that is the same for every loan
- An audit trail that tracks everything from initial setup to final payoff

When every deal follows the same process, you catch problems earlier and defend yourself better when things go wrong.

3. Data-Backed Underwriting

Stop leaning on stories. Borrowers will tell you their project is a sure thing. They will point to one comparable sale that supports their ARV. They will give you a contractor estimate from their brother-in-law.

None of that is data. Real underwriting means:

- Verifying recent comparable sales yourself, not trusting the borrower's numbers
- Requiring current financial documents from the borrower
- Demanding multiple contractor bids for the project scope
- Applying consistent haircuts to ARV estimates based on current market conditions

The borrower's job is to sell you on the deal. Your job is to verify everything they say.

4. Operational Tightness

Messy documentation costs money. Not someday, not theoretically. It costs money the moment a deal goes bad and you try to enforce your rights.

When deals go sideways, you need:

- Personal guarantees signed properly (not missing pages or signatures)
- Lien waivers collected from every contractor at every draw
- Payment records organized and accessible, not scattered across emails
- Insurance certificates current and naming you correctly

The time to fix documentation problems is before you fund, not when you are trying to foreclose.

5. Technology-Enabled Operations

Spreadsheets, text messages, and email chains are not a loan management system. They are a liability waiting to happen.

In 2026, borrowers expect a professional digital experience:

- Real-time loan status through a borrower portal
- Automatic payment confirmations
- Easy access to their documents and statements

More importantly, you need technology to scale without losing control. Manual processes break down as volume increases. A proper Loan Management System (LMS) automates the routine work so you can focus on decisions that matter.

The Five Non-Negotiables at a Glance

Trait	What It Means	Why It Matters
Risk-First Thinking	Ask about loss scenarios before profit potential	Prevents catastrophic mistakes
Repeatable Systems	Same checklist, same docs, same process for every deal	Scales without chaos
Data-Backed Underwriting	Verify everything yourself with real numbers	Catches borrower overconfidence
Operational Tightness	Complete, organized documentation on every loan	Protects you in court
Technology-Enabled	Use real software, not spreadsheets and emails	Frees you to focus on decisions

Chapter 3:

Structuring Your Lending Business for Efficiency & Protection

3. Structuring Your Lending Business for Efficiency & Protection

Why Structure Matters

Your business structure determines:

- How fast you can scale without chaos
- Whether you can legally raise investor capital
- How efficient your daily operations are
- Whether regulators see you as compliant or a target
- What happens to your personal assets if litigation hits

The 8 Core Components of a Lending Business

Every professional lending operation needs these eight pieces in place. Some you handle yourself (legal entity, licensing). Others can be automated with the right software.

Component	Purpose	What You Need to Do	Estimated Cost
1. Legal Entity (LLC)	Liability protection	Form LLC with your state	$200-500
2. Lending License	State compliance	Attorney verification	$2,000-5,000
3. Investor Structure	Legal capital raising	PPM + LP documents	$15,000-30,000
4. Banking Controls	Fraud prevention	Business + escrow accounts	Minimal

5. Written Policies	Operational consistency	Document your underwriting and collections processes	Your time
6. Servicing Workflow	Loan lifecycle management	Payment posting, reminders, defaults	LMS subscription
7. Recordkeeping	Audit trail	7-year document retention	LMS subscription
8. Document Templates	Legal enforceability	Attorney-drafted templates	$5,000-10,000

The first three components (entity, license, investor structure) require professional help. Do not cut corners here. The remaining five can be systematized with a proper Loan Management System.

Component Details

1. Legal Entity (LLC)

Your LLC creates a wall between your lending business and your personal assets. If a borrower sues you or a deal goes badly, they can only reach what is inside the LLC, not your house or savings.

Formation is straightforward. File with your state (typically $200-500), get an EIN from the IRS, and open a business bank account. Some lenders use multiple LLCs to separate different loan pools or investor groups.

2. Lending License

Licensing requirements vary dramatically by state. Some states require a mortgage lender license even for business-purpose loans. Others exempt private lenders entirely. A few have specific hard money or bridge lending categories.

Do not guess. Have an attorney verify your state's requirements before you fund your first loan. Operating without a required license can result in fines, loan rescission, and even criminal penalties.

3. Investor Structure

If you plan to raise capital from outside investors, you need securities documents. This typically means a Private Placement Memorandum (PPM) and a Limited Partnership (LP) or LLC operating agreement.

This is not optional. Raising money without proper securities documentation violates federal law and exposes you to serious liability. Budget $15,000-30,000 for a securities attorney to do this correctly.

4. Banking Controls

At minimum, you need a business checking account separate from personal funds. Many lenders also maintain an escrow account for borrower funds (insurance, taxes, draw holdbacks) to avoid commingling.

5. Written Policies

Your underwriting criteria, collections procedures, and servicing standards need to be documented. Not in your head. On paper (or in your LMS).

Written policies serve two purposes: they ensure consistency as you scale, and they protect you legally by showing you follow standard procedures rather than making arbitrary decisions.

6. Servicing Workflow

Servicing covers everything that happens after you fund a loan: payment reminders, payment posting, late fee calculations, escrow management, draw approvals, and default escalation.

Manual servicing works for five loans. It breaks at fifty. A proper LMS automates these tasks and ensures nothing falls through the cracks.

7. Recordkeeping

You need to retain loan documents for at least seven years. This includes the note, mortgage, personal guarantee, insurance certificates, payment history, and all correspondence.

Scattered files across email, Dropbox, and filing cabinets will fail you when you need to produce documents for an auditor, attorney, or court. Centralized storage in your LMS makes retrieval instant.

8. Document Templates

Your promissory note, deed of trust, personal guarantee, and draw agreement should be drafted by an attorney familiar with private lending in your state. Template documents from the internet are not sufficient.

Once you have attorney-approved templates, store them in your LMS so you can generate customized documents for each loan without retyping.

Required Loan Documents

Every loan you fund should have these documents completed, signed, and stored. This is your minimum document package:

Document	Purpose	Who Provides It
Promissory Note	Borrower's promise to repay with specific terms	Your attorney template
Mortgage / Deed of Trust	Secures the loan against the property	Your attorney template
Personal Guarantee	Holds individual owners personally liable	Your attorney template
Draw Agreement	Defines rehab funding rules and schedule	Your attorney template
Loan Disclosures	State-required acknowledgment of terms	State-specific forms
Title Commitment	Confirms clear title and your lien position	Title company

Title Insurance	Protects against ownership defects	Your attorney template
Hazard Insurance	Covers property damage	Borrower's insurance agent
Builder's Risk Insurance	Covers damage during construction	Borrower's insurance agent
Appraisal or BPO	Documents property value	Licensed appraiser

Chapter 7 covers what each document must contain to be enforceable. For now, understand that missing any of these weakens your legal position.

How an LMS Like Bryt Supports Your Structure

Your legal structure (entity, licensing, investor docs) is your responsibility. But the operational components can be systematized with Bryt:

Your Structure	Bryt Capability	Business Impact
Written Policies	Workflow automation	Consistent execution of your rules
Servicing	Payment automation and tracking	No manual tracking errors
Recordkeeping	Centralized document storage	Audit-ready at any moment
Investor Reporting	Dashboards and automated reports	Professional investor communication

Document Templates	Template storage and generation	Faster closings, consistent docs

Bryt executes the policies you define. You set the rules; the software enforces them consistently.

Built-In Communication Templates

Bryt comes with pre-built notice templates for common borrower communications:

- Payment Request: reminder before payment is due
- Payment Received: confirmation when payment posts
- Late Notice: escalating notices for overdue payments
- Balloon Notice: reminder before maturity date
- Periodic Loan Statement: regular account summary
- Welcome Letter: onboarding for new borrowers

These templates can be customized with your own messaging. Advanced configurations allow additional custom notices for specific loan conditions.

30-Day Structure Setup Plan

You can get your foundational structure in place within a month.

Here is the sequence:

Week 1: Entity and Banking

- File LLC formation documents with your state
- Apply for EIN from IRS (free, online, instant)
- Open business checking account
- Open escrow account if needed

Week 2: Legal and Licensing

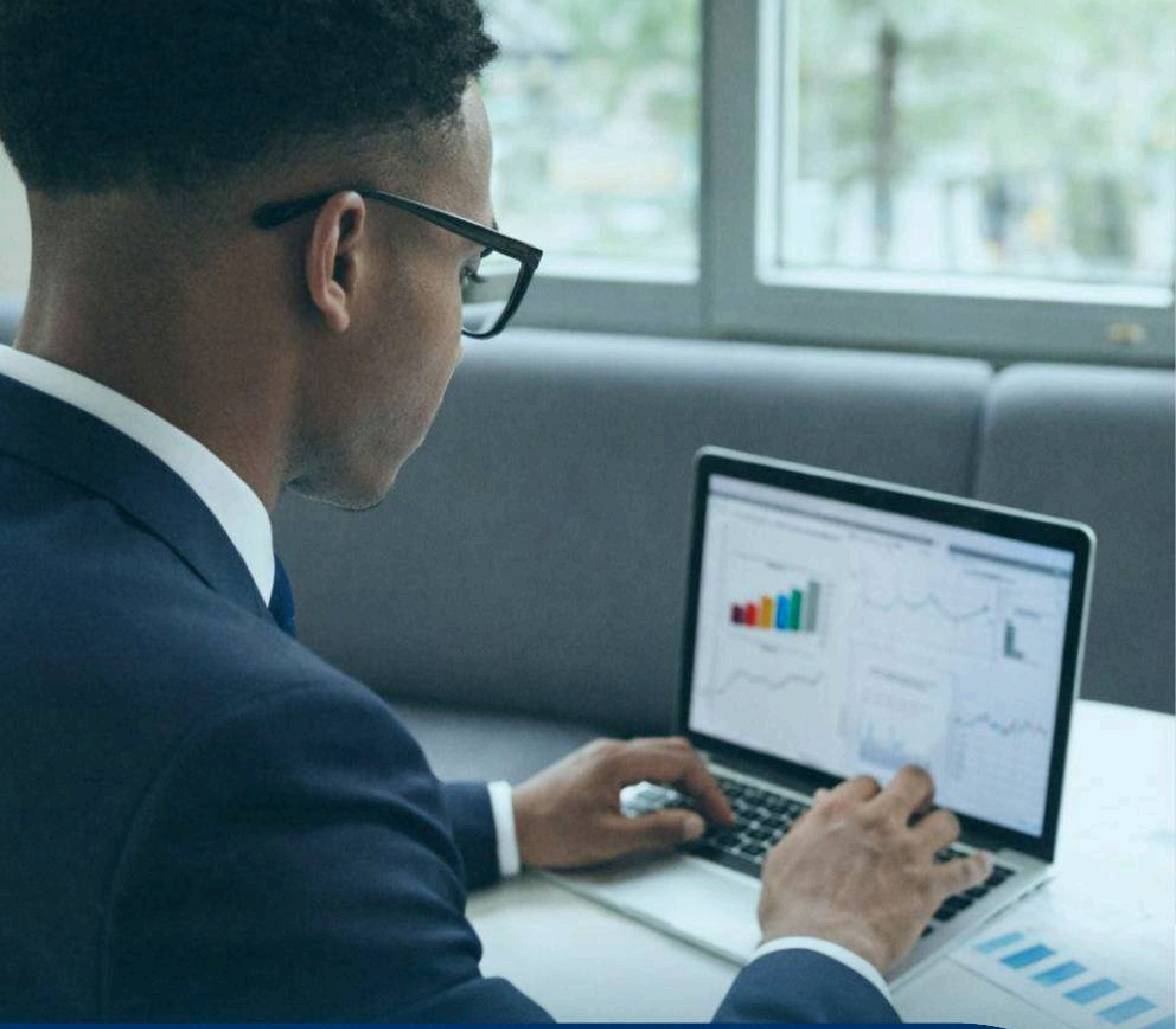
- Engage attorney to verify state licensing requirements
- Begin license application if required
- Discuss investor structure if raising outside capital

Week 3: Systems Setup

- Set up Bryt account and configure loan settings
- Connect banking integration for payment processing
- Import or create document templates

Week 4: Policies and Templates

- Document your underwriting criteria and limits
- Document your collections escalation procedures
- Load attorney-approved templates into Bryt
- Test workflow by creating a sample loan



Chapter 4:

Building Quality Deal Flow Without Increasing Risk

4. Building Quality Deal Flow Without Increasing Risk

You need volume to scale. But chasing deals lowers your standards. The result is a portfolio full of mediocre loans that default together when the market tightens.

The solution is not to choose between volume and quality. It is to build systems that deliver both: quality sources combined with rigorous intake equals a sustainable pipeline.

Quality Over Volume

Lenders with less than 2% default rates get 70% of their volume from just three sources:

- Repeat borrowers who have performed on previous loans
- Referrals from existing investors and borrowers
- Real estate investor groups where members are vetted

They spend almost no time on wholesalers or cold online leads. A smaller pool of qualified borrowers produces better outcomes than a larger pool of unknown ones.

Deal Source Hierarchy (Ranked by Quality)

Not all deal sources are equal. Here is how they typically rank in terms of borrower quality and default risk:

Source	Quality Level	Volume Potential	Notes
Repeat Borrowers	Elite	Predictable	Your best source. They know your process.
Investor Referrals	Elite	Growing	Referred borrowers come pre-vetted.
RE Investor Groups	Excellent	Medium	Members often have track records.
Experienced Realtors	Very Good	High	They see deals early but quality varies.
Builders/ Contractors	Very Good	Medium	Know construction but may lack capital.
Wholesalers	Good	High	Volume is there but quality is inconsistent.
Online REI Groups	Fair to Good	Medium	Wide range of experience levels.

Target mix: 70% of your deals should come from the top three sources.

Track where your deals come from and how they perform. Over time, you will see clear patterns. Double down on sources that produce performing loans. Cut sources that produce defaults.

5 Quality Markers to Screen for Before Underwriting

Before you spend time underwriting a deal, screen the borrower for these five markers. If they fail multiple markers, decline early and save yourself the work.

1. Deal Experience

Has the borrower completed 3 to 5 similar projects? Not started. Completed. With profitable exits. Ask for addresses and lender references you can verify.

2. Financial Reserves

Does the borrower have 25 to 30% of the deal size in liquid reserves? Rehab projects always cost more than expected. Borrowers without reserves cannot handle overruns.

3. ARV Mastery

Can the borrower explain comparable sales without looking at notes? Experienced flippers know their market cold. If they are relying on what their realtor said, that is a red flag.

4. Document Speed

Can they deliver requested documents within 48 hours? Organized borrowers have their financials, entity docs, and project details ready. Disorganized borrowers signal disorganized projects.

5. Communication Quality

Do they respond promptly and provide clear updates? Borrowers who go silent during underwriting will go silent during the project. Communication patterns predict default risk.

Most lenders reverse this order. They chase volume first, scramble through underwriting, and end up with a mediocre portfolio. Quality borrowers self-select when you prioritize proven sources.

5 Deal Flow Traps to Avoid

Even experienced lenders fall into these traps. Recognizing them is the first step to avoiding them.

Trap 1: Relationship Lending

"I know him" does not replace underwriting. Family members, friends, and long-time contacts still need the same LTV limits, ARV verification, and documentation as strangers. Exceptions for people you know create portfolio holes.

Trap 2: Single Broker Dependency

One broker should not deliver more than 25% of your deals. Their incentive is volume, not your risk protection. When their pipeline dries up or quality drops, your entire deal flow stalls.

Trap 3: Skip Steps Borrowers

"Can we close without an appraisal?" "Title insurance is not really needed." These requests signal that borrowers are concealing problems: overstated ARVs, title issues, or construction risks. Speed should never trump verification.

Trap 4: Vague Exit Strategies

"I will flip it" is not a plan. Demand specifics: target sale price with supporting comps, timeline based on neighborhood days-on-market, and a rental fallback with actual rental rates. Borrowers without clear exits create holding risk.

Trap 5: Rush Deals During Hot Markets

Deal flow surges create fear of missing out. Lenders loosen criteria to maintain volume. This is exactly when discipline matters most. Your 65 to 75% LTV maximum does not change because "everyone else is doing deals."

Building Your Intake Process

A structured intake process filters out weak deals before they consume your time. Here is what to include:

Step 1: Initial Screening (5 minutes)

Before you look at the property, screen the borrower. Ask about experience, reserves, and timeline. If they cannot answer basic questions, stop here.

Step 2: Document Request (24–48 hours)

Send a standard document checklist: entity docs, bank statements, project scope, contractor bids, purchase contract. How quickly and completely they respond tells you a lot.

Step 3: Preliminary Analysis (30 minutes)

Review the documents they sent. Run your own comps. Calculate LTV and LTC. If the numbers do not work, decline with a brief explanation.

Step 4: Full Underwriting (if preliminary passes)

Now invest the time: verify references, inspect the property, confirm ARV with your own analysis. This is covered in detail in Chapter 5.

Most deals should be filtered out by Step 3. If you are underwriting everything that comes in, your intake process is broken.

30-Day Pipeline Build Plan

You can establish a quality-focused pipeline within a month:

Week 1: Audit Your Current Sources

- List every deal you have funded in the past 12 months
- Note the source for each deal
- Mark which loans performed and which had problems
- Identify your top 3 performing sources

Week 2: Build Your Intake Forms

- Create a standard borrower questionnaire
- Create a document checklist
- Define your minimum quality markers
- Write decline scripts for deals that do not qualify

Week 3: Focus on Top Channels

- Reach out to your best repeat borrowers
- Ask performing borrowers for referrals
- Identify 2-3 investor groups to engage with
- Reduce time spent on low-quality source

Week 4: Launch Tracking

- Set up source tracking in your LMS
- Create a simple dashboard: deals by source, conversion rate, default rate
- Schedule monthly review of source performance

Chapter 5:

Underwriting Frameworks for 2026 Market Conditions

5. Underwriting Frameworks for 2026 Market Conditions

Underwriting is where you catch risk before you fund. It is your last line of defense before money leaves your account. Get it right and you build a portfolio that performs. Get it wrong and no amount of servicing or collections will save you.

2026 market conditions demand updated assumptions. What worked in 2021 will get you hurt today.

Why 2026 Underwriting Must Be Different

The market has shifted in ways that break old underwriting habits. Rehab costs have increased significantly, so a 10% contingency no longer covers surprises.

You need 15%. ARV estimates are less reliable in a softer market, so a 5% haircut is not enough. Use 8-10%. Days on market have stretched from 30 to 45-60+ in most areas. And refinance exits that used to be easy now face tighter standards.

Old assumptions fail because they were built for a different market. The three pillars below are calibrated for current conditions. Chapter 14 includes a quick reference table with the specific 2026 adjustments that you can go through.

The Pattern That Sinks Lenders

The borrower said rehab would cost $60K. It cost $95K. The borrower said ARV was $400K. It appraised at $340K. The borrower said they would sell in 60 days. It took 8 months.

Apply these three pillars mechanically to every deal. No exceptions for friends, no shortcuts for repeat borrowers, no gut feelings that override the numbers.

Pillar 1: The Asset (The Property)

The property is your collateral. If everything else fails, this is what you get back. Your job is to verify that market value actually exists and that you are not overpaying for risk.

Source	Quality Level	Volume Potential
Purchase Price	Compare to recent market sales	Use sales from last 6 months only
Rehab Scope	Get 3 contractor bids	Take the highest bid + 15% contingency
ARV (After-Repair Value)	Pull 5 comps within 0.25 miles, under 6 months old	Apply 8-10% haircut to comp average
Neighborhood Quality	Check DOM trends, crime stats, school ratings	Use current data, not historical
Demand Velocity	Research average days-on-market	Assume 45-60+ days, not 30

Asset Verification Process:

1. Pull 5 comparable sales yourself. Do not trust the borrower's comps.
2. Calculate ARV as the average of your comps minus a 10% haircut.
3. Get 3 contractor bids. Use the highest one plus 15% contingency.
4. Research neighborhood DOM. Add 30 days to whatever you find.

5. If the numbers still work after these adjustments, proceed to Pillar 2.

Pillar 2: The Borrower (Can They Execute?)

A great property with a weak borrower is a bad loan. The borrower has to actually complete the project, manage contractors, handle surprises, and execute their exit. Your job is to verify they have done this before.

Signal	How to Verify	Minimum Standard
Experience	Call prior lenders, verify completed deals	3-5 similar projects completed
Liquidity	Request bank statements, verify directly	25-30% of deal size in reserves
Credit	Pull full credit report	680+ score, no recent late payments
Prior Defaults	Ask for lender references, check background	None in the past 24 months
Income Stability	Verify income sources	Debt service coverage ratio above 1.25x

Borrower Verification Process:

1. Call 2-3 prior lenders. Ask one question: "Would you lend to them again?"
2. Verify reserves with a direct bank call, not just statements they provide.
3. Pull credit yourself. Look for patterns, not just the score.
4. Ask about their worst deal. How they handled problems tells you a lot.
5. If they pass these checks, proceed to Pillar 3.

Pillar 3: The Deal Structure (Are You Protected?)

Even with a good property and a capable borrower, a bad structure can sink you. Your LTV and LTC limits are your margin of safety. Do not negotiate them away.

Risk Level	Max LTV (of ARV)	Max LTC (of Total Cost)	Rate Adjustment
Low Risk	65-70%	80-85%	Base rate
Medium Risk	70-75%	85-90%	Base rate + 1-2%
High Risk	65% or less	80% or less	Base rate + 3-4%, or decline

Notice that high-risk deals require tighter limits, not looser ones. If a deal has risk factors, you need more equity cushion, not less.

Example Calculation:

Purchase price: $300,000
Rehab budget: $100,000
Total cost: $400,000
ARV (after 10% haircut): $500,000

Maximum loan at 75% LTV: $375,000
Maximum loan at 85% LTC: $340,000

Your loan should be the lower of these two numbers: $340,000.

Exit Strategy Verification

This is where most lenders get lazy. The borrower says they will "flip it" or "refinance out" and the lender nods along. That is not verification. That is hope.

Every exit strategy needs hard evidence. Here is what to require:

Flip Exit (Sale)

- 5 recent comparable sales within 6 months supporting the target price
- Proof of funds from the buyer or a pre-approval letter
- Neighborhood days-on-market average under 60 days
- Realistic timeline based on actual market velocity

Rental Exit (Hold)

- Rent analysis showing DSCR (debt service coverage ratio) above 1.25x
- Current market rents verified through Zillow, Rentometer, or local property manager
- Lease comps from the same neighborhood
- Borrower's plan for property management

Refinance Exit

- Pre-qualification letter from a lender dated within 30 days
- Confirmation that borrower's DTI, credit score, and LTV meet lender standards
- Recent bank statements proving reserves for closing costs
- Backup plan if refinance falls through

No verification equals no loan.
Borrowers must prove their exit works before you fund.

Your Underwriting Checklist (Apply to Every Deal)

Use this checklist on every deal, regardless of borrower relationship or deal source:

Pillar	Key Checks	2026 Minimums
Asset	5 comps verified, highest bid + 15%, ARV haircut applied	ARV = comp average minus 10%, LTC max 85%
Borrower	3+ deals verified, reserves confirmed, credit pulled, lenders called	680+ credit, 25-30% reserves, 2 lender references
Structure	LTV and LTC within limits, exit verified with evidence	LTV max 75%, verified exit with documentation

If a deal fails any pillar, do not try to make it work. Decline and move on. There will be another deal. There will not be another portfolio if you fund bad loans.

Common Underwriting Failures

These mistakes show up repeatedly in failed loan files:

Trusting Borrower Comps

The borrower has an incentive to show you the highest possible ARV. Always pull your own comps and apply your own haircut.

Using Stale Data

Comps from 12 months ago do not reflect today's market. In a shifting market, even 6-month-old data can be dangerously optimistic.

Skipping Lender Calls

Bank statements and credit reports tell you about finances. Prior lenders tell you about behavior. A borrower can have great credit and still be a nightmare to work with.

Ignoring Contingency

A 10% rehab contingency was reasonable in 2019. In 2026, with supply chain issues and labor costs, 15% is the minimum. Borrowers who budget tight will come back asking for more money.

Accepting Vague Exits

"I will figure it out" is not an exit strategy. If the borrower cannot articulate a specific, verified plan, they do not have one.

Chapter 6:

Risk Controls That Keep Lenders Safe

6. Risk Controls That Keep Lenders Safe

Why Risk Controls Are Non-Negotiable

Even perfect underwriting fails 15 to 20% of the time. Markets shift mid-project. Contractors disappear. Buyers back out. Rehab costs explode. These things happen to every lender, no matter how careful.

Your risk controls catch what underwriting misses:

- LTV and LTC limits give you an equity cushion when values drop
- Staged draws verify that work exists before you release more money
- Insurance protects you against accidents and disasters
- Fraud checks catch identity theft before funds leave your account

Core Risk Controls Framework

Every loan should have these four controls in place before funding:

Control	Purpose	What It Protects Against
LTV/LTC Limits	Equity cushion	Property value declines, slow sales
Draw Schedule	Verify work before releasing funds	Ghost work, contractor fraud, project abandonment
Insurance Requirements	Transfer risk to insurance carriers	Property damage, construction accidents, liability claims
Fraud Prevention	Verify borrower identity and intent	Identity theft, straw buyers, fabricated documents

Let us break down each control and how to implement it properly.

Control 1: LTV and LTC Limits

Your loan-to-value (LTV) and loan-to-cost (LTC) limits are your structural protection. They ensure you always have an equity cushion between your loan amount and the property value.

If a borrower defaults and you have to foreclose, that equity cushion covers your selling costs, holding costs, and any value decline. Without it, you can end up underwater.

Chapter 5 covers the specific LTV and LTC limits by risk level. The key principle here: apply those limits as hard controls, not guidelines. If a deal requires you to stretch your limits, that is a signal to decline, not to adjust.

Your maximum loan should always be the lower of your LTV limit and your LTC limit. This ensures you are protected by both metrics.

Control 2: Rehab Draw Schedule

Never fund 100% of rehab costs upfront. Stage your draws based on verified progress. This protects your capital and ensures work actually gets completed.

If a borrower disappears or a contractor walks off the job, staged draws limit your exposure to the work that has actually been completed.

Draw	Percentage	Trigger	What You Require
Draw 1	20%	Closing	Purchase docs, title policy, insurance certificates
Draw 2	40%	Framing complete + inspection	Invoice, photos, inspection report, contractor lien waiver
Draw 3	30%	95% complete + final inspection	Final invoices, completion photos, certificate of occupancy
Holdback	10%	Contingency for overruns	Released after final contractor payments verified

Why This Structure Works:

- Draw 1 covers acquisition only. No rehab money is released until work starts.
- Draw 2 requires structural progress. Framing protects your collateral value.
- Draw 3 verifies near-completion. Cosmetic work alone does not justify full funding.
- The 10% holdback covers punch list items, final cleanup, and unexpected overruns.

Lien Waivers Are Critical

At every draw, collect lien waivers from all contractors who received payment. A lien waiver is a document where the contractor acknowledges they have been paid and waive their right to file a mechanic's lien against the property.

Without lien waivers, a contractor can claim they were not paid (even if they were) and file a lien that clouds your first position. Collect them at every draw, no exceptions.

Draw Verification Process:

1. Borrower submits invoice, photos, and draw request
2. You or your inspector visits the site to confirm work matches the scope
3. Collect lien waivers from all contractors who were paid
4. Release funds only after all documentation is received

This process keeps default rates low because borrowers cannot disappear with cash. Every dollar is tied to verified progress.

Control 3: Insurance Requirements

Insurance transfers risk from you to an insurance carrier. But only if you have the right policies with the right coverage and the right naming.

You need four types of insurance on every rehab loan:

Policy Type	What It Covers	You Should Be Named As	Why It Matters
Builder's Risk	Damage during construction (fire, theft, vandalism)	Loss Payee	Covers your collateral while work is in progress
Hazard Insurance	Property damage after completion	Mortgagee	Standard property insurance for completed structures
General Liability	Worker injuries, third-party claims	Additional Insured	Protects you if someone gets hurt on site
Title Insurance	Ownership defects, liens, encumbrances	Named Insured	Confirms clear title and your lien position

Naming Matters

Being named correctly on the policy is what gives you rights. If you are not named as Loss Payee on Builder's Risk, the insurance company can pay the borrower directly after a loss, leaving you with nothing.

Verification Process:

5. Request certificates of insurance before funding
6. Verify your company is named correctly on each policy
7. Confirm coverage amounts are adequate for the project
8. Set up renewal tracking so policies do not lapse during the loan

Store all certificates in your LMS and set alerts for expiration dates. A lapsed insurance policy during construction is an uninsured loss waiting to happen.

Control 4: Fraud Prevention

Fraud is increasing in private lending. Identity theft, straw buyers, fabricated documents, and ghost contractors are all real risks. Your verification process is your defense.

Draw	Percentage	Trigger
Title Issues	Title search + title insurance	Liens, judgments, ownership disputes
Identity Fraud	ID + SSN + credit match	Mismatched names, addresses, or SSNs
Fake Financials	Direct bank verification	Statements that do not match bank records
Ghost Contractors	License verification + references	Unlicensed contractors, no verifiable work history

Double Verification for 2026

Fraud techniques have gotten more sophisticated. In 2026, a single verification is not enough for high-risk items:

- Bank statements: Call the bank directly to verify balances
- Identity: Match government ID to credit report to bank account name
- Contractor bids: Call contractors directly to verify they submitted the bid
- Prior lenders: Verify the lender exists and actually made the loan

It takes an extra 30 minutes per deal. It saves you from funding a fraudulent loan that you will never recover.

2026 Risk Control Adjustments

Current market conditions require tighter controls than historical norms:

Higher Rehab Costs

Material and labor costs have increased significantly since 2019. Your 10% contingency holdback should be 15% in 2026. Budget overruns are the norm, not the exception.

Longer Days on Market

Properties are taking longer to sell. Build extended timelines into your loan terms and verify that borrowers have reserves to cover additional carrying costs.

Increased Fraud Attempts

Economic pressure increases fraud. Double-verify everything. If something feels off, it probably is.

Pre-Funding Risk Control Checklist

Before you fund any loan, verify every item on this list:

Category	Verification	Completed?
LTV/LTC Limits	Loan is at or below 75% LTV and 85% LTC	-
Title	Clear title confirmed, title insurance in place	-
Builder's Risk	Policy active, you named as Loss Payee	-
Hazard Insurance	Policy active, you named as Mortgagee	-
Liability Insurance	Policy active, you named as Additional Insured	-
Identity	ID, SSN, and credit report all match	-
Bank Verification	Reserves confirmed with direct bank call	-
Draw Schedule	Staged payments created, holdback established	-

If any item is incomplete, do not fund. It is easier to delay closing than to recover from a loss.

Chapter 7:

Legal, Compliance & Documentation Essentials

7. Legal, Compliance & Documentation Essentials

In Chapter 3, we listed the required loan documents (promissory note, mortgage, guarantee, insurance certificates, and more). This chapter goes deeper into what each document must contain to be enforceable and how to manage them so they protect you when deals go wrong.

What Each Critical Document Must Contain

The Required Loan Documents table in Chapter 3 lists what you need. Here is what must be in each document to make it enforceable.

Promissory Note

The promissory note is the borrower's written promise to repay. It must define exact terms with no ambiguity:

- Principal amount and how it was calculated
- Interest rate stated precisely (for example, 11.99% per annum)
- Payment schedule (monthly interest-only is common for bridge loans)
- Late fee amount and trigger (for example, $250 or 5% if payment is more than 10 days late)
- Default definition (what specifically constitutes default)
- Acceleration clause (allows you to demand full repayment upon default)
- Prepayment terms (any penalties or minimum interest periods)

Vague terms like "reasonable late fee" invite disputes. Specific terms like "$250 after 10 days" are enforceable.

Mortgage or Deed of Trust

This document secures your loan against the property and creates your lien. After closing, verify that it was actually recorded with the county. Recording delays or errors can leave you unprotected.

Store a copy of the recorded document with the county stamp as proof of your secured position.

Personal Guarantee

When lending to an LLC, the personal guarantee holds individual owners liable. Without it, you can only recover what the property is worth if the borrower defaults.

Critical details:

- Every principal with significant ownership (typically 20%+) should sign
- Guarantee should be unconditional, not limited to specific circumstances
- Notarization requirements vary by state. Verify yours.

Draw Agreement

The draw agreement prevents disputes over rehab funding. It should specify:

- Draw amounts and triggers (for example, 40% at framing completion)
- Inspection requirements before each draw
- Documentation required (invoices, photos, lien waivers)
- Holdback amount and release conditions
- Process for budget overruns

When borrowers ask for money before work is complete,
you point to the agreement.

Bryt's Custom Document Template Module lets you create standardized templates with merge fields. Generate personalized documents with one click, output as Word or PDF, and store them automatically in the loan file.

Compliance Requirements by Type

Compliance failures can void your loan terms or trigger regulatory action. Here is what you need to verify:

State Licensing

Some states require a mortgage lender license even for business-purpose loans. Others exempt private lenders. A few have specific hard money categories. Requirements change frequently.

Have an attorney verify your specific state's requirements annually. If you lend across state lines, you may need licenses in multiple states.

Interest Rate Limits

Most states have usury laws capping interest rates. Many exempt business-purpose loans, but not all. Some states cap rates even for commercial transactions.

Exceeding the cap can void your interest entirely or trigger penalty refunds. Know your state's limits before setting rates.

Required Disclosures

Even business-purpose loans may require specific disclosures about terms, fees, and borrower rights. Using generic documents from another state creates compliance gaps.

Have your attorney provide state-specific disclosure templates for every state where you lend.

Fair Lending

Fair lending laws require consistent standards regardless of borrower characteristics. Your best protection is documented, objective underwriting criteria applied the same way to everyone.

If your decisions are based on subjective factors and undocumented reasoning, you are exposed to discrimination claims.

Insurance Tracking and Expiration Management

Insurance policies expire. If a claim happens during a coverage gap, you are uninsured. This is one of the most common documentation failures.

For every loan, track:

- Policy expiration dates for all required coverage
- Renewal deadlines
  (request updated certificates 30 days before expiration)
- Confirmation that you remain properly named on renewed policies

Set up a system to flag expirations before they happen. Chasing expired insurance after a loss is too late.

Bryt's Asset and Insurance Tracking Module monitors policy expiration dates and can send Property Insurance Expiration Notices automatically. Expired policies are flagged in the Loan Issues Dashboard widget.

Document Storage and Retrieval

Having documents is not enough. You need to find them quickly, prove they are authentic, and show who accessed them.

Scattered files across email, Dropbox, and filing cabinets will fail you. When your attorney asks for the complete loan file, you should produce it in minutes, not days.

Organize each loan file into these categories:

- Loan Documents: Note, mortgage, guarantee, draw agreement
- Title and Insurance: Title commitment, recorded mortgage, insurance certificates
- Underwriting: Comps, appraisal, credit report, borrower financials
- Borrower Info: Entity docs, ID verification, bank statements
- Servicing: Payment records, draw requests, inspection reports
- Communications: Emails, notices sent, call notes

Consistent organization means anyone on your team can find what they need without asking you.

Bryt stores all loan documents in a centralized vault organized by loan. Every email sent through Bryt is logged on the contact record with timestamps, creating the audit trail you need.

Document Retention Requirements

Keep loan documents for at least seven years after payoff. Some documents may require longer retention:

Document Type	Minimum Retention	Notes
Loan Documents (Note, Mortgage, Guarantee)	7 years after payoff	Store permanently if possible
Payment Records	7 years after payoff	Export from LMS and back up
Communications	7 years after payoff	Includes emails, notices, call logs

Compliance Documents	Permanent	Licenses, disclosures, acknowledgments
Tax Documents (1098, 1099)	7 years	Annual folders by tax year

Bryt's cloud storage provides permanent retention without physical storage costs. Documents remain accessible as long as you maintain your account.

Pre-Funding Document Checklist

Before funding any loan, verify every document on this list is complete and properly executed:

Document	Verification	Status
Promissory Note	Signed by all borrowers, notarized if required	-
Mortgage/Deed of Trust	Ready for recording, legal description verified	-
Personal Guarantee	Signed by all principals with 20%+ ownership	-
Draw Agreement	Signed, draw schedule attached	-
Loan Disclosures	State-specific forms signed and dated	-
Title Commitment	Clear title, no unexpected liens	-

Title Insurance	Policy issued, you named correctly	-
Hazard Insurance	Certificate received, you named as mortgagee	-
Builder's Risk Insurance	Certificate received, you named as loss payee	-

Do not fund until every item is complete.

Missing documents at closing become missing documents in litigation. It is easier to delay funding than to recover from an unenforceable loan.

5 Documentation Traps to Avoid

These failures show up repeatedly in problem loans:

Trap 1: Unsigned or Partially Signed Documents

A document missing signatures is not complete. Check every page, every signature line, every initial. One missing signature can make an entire guarantee unenforceable.

Trap 2: Lapsed Insurance

Insurance policies expire. If a loss happens during a coverage gap, you are uninsured. Track expirations and require updated certificates before policies lapse.

Trap 3: Vague or Ambiguous Terms

Terms like "reasonable" or "timely" invite disputes. Use specific numbers: "$250 late fee after 10 days" not "reasonable late fee." Specific terms are enforceable. Vague terms are litigated.

Trap 4: No Proof of Communication

If you cannot prove when a notice was sent or what it said, you are relying on your word against theirs. Send notices through systems that log delivery. Keep copies of everything.

Trap 5: Documents You Cannot Find

When your attorney asks for the loan file and you spend three days searching, you have already weakened your case. Centralized storage is not optional.

Chapter 8:

Borrower Management & Relationship Strategies

8. Borrower Management & Relationship Strategies

Communication Predicts Defaults

In Chapter 4, we discussed how to identify quality borrowers before you fund. But quality at intake does not guarantee quality during the loan. Projects change. Borrowers get overwhelmed. Problems emerge.

The best predictor of default is not credit score or experience level. It is communication patterns.

Borrowers who communicate consistently tend to perform. Borrowers who go silent tend to default. Weekly updates catch most of problems before they become crises.

This chapter covers how to structure borrower communication so you see problems early and maintain relationships that lead to repeat business.

Communication Framework

Do not leave communication to chance. Set expectations on day one and enforce them consistently.

Communication Type	Frequency	Purpose	How to Automate
Project Updates	Weekly	Track progress, catch problems early	Template + reminder workflow
Progress Reports	Monthly	Formal status documentation	Report template

Payment Confirmations	Per payment	Confirm receipt, maintain records	Auto-email on payment
Status Checks	Quarterly	Review overall loan health	Calendar reminder

The key is consistency. Sporadic check-ins train borrowers that communication is optional. Regular touchpoints train them that you are paying attention.

Weekly Project Updates

For rehab loans, require borrowers to send weekly updates. Keep the format simple so they actually do it:

- Work completed this week
- Budget spent vs. original estimate
- Issues or surprises encountered
- Timeline forecast (on track, ahead, behind)

You can send a template email every Monday asking for this information. Most borrowers will respond within 24 hours if they know you expect it.

What the Updates Tell You

The content matters, but so does the pattern:

Pattern	What It Usually Means	Your Response
Consistent, detailed updates	Borrower is organized and on track	Continue normal monitoring
Updates getting shorter	Possible fatigue or emerging problems	Ask specific follow-up questions
Slow responses (2-3 days)	Borrower is getting overwhelmed	Schedule a call to check in
Vague updates, no specifics	Borrower may be hiding problems	Request photos and invoices
No response for 5+ days	Red flag. Something is wrong.	Site visit and freeze draws

Bryt's automated reminder workflows can send update requests on a schedule. Responses are logged on the contact record for a complete communication history.

Monthly Progress Reports

Weekly updates are informal. Monthly reports are documentation. They should include:

- Percentage of work completed
- Budget spent to date vs. original budget
- 2-3 photos showing current progress
- Any change orders or scope modifications
- Updated timeline to completion

These reports become part of the loan file. If there is ever a dispute about project status or what was communicated, you have documentation.

Payment Confirmations

Every payment should trigger an automatic confirmation. This is basic, but many lenders skip it.

A simple confirmation email should include:

- Amount received
- Date posted
- Remaining balance
- Next payment due date
- Link to borrower portal for full details

Confirmations reduce disputes about whether payments were received and keep borrowers aware of their balance.

Bryt's Payment Received notice is pre-built and sends automatically when payments post. No manual work required.

Red Flag Escalation

When communication patterns change, escalate systematically. Do not wait and hope things improve.

Red Flag	Escalation Action	Timeline
Slow communication (2-3 days late)	Phone call to check in	Immediate
Vague or evasive updates	Request specific documentation (photos, invoices)	Within 24 hours

No response for 5+ days	Site visit to inspect property	Schedule within 48 hours
Timeline slipping significantly	Freeze draws until plan is revised	Before next draw request
Budget overrun emerging	Require detailed cost breakdown and revised budget	Before releasing more funds
Contractor issues reported	Verify contractor status, request license info	Within 48 hours

The goal is to catch problems when they are small and fixable. A 10% budget overrun caught early can be managed. A 40% overrun discovered at the end cannot.

Chapter 9 covers how servicing workflows automate these escalation triggers. Chapter 12 covers what to do when escalation fails and deals go fully sideways.

Setting Expectations on Day One

The time to establish communication standards is at closing, not when problems emerge. Make your expectations clear from the start:

What to Cover at Closing:

- "I expect weekly updates by end of day Monday. Here is the template."
- "Monthly progress reports are due by the 5th. Here is what I need."
- "If issues come up, tell me immediately. Surprises are worse than problems."
- "Draw requests require inspection. Schedule 3-5 days ahead."
- "If I do not hear from you, I will assume something is wrong and act accordingly."

Borrowers who push back on these requirements are telling you something. Most professional borrowers appreciate structure because it protects them too.

Collaborative, Not Adversarial

Your tone matters. Borrowers who feel like they are being policed will hide problems. Borrowers who feel like you are a partner will surface problems early.

Frame communication as mutual protection:

- "Weekly updates help us catch small issues before they become big ones."
- "I have seen projects go off track. Communication is how we prevent that."
- "If something comes up, let me know. We can usually work through it."

This is not about being soft. You still enforce your requirements. But the framing should be collaborative, not threatening.

When borrowers do communicate problems early, thank them. Reinforce the behavior you want to see.

Handling Difficult Conversations

Sometimes you have to deliver bad news or push back on borrowers. Here is how to do it professionally:

When Declining a Draw Request

"Based on the inspection, the work completed does not match the draw request. Here is what we found versus what was submitted. Once the scope is completed and verified, we can release the funds."

When Timeline Is Slipping

"The project is now 3 weeks behind schedule. I need an updated timeline and explanation of what caused the delay. Depending on the revised timeline, we may need to discuss extending the loan term."

When Communication Has Stopped

"I have not received an update in 10 days. Per our agreement, I need to hear from you within 48 hours or I will need to conduct a site visit and pause further draws."

When Budget Is Overrun

"The costs have exceeded the original budget by 15%. Before releasing additional funds, I need a detailed breakdown of the overages and your plan to cover the shortfall."

In all cases: be direct, reference the agreement or expectation, and specify what you need and by when.

Building Repeat Borrower Relationships

As discussed in Chapter 4, repeat borrowers are your best deal source. They know your process, you know their capabilities, and conversion is faster.

Here is how to turn first-time borrowers into repeat clients:

- Deliver what you promised: fund on time, respond quickly, process draws efficiently
- Be fair but firm: enforce your requirements without being difficult
- Solve problems together: when issues arise, work with them, not against them
- Stay in touch after payoff: check in quarterly, share market insights
- Ask for referrals: "Who else in your network could use a reliable lender?"

A borrower who has a good experience will come back and send others. A borrower who feels mistreated will tell everyone in their network.

Borrower Portal Benefits

A borrower portal reduces friction and improves communication by giving borrowers self-service access to their loan information:

- View current balance and payment history
- See upcoming payment due dates
- Access loan documents and statements
- Submit payments directly
- View draw schedule and status

Portal access reduces the number of basic questions borrowers send you ("What is my balance?" "When is my next payment?"). This frees you to focus on substantive issues.

Bryt's Borrower Portal provides 24/7 access to loan status, documents, and payment submission. Portal activity is logged for your records.

Chapter 9:

Servicing, Collections & Default Management

9. Servicing, Collections & Default Management

Servicing Is Default Prevention

Underwriting decides which loans to make. Risk controls protect you at funding. But servicing is where loans actually perform or fail.

A missed payment followed up in 24 hours is a cash flow hiccup. A missed payment ignored for 30 days is the start of foreclosure.

This chapter covers the servicing workflow from payment reminders through collections escalation to default resolution.

Core Servicing Tasks

Every loan requires these ongoing tasks. Miss any of them consistently and your portfolio will suffer.

Task	Frequency	What Happens If Skipped
Payment reminders	5 days before due	More late payments, more collection work
Payment posting	Daily	Inaccurate records, borrower disputes
Late fee calculation	Day after grace period	Lost revenue, inconsistent enforcement
Escrow tracking	Monthly	Unpaid taxes or insurance lapses
Insurance monitoring	Ongoing	Uninsured collateral (see Chapter 7)

Draw processing	Per request	Project delays, borrower frustration
Maturity tracking	30-60 days before	Surprise balloon payments, forced extensions

None of these tasks are difficult individually. The challenge is doing all of them consistently across every loan, every month. That is where automation matters.

Bryt automates payment reminders, posts payments to loan records, calculates late fees automatically, and tracks escrow balances. The dashboard shows all loans at a glance with status indicators.

Payment Workflow

A consistent payment workflow reduces late payments and eliminates disputes about what was owed and when.

Before Payment Is Due

Send a reminder 5 days before the due date. Include the amount due, due date, and payment instructions. Borrowers who forget to pay are not the same as borrowers who cannot pay. Reminders eliminate the first category.

When Payment Is Received

Post the payment to the loan record the same day. Send an automatic confirmation showing amount received, date posted, remaining balance, and next due date.

When Payment Is Late

Apply the late fee immediately after the grace period ends. Do not wait. Do not make exceptions. Inconsistent late fee enforcement trains borrowers that deadlines are flexible.

Bryt's pre-built notices include Payment Request (reminder), Payment Received (confirmation), and Late Notice templates that can be automated or sent manually.

Collections Escalation: The 5-Stage Process

When payments are late, follow a systematic escalation. Do not skip stages. Do not let emotion drive decisions. The process protects you legally and gives borrowers clear opportunities to cure.

Stage	Days Late	Action	Documentation
1. Reminder	1-5	Automated reminder email/SMS	System log of sent notice
2. Phone Contact	5-10	Personal call to borrower	Call notes with date/time
3. Demand Letter	15	Formal written demand	Copy of letter, delivery confirmation
4. Notice of Default	20-30	Official default notice per loan docs	Certified mail receipt
5. Foreclosure	60+	Attorney engagement, legal process	Full loan file to attorney

Stage 1: Automated Reminder (Days 1-5)

The borrower may have simply forgotten. An automated reminder costs nothing and resolves most late payments.

Stage 2: Phone Contact (Days 5–10)

If the automated reminder does not work, call. A conversation reveals whether this is a temporary cash flow issue or something more serious. Document the call with notes.

Stage 3: Demand Letter (Day 15)

A formal written demand changes the tone. It signals that you are serious and creates a paper trail. Include the amount owed, the deadline to cure, and consequences if not cured.

Stage 4: Notice of Default (Days 20–30)

This is the official notice required by your loan documents before foreclosure. Send via certified mail so you have proof of delivery. Your attorney should review this notice before you send it.

Stage 5: Foreclosure (Day 60+)

If all attempts fail, engage your foreclosure attorney. Provide the complete loan file: note, mortgage, payment history, all notices sent, and communication logs. Chapter 12 covers foreclosure and workout strategies in detail.

Bryt tracks escalation stages, generates demand letter templates, and maintains a complete audit trail of all notices and communications for attorney handoff.

Demand Letter Template

Your demand letter should be direct and specific. Here is what to include:

- Subject line: URGENT - Payment Demand - [Loan ID / Property Address]
- Statement of default: "Payment of $X, due [Date], has not been received."

- Total amount now due: principal, interest, late fees
- Cure deadline: specific date, typically 10 days from letter
- Consequences: "If not cured by [Date], we will proceed with foreclosure."
- Payment instructions: how and where to send payment
- Contact information: who to call with questions

Keep the tone professional, not emotional. You may need this letter as evidence later.

Default Management: When Collections Fail

Not every default leads to foreclosure. You have options depending on the situation and the borrower's cooperation.

Option	When to Use	What It Requires
Loan Modification	Temporary cash flow problem, borrower cooperative	New terms documented, borrower signs amendment.
Payment Plan	Borrower can catch up over time	Written agreement with specific dates and amounts
Short Sale	Property value has dropped below loan balance	Borrower cooperation, buyer approval from you
Deed in Lieu	Borrower wants out, foreclosure would be costly	Borrower deeds property to you, you release debt
Foreclosure	Borrower uncooperative or cannot cure	Attorney, time, legal costs

Loan Modification

If the borrower has a temporary problem (contractor delay, buyer fell through) but the project is still viable, consider modifying the loan. Extend the term, adjust the payment schedule, or restructure draws. Document everything with an amendment signed by both parties.

Payment Plan

If the borrower is behind but can catch up, create a written payment plan. Be specific: "$5,000 due on the 1st and 15th of each month until current." Get it in writing and enforce it. If they miss a payment plan payment, escalate immediately.

Short Sale

If the property value has dropped and the borrower cannot cover the shortfall, a short sale may recover more than foreclosure. You approve the sale price and receive proceeds directly. This requires borrower cooperation.

Deed in Lieu of Foreclosure

The borrower deeds the property to you, and you release them from the debt. This avoids foreclosure costs and timeline but requires a cooperative borrower and clear title. Have your attorney handle this.

Foreclosure

When other options fail or the borrower is uncooperative, foreclosure is your last resort. It is expensive and time-consuming, but it is why you have a secured interest in the property.

Servicing Metrics to Track

What gets measured gets managed. Track these metrics monthly:

Metric	Target	What It Tells You
On-Time Payment Rate	>95%	Are borrowers paying as agreed?
Average Days to Collect	<10 days	How quickly do you resolve late payments?
Default Rate	<2%	What percentage of loans are in serious trouble?
Recovery Rate on Defaults	>90%	When loans default, how much do you get back?
Loans in Collections	<5% of portfolio	How many loans need active intervention?

If your on-time payment rate drops below 90%, your underwriting or borrower communication may need attention (see Chapters 5 and 8). If your recovery rate is below 85%, your documentation or risk controls may have gaps (see Chapters 6 and 7).

Bryt's dashboard and reports provide portfolio-level metrics including payment aging, delinquency rates, and loan status summaries.

Common Servicing Mistakes

These errors turn manageable situations into losses:

Inconsistent Process

Treating some borrowers differently than others creates legal exposure and trains borrowers that your rules are negotiable. Apply your process to everyone.

Poor Documentation

If you cannot prove when notices were sent, what was communicated, and what was agreed to, you lose leverage in negotiations and court. Log everything.

Emotional Escalation

Getting angry or threatening borrowers feels good in the moment but makes resolution harder. Stay professional. Your written communications may become evidence.

Waiting Too Long

Hoping a situation will resolve itself is not a strategy. The longer you wait to escalate, the fewer options you have and the worse the outcome typically is.

No Attorney Relationship

The time to find a foreclosure attorney is before you need one. Have relationships established so you can move quickly when required.

Chapter 10:

Capital Management: Liquidity, Reserves & Deployment

10. Capital Management: Liquidity, Reserves & Deployment

Low Cash Reserves Kills More Lenders Than Bad Loans

You can survive a few defaults if you have reserves. You cannot survive being unable to fund draws, cover operating expenses, or take advantage of good deals when your capital is stuck in slow-paying loans.

This chapter covers how to manage your capital so you stay liquid and never get caught overextended. Chapter 11 builds on this for scaling. Chapter 12 covers what to do when capital stress becomes a crisis.

Reserve Requirements

Before you deploy capital into loans, set aside reserves.
You need three buckets:

Task	Frequency	What Happens If Skipped
Operating Reserve	3-6 months of expenses	Covers overhead during slow periods
Loss Reserve	2-5% of deployed capital	Covers defaults, workouts, foreclosure costs
Opportunity Reserve	15-20% of total capital	Lets you fund good deals when they appear

Operating Reserve

If loan volume drops or payments slow down, you still need to cover your expenses. Three months is minimum.

Six months lets you weather a real downturn without panic decisions.

Loss Reserve

Every portfolio has losses. The question is whether you planned for them. At 2-5% of deployed capital, you can absorb a default without liquidating other positions or scrambling for cash.

Opportunity Reserve

Good deals appear at inconvenient times. If 100% of your capital is deployed, you either miss the deal or try to exit another position under pressure. Keeping 15-20% available means you can move quickly when a strong deal comes in.

Capital Deployment Limits

How much of your total capital should be working at any given time? The answer depends on your risk tolerance and how quickly you can access additional funds if needed.

Approach	Max Deployed	Single Deal Limit	Best For
Conservative	60% of capital	10% per deal	New lenders, uncertain markets, limited reserves
Moderate	75% of capital	15% per deal	Experienced lenders, stable deal flow
Aggressive	85% of capital	20% per deal	Seasoned lenders with quick access to capital

These percentages include your reserves. If you have $1M total capital and follow a moderate approach, you deploy up to $750K in loans and keep $250K in reserves.

The single deal limit is critical. Even a great deal can go bad. If you put 30% of your capital into one loan and it defaults, recovery takes years. At 10-15% per deal, no single loss can cripple you.

Concentration Risk

Concentration risk is when too much of your portfolio depends on one borrower, one market, or one timeframe. When that one thing fails, your entire portfolio suffers.

Concentration Type	Why It Matters	What Happens If Skipped
Single Borrower	15% of capital max	Even your best borrower can have a bad project
Single Market/City	25% of capital max	Local markets can turn quickly
Maturity Clustering	30% maturing same quarter	Too many payoffs due at once strains liquidity
Property Type	40% of capital max	Diversify across fix-flip, bridge, rental

Track your concentrations monthly. It is easy to drift into overconcentration when a good borrower keeps bringing deals or a hot market keeps performing. The limits protect you when conditions change.

Bryt's custom reports can show exposure by borrower, geography, and loan type to help you monitor concentration.

Cash Flow Tracking

Knowing your current cash balance is not enough. You need to project what is coming in and going out over the next 30, 60, and 90 days.

Cash Inflows:

- Scheduled loan payments (interest and any principal)
- Loan payoffs at maturity
- Extension fees
- Late fees collected

Cash Outflows:

- Scheduled loan payments (interest and any principal)
- Loan payoffs at maturity
- Extension fees
- Late fees collected

Build a simple projection, even in a spreadsheet. Update it weekly. When projected cash drops below your reserve targets, slow down originations or accelerate collection on past-due loans.

Bryt's dashboard shows payment due dates and upcoming maturities. Export payment schedules to build your cash flow projection.

Liquidity Stress Testing

What happens if things go wrong? Run these scenarios periodically to make sure you are prepared:

Scenario	Impact	Your Plan
2 loans default simultaneously	Legal fees, carrying costs, no income	Loss reserve covers 6+ months
3 loans miss maturity (cannot exit)	Capital stuck, no payoff proceeds	Extension fees + pipeline pause
Market slowdown (longer hold times)	Delayed payoffs, extended interest	Operating reserve covers gap
Hot deal appears, no cash available	Missed opportunity	Opportunity reserve or decline

The specific numbers depend on your portfolio size and loan amounts. The point is to think through these scenarios before they happen so you know your plan.

Warning Signs: When to Slow Down

These signals indicate you are getting overextended:

Warning Sign	What It Means	Immediate Action
Reserves below target 2+ months	You are overdeployed	Pause new originations until rebuilt
Multiple loans past maturity	Capital is stuck	Push for payoffs, charge extension fees
Turning down deals due to no cash	Opportunity cost is growing	Review portfolio for early exits
Delaying your own payments	Operations are stressed	Cut expenses, pause originations
Hoping for payoffs to fund draws	Cash flow is negative	Serious review needed (see Chapter 12)

Do not ignore these signs. The longer you wait to address them, the fewer options you have.

Annual Capital Review

Once a year, step back and review your capital position:

- Are your reserve targets still appropriate for your portfolio size?
- Did your actual loss rate match your loss reserve assumption?
- Are your deployment limits working or do they need adjustment?
- Is your capital base growing or shrinking?
- Do you need more capital to support growth (see Chapter 11)?

What worked at $500K deployed may not work at $2M. Revisit your capital framework as you grow.

If You Have Outside Investors

Some lenders fund loans with capital from outside investors. If that applies to you, a few additional considerations:

- Communication is as important as returns. Send monthly updates and be proactive about problems.
- Never miss a committed distribution. If cash is tight, communicate early and renegotiate.
- Track investor-specific returns and provide annual tax documents (1098/1099).
- Build flexibility into your agreements. "Distributions when declared" is safer than guaranteed amounts.

The legal structure for raising investor capital (PPM, LP agreements) was covered in Chapter 3. The key point here: do not overcommit distributions that strain your liquidity.

Bryt's Investor Portal gives investors self-service access to their investment details and documents, including auto-generated 1098 and 1099 forms.

Chapter 11:

Scaling Your Lending Business

11. Scaling Your Lending Business

Scale Is a Choice, Not a Requirement

Not every lender needs to scale. Some lenders do 10-15 loans per year with their own capital and earn excellent returns with minimal stress. That is a legitimate business model.

But if you want to grow, whether to deploy more capital, increase income, or build a business you can eventually sell, you need to scale deliberately. Growing without systems leads to chaos. Growing without capital discipline leads to failure.

This chapter covers when to scale, what breaks as you grow, and how to expand without losing control. It builds on the capital management principles from Chapter 10.

When You Are Ready to Scale

Scale when your current operation is running smoothly, not when it is struggling. If you cannot manage 10 loans well, you cannot manage 30.

Signs you are ready:

- Your processes are documented and repeatable (not just in your head)
- You are turning down good deals because of capital constraints, not time constraints
- Your default rate is under 3% and you understand why
- Your servicing runs without constant firefighting
- You have capacity to take on more without sacrificing quality

Signs you are not ready:

- You are constantly behind on servicing tasks
- Your underwriting criteria change deal to deal
- You have multiple problem loans you are still working out
- You cannot explain your process to someone else
- You are scaling to fix problems (more volume will cover losses)

What Breaks as You Scale

Everything that works at 10 loans breaks somewhere between 20 and 50. Here is what typically fails first:

Area	Works at 10 Loans	Breaks at 30+ Loans
Deal Tracking	Spreadsheet or memory	Need real LMS with pipeline views
Payment Collection	Manual tracking	Need automated reminders and posting
Document Management	Email and folders	Need centralized storage with search
Borrower Communication	Personal relationships	Need systematic touchpoints
Underwriting	You review everything	Need documented criteria others can apply
Collections	Ad hoc follow-up	Need escalation workflows

Bryt handles deal tracking, payment automation, document storage, and communication workflows. The goal is to handle 50 loans with the same effort as 10.

Scaling Your Capital Base

You cannot scale loan volume without scaling capital. Here are your options, in order of complexity:

1. Retained Earnings

The simplest approach: reinvest your profits. Slow but sustainable. No outside obligations, no investor relations, full control.

2. Credit Lines

A line of credit from a bank or fund gives you flexible capital. You pay interest only on what you draw. Useful for bridging gaps between payoffs and new deployments.

3. Loan Participations

Sell a percentage of individual loans to other lenders or investors. You keep servicing rights and a spread. Good for large deals that exceed your single-deal limit (Chapter 10).

4. Private Investors

Raise capital from individuals who want passive returns. Requires proper securities documentation (Chapter 3 covered the legal structure). More capital means more obligations.

5. Fund Structure

Create a formal fund with committed capital. Significant legal and compliance costs. Only makes sense at substantial scale.

Capital Source	Best For	Complexity	Typical Cost
Retained Earnings	Slow, controlled growth	Low	None
Credit Lines	75% of capital	Medium	Prime + 1-3%
Participations	Large individual deals	Medium	Reduced yield on sold portion
Private Investors	Meaningful growth	High	8-12% preferred return
Fund Structure	Institutional scale	Very High	$50K+ legal setup

Match your capital strategy to your growth ambitions.
Do not raise a fund to do 20 loans per year.

Scaling Deal Flow

More capital requires more deals. But as Chapter 4 emphasized, quality matters more than quantity. Here is how to scale deal flow without sacrificing quality:

Double Down on What Works

Before chasing new sources, maximize your existing ones. If repeat borrowers are your best source, ask each one for referrals. If a particular investor group produces quality deals, get more active there.

Add Channels Selectively

When you do add sources, add one at a time and track results. New channels often produce lower quality initially. Give each channel 6 months before judging it.

Consider Broker Relationships

Mortgage brokers can bring volume, but quality varies widely. Vet brokers carefully, set clear criteria, and track which brokers produce performing loans versus problems.

Build Your Reputation

At scale, reputation becomes a deal source. Lenders known for reliable funding, fair terms, and professional operations attract borrowers without marketing spend.

Scaling Operations

As volume grows, you have two choices: hire people or improve systems. Usually you need both.

What to Systematize First

- Payment reminders and confirmations (automate completely)
- Document collection and storage (standardize and centralize)
- Borrower updates (templated requests on schedule)
- Reporting (auto-generated, not manual)

What Requires People

- Underwriting decisions (judgment required)
- Borrower relationship management (human touch matters)
- Problem loan workouts (negotiation and creativity)

- Investor relations (trust is personal)

When to Hire

Hire when you are consistently working more hours than you want AND your systems are already optimized. If you hire before systematizing, you just pay someone to do things inefficiently.

Role	When to Add	What They Handle
Loan Processor / Admin	20-30 active loans	Document collection, data entry, borrower follow-up
Servicing Specialist	40-50 active loans	Payment tracking, draw processing, collections
Underwriter	50+ deals reviewed/ year	Initial screening, credit analysis, deal structuring
Portfolio Manager	75+ active loans	Overall portfolio health, risk monitoring, workouts

These thresholds are approximate. A complex portfolio with heavy rehab loans needs more support than a simple portfolio of bridge loans.

Scaling Risks to Watch

Growth creates new risks. Watch for these as you scale:

Quality Drift

As volume increases, there is pressure to loosen standards to hit targets. Your LTV limits, borrower criteria, and documentation requirements should not change just because you want more deals.

Concentration Creep

Rapid growth often comes from a few sources or markets. Monitor your concentration limits (Chapter 10) even more carefully as you scale.

Operational Overload

If servicing starts slipping, defaults rise, because you catch problems later. Scale operations before scaling originations.

Capital Mismatch

Growing loan volume faster than your capital base leads to the warning signs in Chapter 10: tight reserves, missed opportunities, liquidity stress.

Relationship Dilution

At 10 loans, you know every borrower personally. At 50 loans, you cannot. Build systems to maintain relationship quality even as personal attention decreases.

Scaling Stages: A Rough Roadmap

Here is what scaling typically looks like in stages:

Stage	Active Loans	Capital Deployed	Key Focus
Starter	5-15	$500K-$1.5M	Learn the business, build processes
Established	15-30	$1.5M-$4M	Systematize, prove your model works
Growth	30-50	$4M-$8M	First hires, expand capital sources

Scale	50-100	$8M-$20M	Team building, institutional operations
Institutional	100+	$20M+	Fund structure, portfolio management

Most lenders find a stage where they are comfortable and stay there. There is nothing wrong with being a successful $3M lender for 20 years.
Scale is a choice.

Pre-Scale Checklist

Before you commit to scaling, verify you have these foundations in place:

- Written underwriting criteria that someone else could follow
- Documented servicing procedures for all routine tasks
- LMS that can handle 3x your current volume
- Capital strategy identified for your target scale
- Reserve policy that accounts for growth (Chapter 10)
- Deal flow sources that can grow with you
- Time and energy to manage the transition

If any of these are missing, fix them first. Scaling a broken operation just creates bigger problems.

Chapter 12:

Survival Scenarios: When Things Go Wrong

12. Survival Scenarios: When Things Go Wrong

If you lend long enough, something will go wrong. A borrower will disappear. A market will turn. Multiple loans will default at once. A project will blow past budget with no end in sight.

Earlier chapters covered prevention: underwriting (Chapter 5), risk controls (Chapter 6), servicing (Chapter 9), and capital reserves (Chapter 10). This chapter is for when prevention fails.

Scenario 1: Borrower Goes Silent

You have not heard from your borrower in two weeks. Calls go to voicemail. Emails get no response. The project was progressing, and now you have no idea what is happening.

What It Usually Means

Silence almost always means problems. The borrower may be overwhelmed, out of money, fighting with contractors, or avoiding you because they have bad news. Occasionally it is a personal emergency. Rarely is it nothing.

Immediate Actions

1. Site visit within 48 hours. Do not wait. See the property yourself.
2. Freeze all draws until you have a clear picture of project status.
3. Send written notice via certified mail stating you need contact within 5 days.
4. Check public records for any liens, notices, or legal filings on the property.
5. Contact any known contractors or partners for information.

Resolution Paths

If you reach the borrower and the problem is manageable (contractor issue, personal emergency), work together on a revised plan. Document everything in writing.

If you cannot reach the borrower after 10 days of documented attempts, begin formal default proceedings. The longer you wait, the worse the property condition typically gets.

Scenario 2: Project Blows Past Budget

The borrower requests a draw, and you realize the project is 30% over budget with work still remaining. They are asking for more money than the original rehab allocation.

What It Usually Means

Budget overruns happen for three reasons: poor initial estimates, scope creep (borrower added work), or mismanagement. The cause matters for how you respond.

Immediate Actions

1. Get a detailed breakdown of actual costs versus original budget, line by line.
2. Order an updated appraisal or BPO to confirm current and projected ARV.
3. Determine exactly how much more is needed to complete the project.
4. Verify the borrower has funds to cover overruns or can obtain them.

Decision Framework

Situation	2026 Outlook
ARV still supports higher loan amount	Consider loan increase if borrower contributes additional equity
ARV does not support increase	Borrower must fund overruns from own pocket or project stalls
Borrower has no funds	Negotiate workout, deed in lieu, or prepare for foreclosure
Overrun due to scope creep	Borrower funds extras; they chose to add work

Never fund additional draws just to keep a project moving if the numbers no longer work. That turns a bad loan into a worse loan.

Scenario 3: Borrower Cannot Exit at Maturity

The loan is due. The project is complete. But the property has not sold and the borrower cannot refinance. They are asking for an extension.

What It Usually Means

Either the market has softened, the property is overpriced, or the borrower's exit strategy was weak from the start (which should have been caught in underwriting).

Immediate Actions

1. Verify the property is actually complete and market-ready.
2. Review current comps to confirm realistic sale price.

3. Determine why it has not sold: price too high, condition issues, or weak market.
4. If refinance was the plan, verify borrower's application status and obstacles.

Extension Terms

Extensions are reasonable when the borrower has performed and the exit is genuinely close. They are not reasonable as indefinite delays.

- Charge an extension fee (typically 1-2 points)
- Require a price reduction if listed too high
- Set a hard deadline with no further extensions
- Get the extension agreement in writing

If the borrower cannot demonstrate a credible path to exit within 60-90 days, begin considering other resolution options.

Scenario 4: Multiple Loans Default at Once

Two or three loans have gone into default within the same quarter. Your reserves are being tested and your attention is divided.

What It Usually Means

This usually indicates either a market downturn affecting multiple projects, concentration risk that materialized (too many loans to one borrower or market), or a systemic weakness in your underwriting that let multiple bad loans through.

Immediate Actions

1. Triage: rank defaults by severity and recovery likelihood.
2. Pause all new originations until you have a handle on the situation.

3. Focus resources on the loan with the best recovery prospects first.
4. Engage an attorney early if foreclosure is likely on any loan.
5. Communicate proactively with any investors about the situation.

Triage Framework

Priority	Characteristics	Action
High (work first)	Borrower cooperative, equity in property, clear path to resolution	Negotiate aggressively, invest time here
Medium	Some equity, borrower semi-responsive, path unclear	Set deadlines, prepare backup options
Low (accept loss)	Underwater, borrower gone, property in poor condition	Foreclose quickly, minimize additional losses

Do not spread yourself thin trying to save every loan equally. Focus on the recoverable situations and cut losses quickly on the hopeless ones.

Scenario 5: Market Turns Against You

Property values in your market have dropped 10-15%. Several of your loans are now at higher effective LTVs than when you funded them. Sales are taking longer.

What It Usually Means

Market corrections expose weak underwriting. Loans that were at 75% LTV are now at 85% or higher. Your margin of safety has shrunk.

Portfolio Review

1. Re-underwrite every active loan at current market values.
2. Identify loans that are now underwater or close to it.
3. Prioritize getting loans with thin equity to exit quickly.
4. Tighten underwriting criteria for new loans (lower LTVs, higher borrower reserves).

Defensive Moves

- Pause new originations or be extremely selective
- Extend performing loans if it keeps borrowers from distressed sales
- Negotiate price reductions on listed properties before borrowers run out of time
- Build cash reserves; do not deploy capital into a falling market

Market downturns are when conservative underwriting (Chapter 5) and strong reserves (Chapter 10) prove their value. If you followed those guidelines, you can weather it.

Scenario 6: You Need to Foreclose

All workout attempts have failed. The borrower is not cooperating or cannot perform. You need to take the property back.

Before You Start

- Verify your documentation is complete (note, mortgage, all notices sent)
- Confirm your lien position with a title search
- Engage a foreclosure attorney in the property's state
- Understand the timeline and costs for your jurisdiction

Foreclosure Realities

Factor	Typical Range	Notes
Timeline	3-18 months	Varies dramatically by state (judicial vs. non-judicial)
Legal Costs	$5,000-$25,000	Higher in judicial foreclosure states
Carrying Costs	$500-$2,000/month	Taxes, insurance, maintenance, utilities
Property Condition	Often deteriorates	Vacant properties attract problems

Foreclosure is expensive and slow. That is why workout options are usually preferable if the borrower will cooperate. But when they will not, foreclosure is your remedy.

After Foreclosure

Once you own the property, you become a real estate investor, not just a lender. You need to secure it, maintain it, and sell it. Budget for this phase and have a plan before you start foreclosure.

Workout Options

Before foreclosing, consider whether a workout makes more sense. Chapter 9 covers the full range of workout options: loan modification, payment plans, extensions, short sales, and deed in lieu of foreclosure.

The best workout is the one that gets you the most money back in the least time. Sometimes that is foreclosure. Often it is not. Review the options in Chapter 9 and choose based on borrower cooperation and property equity.

Post-Crisis Review

After any significant problem, conduct a review:

- What warning signs did we miss or ignore?
- Where did our process break down?
- What would we do differently on underwriting?
- Did our documentation hold up?
- Were our reserves adequate?
- What changes should we make going forward?

Every crisis is tuition. Make sure you learn something from it.

When to Call for Help

Some situations require professional assistance:

Situation	Who to Call
Foreclosure process	Attorney licensed in the property's state
Borrower threatening litigation	Your business attorney immediately
Suspected fraud	Attorney, possibly law enforcement
Complex workout negotiation	Attorney or experienced workout specialist
Multiple simultaneous defaults	Consider a loan servicing consultant
Insurance claim on damaged property	Public adjuster if claim is complex

The cost of professional help is almost always less than the cost of handling complex situations incorrectly.

Chapter 13:

Continuous Improvement: Getting Better Over Time

13. Continuous Improvement: Getting Better Over Time

Every loan you fund is a test of your underwriting. Every default is feedback. Every successful payoff validates your process.

Track what works, investigate what fails, and adjust accordingly.

Metrics That Matter

You cannot improve what you do not measure. Track these metrics monthly and review trends quarterly:

Metric	What It Tells You	Target Range
Default Rate	How often loans fail to perform	Under 2-3%
Average Days to Payoff	How long capital is deployed	Depends on loan type; track trend
Recovery Rate on Defaults	How much you get back when loans fail	Above 90%
On-Time Payment Rate	Borrower payment behavior	Above 95%
Average Yield	Actual return after fees and losses	Track against your target
Origination Volume	Deal flow health	Steady or growing

Pipeline Conversion Rate	How many leads become funded loans	15-30% is typical

No single metric tells the whole story. A lender with zero defaults but 8% yields may be too conservative. A lender with 15% yields but 5% defaults may be taking too much risk. Look at metrics together.

Bryt's reporting and dashboard provide portfolio-level metrics. Export data periodically to track trends over time.

Monthly Portfolio Review

Set aside time each month to review your portfolio. This does not need to be elaborate. An hour with your data can reveal patterns you would otherwise miss.

Monthly Review Checklist

- [ ] How many loans are current, late, or in default?
- [ ] Which loans are approaching maturity in the next 60 days?
- [ ] Are any borrowers showing warning signs (slow communication, missed updates)?
- [ ] What is my current concentration by borrower, market, and property type?
- [ ] How do this month's originations compare to my average?
- [ ] Are my reserves at target levels?

Write down your observations. Patterns become visible when you compare notes month to month.

Quarterly Deep Dive

Once per quarter, go deeper. This is when you assess whether your strategies are working.

Deal Source Analysis

Where did your funded loans come from? How did each source perform?

Source	Loans Funded	Default Rate	Avg Yield	Verdict
Repeat Borrowers	8	0%	12.1%	Best source, expand
Referrals	5	0%	11.8%	Strong, ask for more
Broker A	4	25%	13.2%	High yield but 1 default, monitor
Online Leads	3	33%	12.5%	Poor quality, reduce or cut

This type of analysis, even on a small portfolio, reveals which sources are worth your time. Double down on what works. Cut what does not. Chapter 4 covered building quality deal flow; this is how you refine it.

Underwriting Accuracy

Compare your original underwriting assumptions to actual outcomes:

- Did rehab costs come in at budget, or consistently over?
- Did ARV estimates hold up at sale?
- Did borrowers exit on time, early, or late?
- Which borrower characteristics predicted success or failure?

If your rehab estimates are consistently 20% low, adjust your underwriting. If borrowers with less than 3 deals of experience default more often, raise your experience requirements. Let data drive your criteria.

Annual Review

Once per year, step back and assess the big picture:

Portfolio Performance

- What was my total return for the year after all costs and losses?
- How did my default rate compare to prior years?
- Did my portfolio grow, shrink, or stay flat?
- What was my best loan? My worst loan? Why?

Process Assessment

- Which processes worked smoothly?
- Where did we have breakdowns or inefficiencies?
- What manual tasks should be automated?
- Are our documents and templates still current?

Market Assessment

- How has the market changed in the past year?
- Are our LTV limits and rate assumptions still appropriate?
- Should we enter new markets or exit weak ones?
- What are other lenders doing that we should consider?

Goal Setting

- What do we want to achieve next year (volume, returns, new capabilities)?
- What investments do we need to make (systems, people, capital)?
- What should we stop doing?

Learning from Defaults

Every default deserves a post-mortem. Not to assign blame, but to prevent the next one.

Post-Default Questions

1. What did we miss in underwriting? Was there a red flag we ignored or did not check?
2. Did the borrower's behavior change during the loan? When did warning signs appear?
3. Did we follow our servicing process? Were escalation steps taken on time?
4. Was the market or property type a factor?
5. What would we do differently if we saw this deal today?

Document your findings. Over time, you will see patterns. Maybe borrowers under a certain experience level fail more often. Maybe projects in certain neighborhoods take too long to sell. Maybe you consistently underestimate rehab costs for older homes.

Chapter 12 covered handling defaults. This is about making sure each default teaches you something.

Learning from Successes

Successes deserve analysis too. Understanding why loans perform well helps you find more like them.

Questions for High-Performing Loans

- What made this borrower successful? Experience? Reserves? Communication?
- What made this property or market attractive?
- Was the deal structure different in any way?

- How did this borrower find us? Can we get more from the same source?

Your best borrowers are a profile. Document what they have in common and screen for those characteristics.

Process Improvement

Beyond loan performance, look for ways to improve your operations:

Area	Questions to Ask	Common Improvements
Intake	How long does it take to process an application?	Standardized checklist, online application
Underwriting	Are we checking the same things every time?	Written criteria, scoring template
Closing	What causes delays?	Document checklist, title company relationships
Servicing	What falls through the cracks?	Automated reminders, regular review cadence
Collections	Do we escalate on time?	Escalation workflow, earlier intervention

Small improvements compound. Shaving a day off your closing process does not seem like much, but over 30 loans a year, that is a month of faster deployment.

Staying Current

The lending environment changes. Regulations shift. Market conditions evolve. What worked three years ago may not work today.

Ways to Stay Current

- Join industry associations or local lender groups
- Attend conferences or webinars (even one or two per year)
- Talk to other lenders about what they are seeing
- Read industry publications or newsletters
- Review your attorney's updates on regulatory changes

You do not need to become an industry expert. But you should not be surprised by major market shifts or new regulations.

Building a Feedback Loop

Improvement only happens if you create structure for it.
Here is a simple annual calendar:

Frequency	Activity	Time Required
Monthly	Portfolio review (status, maturities, warning signs)	1-2 hours
Quarterly	Source analysis, underwriting accuracy review	Half day
Annually	Full portfolio review, process assessment, goal setting	Full day
Per Default	Post-mortem analysis	1-2 hours
Per Payoff	Quick success review (what worked?)	15 minutes

Put these reviews on your calendar. If they are not scheduled, they will not happen.

Common Improvement Mistakes

Overreacting to Single Data Points

One default does not mean your underwriting is broken. One great loan does not mean you have found the secret. Look for patterns across multiple loans before making changes.

Ignoring Data That Challenges Your Beliefs

If your data shows that a borrower type or market you like is underperforming, do not dismiss it. The numbers are telling you something.

Changing Too Many Things at Once

If you change your LTV limits, your borrower criteria, and your rate structure all at once, you will not know which change helped or hurt. Make one change at a time and measure results.

Never Changing Anything

Some lenders set their criteria once and never revisit them. Markets change. Your experience grows. Your criteria should evolve.

Tracking Without Acting

Metrics are useless if you never act on them. The point of measurement is to inform decisions. If you track your data but never adjust, you are just doing extra work.

Chapter 14:

2026 Operating Checklist

14. 2026 Operating Checklist

This chapter consolidates the key actions from this playbook into checklists you can reference throughout the year. Print these pages. Post them where you work. Use them.

Pre-Funding Checklist

Complete before wiring funds on any loan:

Changing Too Many Things at Once

- [ ] Pulled 5 comps myself (not borrower-provided), within 0.25 miles, under 6 months old
- [ ] Applied 8-10% ARV haircut to comp average
- [ ] Got 3 contractor bids, using highest bid + 15% contingency
- [ ] Verified borrower has 3+ completed similar projects
- [ ] Confirmed 25-30% liquid reserves with direct bank verification
- [ ] Called 2+ prior lenders: "Would you lend to them again?"
- [ ] Verified exit strategy with supporting documentation

Loan Structure

- [ ] LTV at or below 75% of ARV
- [ ] LTC at or below 85% of total project cost
- [ ] Single deal exposure within my limit (10-15% of capital)

Documentation

- [ ] Promissory note signed and notarized
- [ ] Mortgage/deed of trust ready for recording
- [ ] Personal guarantee signed by all principals (20%+ ownership)
- [ ] Draw agreement signed with schedule attached
- [ ] State-specific disclosures signed
- [ ] Title commitment shows clear title
- [ ] Title insurance policy issued
- [ ] Hazard insurance certificate (me named as mortgagee)
- [ ] Builder's risk insurance certificate (me named as loss payee)

Risk Controls

- [ ] Draw schedule created with holdback established
- [ ] Identity verified (ID matches credit report matches bank account)
- [ ] No fraud red flags

Draw Processing Checklist

Complete before releasing any draw:

- [ ] Draw request received with invoices and photos
- [ ] Site inspection completed (or photos verified for small draws)
- [ ] Work completed matches work claimed

- [ ] Lien waivers collected from all contractors paid to date
- [ ] Budget tracking updated (spent vs. remaining)
- [ ] No red flags on borrower communication
- [ ] Draw amount matches schedule (or variance documented and approved)

Monthly Operating Checklist

Complete in the first week of each month:

Portfolio Review

- [ ] Reviewed all loans: current, late, default status
- [ ] Identified loans maturing in next 60 days
- [ ] Checked for borrowers with warning signs (slow communication, missed updates)
- [ ] Reviewed concentration: borrower, market, property type

Servicing

- [ ] All payment reminders sent
- [ ] All payments posted
- [ ] Late fees applied where due
- [ ] Collections escalation current (no overdue follow-ups)

Capital

- [ ] Reserves at target levels (operating, loss, opportunity)
- [ ] Cash flow projection updated for next 30-60 days
- [ ] No warning signs (see Chapter 10)

Insurance

- [ ] Checked for policies expiring in next 30 days
- [ ] Renewal requests sent for expiring policies

Quarterly Checklist

Complete at the end of each quarter:

Performance Analysis

- [ ] Calculated default rate for trailing 12 months
- [ ] Reviewed deal sources: which are producing, which are not
- [ ] Compared underwriting assumptions to actual outcomes (ARV, rehab costs, timelines)
- [ ] Identified any patterns in problem loans

Process Review

- [ ] Identified any operational bottlenecks
- [ ] Documented any process breakdowns that occurred
- [ ] Made one improvement to address issues found

Capital Review

- [ ] Reviewed deployment level vs. targets
- [ ] Checked concentration limits
- [ ] Assessed whether capital base needs adjustment

Annual Checklist

Complete in December or January:

Portfolio Performance

- [ ] Calculated total return for the year (after all costs and losses)
- [ ] Compared default rate to prior years
- [ ] Reviewed best and worst loans: what can I learn?

Market Assessment

- [ ] Reviewed market conditions in my lending areas
- [ ] Assessed whether LTV limits and rates need adjustment
- [ ] Identified any markets to enter or exit

Compliance and Legal

- [ ] Verified licensing is current and renewed
- [ ] Reviewed any regulatory changes affecting my operation
- [ ] Confirmed document templates are current
- [ ] Checked attorney and CPA relationships are active

Systems and Processes

- [ ] Reviewed whether LMS is meeting needs
- [ ] Identified manual processes that should be automated
- [ ] Updated written policies if criteria have changed

Goals

- [ ] Set targets for next year (volume, returns, improvements)
- [ ] Identified investments needed (systems, people, capital)
- [ ] Identified what to stop doing

2026 Market Adjustments

Key adjustments for current market conditions:

Area	Old Assumption	2026 Adjustment
Monthly	5%	8-10%
Rehab Contingency	10%	15%
Days on Market	30 days	45-60+ days
Borrower Reserves	20%	25-30% of deal size
Max LTV	80%	70-75%
Max LTC	90%	85%

These adjustments reflect higher rehab costs, longer hold times, and softer exit markets. Review quarterly and adjust as conditions change.

Quick Reference: Key Limits

Limit Type	Conservative	Moderate	Aggressive
Max Deployed Capital	60%	75%	85%
Single Deal Limit	10%	15%	20%
Single Borrower Limit	10%	15%	15%
Single Market Limit	20%	25%	30%
Same-Quarter Maturity	25%	30%	35%

Choose your risk level and stick to it. Higher risk requires more experience and faster access to capital.

Quick Reference: Collections Escalation

Days Late	Action	Method
1-5	Automated reminder	Email/SMS
5-10	Personal phone call	Document call notes
15	Formal demand letter	Certified mail
20-30	Notice of default	Certified mail, attorney review

60+	Foreclosure	Attorney engagement

Do not skip stages. Do not delay. Consistent escalation is your best collection tool.

Quick Reference: Warning Signs

Warning Sign	What to Do
Borrower communication slowing	Call immediately, schedule site visit
Updates getting vague	Request specific documentation (photos, invoices)
No response for 5+ days	Site visit, freeze draws
Budget overrun emerging	Require detailed cost breakdown
Timeline slipping significantly	Freeze draws until revised plan approved
Reserves below target 2+ months	Pause new originations
Multiple loans past maturity	Push payoffs, charge extension fees
Turning down deals due to no cash	Review portfolio for early exits

Early action preserves options. Waiting makes everything worse.

Build a Smarter Lending Operation

Start Your **30-Day Free Trial** Today

www.brytsoftware.com