PRIVATE LENDING

YOUR COMPLETE GUIDEBOOK ON HOW TO SECURELY AND PROFITABLY LEND MONEY AND ACHIEVE HIGH PROFITS IN REAL ESTATE

Learn How You Can Earn 9% to 15% Investing in Foreclosures and Distressed Real Estate with None of the Hassles of Being a Landlord

www.RealEstateSecuredInvestors.com
954-290-3212

PRIVATE LENDING FREE REPORT

This free report will provide all the information you need to become a Private Lender in real estate. It will explain private lending and show you how to intelligently evaluate good investment deals, the right investor to work with, maximum loan-to-value and much more. Most importantly, you will learn about the opportunity to earn the significant and stable return private lending offers when compared to your current investments.

We ask you to carefully review this guidebook; the information here has significantly changed the lives of many people.

My Name is Dennis Shannon, if you have questions; please contact me at 954-290-3212.

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DISCLAIMER-For Educational Purposes Only

The author is not an attorney, CPA or a Realtor® and any information found in this report is not to be construed as legal or accounting advice. You should feel free and we highly recommend you consult with your attorney and/or CPA or any other professional advisors.

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THE BASICS OF PRIVATE LENDING

In order for a real estate investor to purchase a distressed property for a huge discount, they must have the funds available to close on the purchase and make the repairs needed. Everyday people like you and I can loan money, secured by a first or second mortgage (lien against the property) that you and the real estate investor have selected for your investment.

This investment will not only give you the safety you want but will also the opportunity to become the bank and earn a high yield on your investment by eliminating the middleman.

How Much Interest Can People Earn Being a Private Lenders?

Private lenders typically earn between 8% to 15% interest on their investment depending on you, the private lender, and the real estate investor and whether you want to receive payments monthly, quarterly or upon the sale of the property.

Who Borrows At High Rates?

Real estate investors do because they have learned that it's not the cost of money that counts but the availability. (Maybe you have heard the expression about how some people know the price of everything but the value of nothing.)

It is possible for real estate investors to purchase houses at huge discounts and can make a large profit because the funds were available from private lenders that would not be available from banks. Even when a real estate investor can get an extremely good deal on a property, often the bank will want to loan on the purchase price not the value of the house, thus penalizing him for being an astute real estate investor. Distressed properties are distressed for a reason, if they need a new kitchen or bathroom or roof repair the bank will take even longer to evaluate the loan. Most distressed sellers will not even consider offers with bank financing. The best deals are when the real estate investor can close quickly and pay cash. The availability of funds will make or break the deal and paying a higher interest rate is irrelevant compare the loss of thousands of dollars in profit if the money was not available.

What Kind of Loans Are Private Mortgage Loans?

A private mortgage loan is a loan that you make to a real estate investor and in turn your loan is secured by the actual property that the real estate investor purchases. A first mortgage is a powerful lien against the property and that gives you security. These are not high loan-to-value loans the banks and savings and loans make on homes. You should only consider deals with very low loan-to-values (LTV). That means no higher than 70% of the value of the property securing the loan. A low loan to value gives you additional security. This means if a house appraises for $100,000, a real estate investor should buy it for $70,000. That's a 70% loan-to-value. It's obvious why this is a much safer approach than most lending institutions take. The banks make loans at an 80%- 95% or more loan-to-value ratio. Banks just don't have very much cushion.

HOW CAN I DETERMINE IF A PRIVATE LOAN IS A GOOD INVESTMENT OR NOT?

Loan-to-value ratio is your security on the loan and is the biggest factor in determining the risk and the opportunity of a Private Money loan and it is rather simple to evaluate.

There are 3 factors to consider, the After Repair Value (ARV), the Cost of Repairs and the Purchase Price.

After Repair Value- This can be determined by a property appraiser or professional real estate agent.

Cost of Repairs- This is normally provided by the real estate investor you are considering making the loan to. (This schedule of repairs and the thought going into it is a good indicator of the professionalism of the real estate investor you are considering making the loan to.)

Purchase Price- With this figure you have the information you need to estimate the loan-to-value. (Should not exceed 70%)

Example

Purchase Price and Repairs= Loan Amount
Loan Amount divided by ARV= LTV%

ARV= $150,000
Cost of Repairs= $20,000
Purchase Price= $77,500

Cost of Repairs $20,000 + Purchase Price $77,500 = $97,500
$97,500 divided by $150,000 = **65% Loan-to-Value**

MAXIMUM LOAN TO VALUE (LTV)

By only making loans that have a 70% Loan-to-Value or less you are giving yourself a safe security margin and a good private money loan. After you have experience and become comfortable with the real estate investor you are working with, you might consider a slightly higher LTV, however, for your first few deals it is best to stay at or below 70%. By keeping in this range you keep your risk minimized.

If a real estate investor is suggesting a higher loan-to-value you might want to be cautious, the deal may not be a good value. It is best to work with a real estate investor who brings you deals that offer you the maximum security and the least risk.

Now let's talk about other considerations that will help to assure the safety of your investment….

OTHER CONSIDERATIONS FOR YOUR FUNDING PACKAGE

The loan should be closed and funded by either a professional real estate attorney or a title company-no exceptions! This protects your interests and because they are needed to provide Title Insurance. (see below) Either way, you will want to make sure that the closing agent arranges for the following items at the closing.

Title Insurance

A Lender's Title Policy should be provided as part of your funding package. All of your private loans will be funded by a professional real estate attorney or title company. They can provide title insurance to both you the lender as well as the borrower. This important insurance is often overlooked in private money loans because the private lender is not aware of its importance. Even though the title is researched carefully, problems could arise that could affect the title, so this insurance is important; it assures you that if an issue ever should come up with the title in the future you are protected against any loss. This insurance should be paid by the real estate investor at the closing.

Hazard Insurance

Hazard insurance on the property should be purchased at the closing. Hazard insurance will protect you in case of loss or damage to the property from such events as fire, lightning, wind damage, impact, etc. As the lender, you should be named as Loss Payee on the policy. There are two types of policies. One policy is for when the property is vacant for instance undergoing renovation and the traditional policy is for when the property is rented. Normally with distressed properties, the real estate investor will purchase the vacant policy and then convert it to the traditional policy after the property is rented. In either case in the event of a claim, the real estate investor will need your signature to be paid on the claim. This insurance should be paid by the real estate investor at the closing.

Important Note

All costs of the transaction should be paid by the real estate investor-not you. Unlike other investments that can be highly diluted by costs, when you are doing a private loan, you should not incur any costs, fees, commissions or any other expense. Whatever interest rate you have agreed to should be the amount you earn-period.

WHAT ABOUT THE REPAIRS NEEDED?

The best way to be comfortable that the repairs will be done and done right is to be familiar with past work the real estate investor has done. You should be able to have a one on one relationship, take a drive with the real estate investor before making the loan. They should be happy and proud to show you completed projects or work in progress. Refer to the schedule of work that needs to be done. The real estate investor should provide this to you and you should be assured that the work will be done correctly and within a realistic timeframe.

You can ask for an inspection. It is most common for real estate investors to perform their own inspections to determine what work needs to be done and to what level of renovation depending on the property and the exit strategy they are planning. They are not concerned if the air conditioning or refrigerator works because they have probably already considered those items in the purchase price or cost of repairs. They are more concerned with looking for and inspecting larger issues like roofs and foundations so they can avoid larger potential problems.

It is the responsibility of the real estate investor to demonstrate to you his proficiency and knowledge so that you can be confident in the process and comfortable making the loan. You should not have to expend your time and effort related to these issues.

There is no reason you should make a loan unless you feel fully confident that your real estate investor knows construction. It may be fine that they work with a contractor but they should have enough knowledge that they can show you how they will get the repairs/renovation completed.

WHAT ARE MY OPTIONS IF THE REAL ESTATE INVESTOR DOESN'T PAY?

If you have followed the guidelines mentioned previously you have considerable rights and several options.

Situation #1 -If they can't or will not pay:

- Call the loan due (the note should have an acceleration clause so you can call for immediate payment in full)
- Foreclose and take the property. Foreclosure isn't the evil, time consuming, costly legal process that most people think it is. It's as simple as sending your note to an attorney and saying 'do it'. All you have to do then is sit back and wait. Nine times out of ten, before foreclosure is complete, someone will be calling your attorney's office with a payoff letter, and your loan will get paid off. When this happens, you will collect all accrued interest, your principal balance, and all attorneys' fees, court costs, and all other expenses you have incurred in connection with your loan.
- Go after the borrower legally (at closing your borrower should sign a promissory note as personal guarantor, if the real estate investor uses a corporation, the corporation also should be a guarantor, this way if you had to sue you could go after their other assets. (properties, etc.)
- Once you get legal title to the property, because you have a low LTV you can own it and rent it out for a profit or simply call a realtor, list the property for sale at a discount so you can quickly recoup your investment (and probably a nice profit as well, this of course is why a low LTV is important).

Situation #2- They have good intentions and want to pay but can't pay right now.

- Have the real estate investor deed you the house. This is an opportunity for you to get a house at a greatly discounted price. When this happens, you can create a tremendous profit center by reselling the house.
- Allow the real estate investor to restructure the note. For example, let's say they are behind on payments to you. The real estate investor can and would like to keep the house, but they can't come up with enough money to bring you current in one lump sum. You could let them continue to make regular payments and make an extra payment on his arrearage in addition, or you could simply add the arrearage to the principal balance and extend the term of the loan. This means you would be collection interest on interest for the entire remainder of the loan. There are almost always ways to work a problem out if both sides are willing.

WHAT IF A RENTER IS IN THE PROPERTY AND THE REAL ESTATE INVESTOR STOPS PAYING?

Part of your closing documents should be an "Assignment of Rents" signed by the real estate investor at closing. This document gives you the right to collect the rents instead of the borrower if the borrower should be in default.

Note: This above is probably more information than you need to know about default, but it is only common sense and good practice that you should know the benefits and potential risks of this and any investment you are considering. Done correctly and with the right real estate investor it is rare to ever even have a late payment. Moreover, with today's online banking and the ability of the responsible real estate investor to setup automatic payments, you should expect to receive your payments well ahead of the due date, it is just good practice by the real estate investor to do so. Ask your real estate investor if they pay using automatic payments. If for any reason you do ever have a late payment, you should always insist on collecting the late payment fee that should be called for in the note. This will serve to reduce any possible errors or bookkeeping oversights and the chance of it happening again.

WHAT PAPERWORK SHOULD I RECEIVE AT CLOSING?

The Promissory Note - The Promissory Note, signed by the real estate investor personally as evidence of their promise to pay you back. It specifies the terms of repayment, the length of time to repay, the interest rate, etc. It should also have clauses like the Acceleration Clause mentioned previously. Ask the closing agent for a copy of this before the closing for your review.

The Mortgage - The Mortgage is recorded in county records along with the Deed and is the evidence that you have a lien against the property. This is your security. The recorded Mortgage is notification to the world that you are owed money and will get paid before the property can be sold. When your Mortgage is recorded, any other lien against the property is secondary and you will be paid before any other interests.

HOW DO I INVEST? WHERE DOES MY MONEY GO?

First of all Rule #1 is - Never give money directly to the real estate investor; that is not the way it is done.

When you are ready to make a private loan, at your direction, your money will go directly from your bank account to the closing agent's escrow account. (Professional real estate attorney or title company)

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The closing agent will make sure that the funds will not be released until all the proper documents (promissory note, mortgage, etc) have been executed. The closing agent will make sure that everything gets properly recorded and documented.

WHAT DO I DO AFTER THE CLOSING?

At the closing you can verify that the closing agent has recorded the mortgage, you should receive copies of all the signed documents, lender's title policy and hazard insurance policy. Because you are named as a loss payee on the hazard insurance policy, you should be automatically notified if there are any changes to the policy, however if you want, you could make a call to the insurance company every few months to verify coverage.

If you wish you can check to see that the repairs are being made by driving by the property occasionally to see the on the progress of the repairs. If you are not able to do the inspection in person, you could have a friend, family member do it or have the real estate investor send you photos of the progress being made and the completed project.

WHAT HAPPENS WHEN THE PROPERTY IS SOLD? HOW DO I GET PAID?

A payoff letter will be prepared by you, your attorney or accountant or by the real estate investor (with your approval) stating the amount you are due to be paid. This letter is sent to the closing agent that is handling the refinance or sale of the property so that they can disperse your payoff to you at closing.

DOES THE REAL ESTATE INVESTOR MAKE MONEY?

Another way to tell if you are making a good loan is if, even after paying the private lender a high rate of interest, taxes and insurance, etc, the real estate investor is able to have substantial positive cash flow if they are renting the property. It is highly unlikely the real estate investor is going to default when the property is more than paying for itself. You should ask the real estate investor to show you cash flow/profit and loss statements on similar properties they own so you can verify the rents compared to the expenses. If the real estate investor can produce cash flow reports with copies of bank statements to back them up, it is a good sign you are dealing with a professional you can trust.

If the real estate investor's strategy is to sell the property rather than renting it out, they should be able to show you the closing documents on similar previous deals and the profit they made.

THE 10 MOST IMPORTANT QUESTIONS ABOUT PRIVATE LENDING

IS PRIVATE LENDING RIGHT FOR ME?

If you are willing to do the basic due diligence as described in our report and are comfortable with the real estate investor and their track record, it probably is, and it certainly is something you should consider .

IS IT AS SAFE AS IT SOUNDS?

It is very safe, keep in mind that your investment is secured by a lien on the Real Estate purchased. Your main concern should be low loan-to-value (LTV). This is the ratio of the value of the property to the loan you are making. We suggest a LTV of no more than 70%.

Remember that making loans is a business and should be treated like a business. If you set up a simple system and let the professionals implement the system, your loan portfolio can be hassle free and produce staggering yields. Also remember, all costs are to be paid by the borrower…. not you!

HOW DO I KNOW IF I AM WORKING WITH A RELIABLE REAL ESTATE INVESTOR?

If you are working with a reputable and experienced real estate investor, you should be able to sit down with them, review the actual closing documents from previous transactions, see current projects in process, drive by properties they own and see the recorded deeds and mortgages on those properties.

Our Company does all the above with any person interested enough to ask-no obligation and no commitment from you. We especially welcome speaking to your accountant or attorney if you would like. We can also put you in contact with some of our current lenders so you can speak to them.

DO I GET A COPY OF THE PRELIMINARY TITLE REPORT AND OTHER DOCUMENTS BEFORE THE TRANSACTION?

When a bank is lending, they insist on reviewing the closing documents before the closing and your transaction should be no different. The advantage of private lending is the transparency, both before and after the closing you should be able to see every document and have every question answered.

WHAT IF I WANT TO LIQUIDATE?

You really shouldn't make mortgage loans if you feel you do not feel you can commit your funds for the term of the note, however, if your situation changes and you need to liquidate, you should have your note stipulate that you can do so.

Should you need to liquidate, all we ask for is sixty days written notice. And unlike a bank CD, there are no penalties for early withdrawal.

IS THIS A MORTGAGE POOL?

No! You make the whole loan yourself. Your get a lien against the property you are lending on. You are the bank. Loan pools are much less secure and are an entirely different type of investment.

Can I USE MY IRA OR PENSION PLAN?

Making real estate loans is a widely accepted use for IRA's and Pension Plans. Think of it, now you cannot only loan out money that has been unavailable for to use, but you can make it grow rapidly…. **Tax Deferred!** Since Uncle Sam isn't taking a bite out of your profits until you draw out the money, more money is left in the account to compound and grow.

In order for you to use retirement accounts for loans they must first be administered by a "Third Party Administrator" or TPA. This TPA is set up and approved to administer your loan activities. This means you will probably have to transfer your plan to one of these TPA's, unless of course, your present administrator is set up to do that.

WHAT HAPPENS IF I MAKE A LOAN AND THE PROPERTY IS SOLD RIGHT AWAY?

Obviously you don't want to make a loan and be paid back too quickly, even though you are getting a high interest rate your money would not have time to earn much if you are paid back right away.

We structure our notes so that you will either have you money earning for you a minimum of twelve months, or, we will give you three months bonus in addition to the interest you earn. This way, if we pay you back quickly and you want to re-invest in another property, the effect will be that you still average at least that same high rate.

CAN I DO MY OWN RESEARCH?

We encourage you to do your own due diligence and we can give you a package on the property with the tools to do so.

WHAT IS THE REAL ESTATE INVESTORS "EXIT STRATEGY"?

The real estate investor should have several "exit strategies" for the property before the purchase. Is this a property they are renovating for sale? Or renovating to hold and rent? Or refinance? Having an exit strategy means that the real estate investor has thought out the deal from beginning to end and has planned for all contingencies.

SUMMARY

Done right, being a Private Lender is a safe, secure and predictable investment. If you are tired of the Stock Market and its inherent volatility and other investments with low returns, high costs and commissions and if you are ready to take control of your finances, you now have the knowledge to earn the kinds of returns normally reserved only for the wealthy.

It is up to you to take the next step and decide if you want to take a new path for your investments in order to see a refreshing change in the results. By following the suggestions and guidelines in our report, you now have the tools to make a real difference in your financial future.