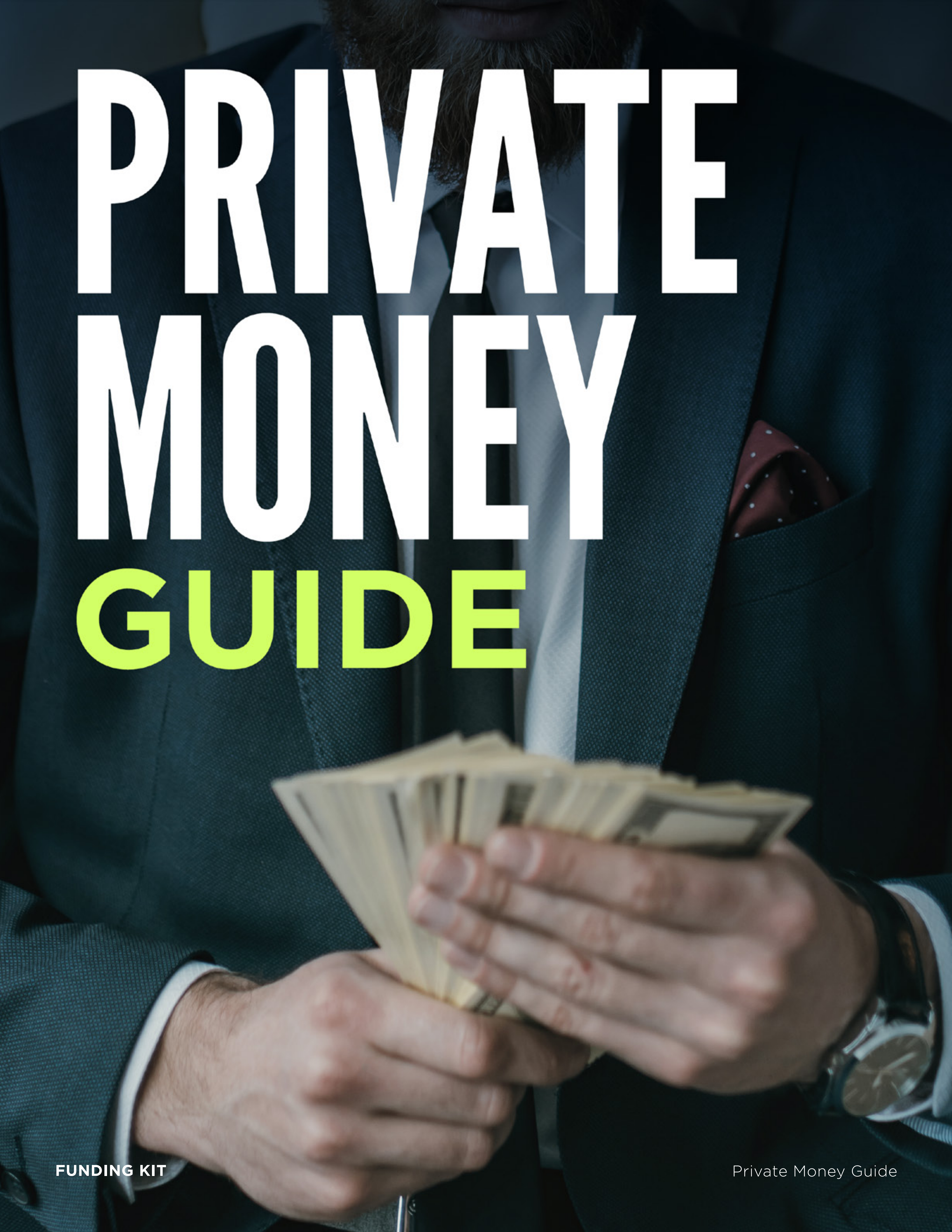

PRIVATE MONEY GUIDE

FUNDING KIT

How to Be a Private Money Investor Guide

A **Step-by-Step Guide** to **Successfully Lending Your Money for High Returns in Real Estate**

Learn Exactly How You Can Earn 8% to 12% passive income by securely and profitably lending your money without having to own or manage anything.

Private Lending FREE Report

In this **FREE** report, you will learn everything you need to know to safely become a Private Lender in real estate. You will learn how to secure your funds, evaluate deals and make transactions and best of all; you will learn exactly how you can significantly increase your returns over your current CD, Money Market and even Stock Market rates. You will learn how others, right now in your city are earning 8%, 10% and more on their money as a Private Lender.

Ok, let's get started.

What is Private Lending?

In our case, we are going to be talking about Private Lending in real estate. So, that is when regular people like you and I lend our money to a real estate investor to buy a distressed property at a discount. The funds to close on the purchase and make repairs (your money) are secured by a 1st mortgage or deed of trust (lien) against the house (security).

Basically, Private Lending is your opportunity to become the bank and earn the higher interest rate (or higher) that the bank is earning on your money (i.e. saving, CD or Money Market accounts). It's your opportunity to eliminate the middleman and increase your returns.

What Kind of Interest Do People Earn as Private Lenders?
Well, it depends a little on you, the lender and the real estate investor that you lend your money to.

In general Private Lenders are paid anywhere between 8% to 12% interest for the money that they lend, depending on whether you, the lender wants to receive payments monthly, quarterly or upon the sale of a property (deferred).

Why Would Anyone Borrow Money at 8% to 12% Interest When Banks Charge Much Less?

Real estate investors commonly borrow money at 8-12%. Why? Well, because it's not the cost of the money that is inherently important to successful real estate investors, rather, it is the speed and availability of the funds.

Real estate investors like me buy distressed properties at steep discounts that once improved will re-sell for a profit. The challenge investors face is that most traditional banks take too long time to evaluate a loan package, making it nearly impossible for the investor to purchase the property.

Speed is a real estate investor's best friend.

The best real estate deals are made when the real estate investor can close fast and pay cash. So, when banks delay and are too slow to fund, real estate investor lose great deals. Because real estate investors buy for profit, paying a higher return on money borrowed is really just akin to giving a little profit away to the private lender that helps get the deal done.

It's a win/win opportunity for both lender and borrower. The lender (you) gets the opportunity to earn high returns secured by great real estate deals and the borrower (the real estate investor) gets to keep their business profitable without the limitations and delays usually imposed by traditional banks.

How Do I Evaluate Whether a Private Money Loan is a Good Investment or Not?

It is fairly simple to evaluate the risk and the potential opportunity of a Private Money loan. Let's discuss the most important things to consider when doing a private money loan.

1. Loan-to-Value:
Real estate investors buy properties at huge discounts and borrow funds well below the market value of the property securing the loan. When lending on a deal, the most important factor to consider is the equity in the property or loan-to-value (LTV).

Here's how to determine the LTV: First, determine the After Repaired Value (ARV) of the property being considered for the loan. This value can be done by reviewing comparable properties provided by a real estate agent or by a property appraiser.

Second, after you determine the ARV, you must consider the estimated fix-up or repair costs. This should be provided to you by the real estate investor you are considering making the loan to. Now, if you are unsure whether the estimate being provided to you is accurate; you should ask for a licensed contractor to provide a bid. Once you figure out the ARV and the repair estimate, you're almost there.

Third, you must consider the purchase price of the property. Once you know these three numbers, you can evaluate your total LTV which should not exceed 70%.

MAXIMUM LTV (Not to Exceed) = 70%

Example:
Purchase Price + Repairs = Loan Amount
Loan Amount divided by ARV = LTV%

ARV: $200,000
Repairs: $37,000
Buy: $103,000

Your calculations: $103,000 + $37,000 = $140,000
Then, $140,000 divided by $200,000 = 70% LTV

If your loan meets the 70% LTV formula your risks are reduced and you are likely making a good private money loan. Remember, your biggest security (your safety net) is the fact that you lend much less than the property is actually worth. So, the higher your LTV, the "riskier" the loan. Traditional banks, i.e. first mortgage lenders usually lend up to 80% LTV (or higher). As a Private Lender it is usually in your best interest to lend at a lower LTV (max 70%).

How Can I Determine the Improved Value of a Property Before I Make a Loan So I Really Know My LTV?

An experienced real estate investor will provide a comparative market analysis (CMA) from a licensed professional real estate agent to verify that the LTV is at least 70%. Another option is to get a professional appraisal by a licensed property appraiser. An appraisal/CMA is a written estimation of the properties fair market value in a fixed up condition. This report should be ordered for you by the real estate investor and provided to you free of charge.

By obtaining this estimate of the after-repaired fair market value, you will have access to the relevant and important facts of the property. This report will make both you and the real estate investor well equipped to handle the private money loan. In some cases, when you are working with an experienced real estate investor and with their team of licensed sales agent professionals, it is acceptable to review a thorough CMA in lieu of an appraisal. If you have any question in evaluating the validity of the value estimate provided to you ask the real estate investor for a thorough explanation. And, when in doubt have a third party real state agent perform a "spot check" on value and give their best estimate.

2. The Borrower (Real Estate Investor):
The next consideration when doing a private money loan is the experience of the borrower (real estate investor). The more experienced and successful the investor, the safer your investment as a lender. Successful investors will be able to show you a track record and demonstrate that they are proficient at managing renovations, construction, budgets, timelines, marketing and selling. Find an experienced real estate investor to lend to and the inherent risk goes way down.

What Do I Need In Order to Feel Comfortable With the Repairs to the Property?

One of the first things in becoming comfortable with the repairs that are going to be done is to become comfortable with the real estate investor you plan to make the loan to. Ask questions and ask to see other projects the real estate investor has done – before and after pictures of other projects are great checks.

Ask for a construction scope of work and a construction estimate before you make the loan. The scope of work should identify what work will be done, that the work will be done to code and that the work will be done in a reasonable timeframe.

You can ask for an inspection but since in most cases the property is distressed, your concern as the lender isn't whether the water heater or air conditioning works, the real estate investor is likely estimating the costs of replacing these, but rather structural or foundation problems.

If the real estate investor is very experienced, they will often inspect the foundation and roof on their own, however, in many cases it is worthwhile to have a contractor and/or property inspection do another third party inspection. You can require that your real estate investor have a third part inspect the property before you make the loan, especially when you are just starting or if you have questions as to the ability of the real estate investor to adequately inspect the property on their own. The cost of this inspection should be born by the real estate investor.

Remember, it is the job of the real estate investor to show you the deal is good. It is not your job to work hard and figure it out on your own. If your real estate investor doesn't have the system or ability to earn your confidence and clearly show you what construction is going to be done, what the condition of the property is in the distressed state and how they are going to get the property repaired, you may want to reconsider making the loan.

Before making the loan, you should feel 100% confident that your real estate investor knows construction (or has a contractor engaged as part of their team that knows construction) and can show you exactly how they'll get the job done.

Will the Real Estate Investor Make Any Money Before the Property is Fixed Up or Do All the Profits Come at the Sale?

That depends. Successful real estate investors build profit centers into each real estate deal in order that their real estate business cash flow can maintain overhead and expenses. It costs money to run a successful real estate investing business. Most real estate investors build additional profit centers in acquisitions, construction, management and sales. This is something that you as the private lender want your real estate investor to do.

Why?

Because real estate investors that make money will be in business long term. When you make a private money loan, you want to make a loan to a real estate investor that knows how to make money and knows how to efficiently and profitably run their business and knows how to create consistent cash flow in their business. A business without cash flow is a business about to fail.

You are making loans to real estate investors that run a real estate business. If they don't have cash flow, they run the risk of going out of business. Make sure you are dealing with a real estate investor that knows how to create regular, repeatable income and your success as a private lender will be enhanced.

What Additional Things Should I Consider When I Make A Private Loan?

There are two basic things to consider as part of your funding package aside from the LTV that is securing your loan and the experience of the borrower.

First, when you fund the loan, you should receive a Lenders Title Policy. This protects you and your loan against defects in title. Because all of your private loans will be funded at an attorney's office or title company, getting a lenders policy is a very simple process. Simply ask the real estate investor to include this as part of the funding package. You can read more on this under the Title Company section below.

Second, you should be named as Loss Payee on the real estate investor's property casualty insurance. This protects you in the event of an insurance claim loss. In order to claim the loss and cash the check from the insurance company, the real estate investor will need your signature. Ask the real estate investor make this a part of the closing packet with the insurance company.

What is Title Insurance and Do I Need It?

When a real estate deal closes, there generally two types of title insurance issued – an Owners Policy and a Lenders Policy.

Title policies are essentially insurance policies that protect the owners and lenders on real estate transaction against possible problems with title. Remember, no matter how carefully title is researched, it is possible that problems can arise. In rare cases, a closing is performed, a loan is made and then some time in the future someone discovers a problem with the title. That could affect the legitimacy of the closing and potentially be a problem.

However, with a title policy both the owner (with the Owners Policy) and you as the Private Lender (with the Lenders Policy) is protected against defects.

When traditional banks fund loans, it is a standard part of their long and complicated closing instructions that they require the title company to include a Lenders Policy.

This is often overlooked in private money loans because they are "cash deals" and many times the private lender doesn't ask for a lender policy An insured title, i.e. when an Owners and/or Lenders Title Insurance Policy is in place protects against future attacks on title and protects the rights of the insured. Title insurance ensures that you have 'clear and marketable' title to the property and if there are any problems any costs associated with resolving the problems are borne by the insurance company. Any loss resulting from defects in title are paid by the insurance company up to the limits defined in the policy.

Title insurance is bought with a one-time fee or insurance premium and paid for at closing. When this premium is paid, the risk of title defects is transferred to the insurance company.

This is important because no matter how well a title is researched, itispossiblethatcertainthingscouldbemissed,misinterpreted or fraudulently conveyed. With a Lenders Title Insurance Policy, you are protected.

So, the advantages to you when the real estate investor buys title insurance are:

- You receive no fault recovery of loss
- All claim costs are paid for you to repair any found defects
- You receive broad coverage including coverage over neglect by the closing agent or attorney
- The cost is a reasonable one-time premium and can be paid by the real estate investor

What Type of Insurance Needs to Be In Place When I Fund the Loan?

Property casualty and fire insurance are absolutely necessities for real estate investment transactions. In general, the policy will protect you in the case of a loss or damage to the property if the damage is the result of the following type of events:

- Fire Lightning
- Explosion
- Earthquake
- Impact Collision
- Riot
- Theft or malicious acts
- Subsidence

The policy must be setup to cover vacant property. This is a much more expensive policy than the traditional landlord policy because of the greater risk to the insurance company for vacant property. Insurance premiums are usually paid a minimum of the first 3 months and then paid quarterly thereafter.

After construction is complete and the property is sold, the policy is cancelled. A good real estate investor will account for this cost when they evaluate and present a potential property for a private loan consideration.

As noted above, you should be named as the lender, Loss Payee on the policy. If the policy expires, you as the lender can force the activation of the policy, maintain coverage and charge the expense back to the real estate investor.

Your risk here is if you don't have insurance and the property burns down, you are at risk of great loss. Make sure you have insurance in place when you make private loans.

Do I Need to Close with a Title Company or Attorney?

For your protection and for the reasons noted above under the title insurance section, it is highly recommended that you only fund a private money loan when the real estate transaction closing is being held by a professional. Some states use attorneys to close real estate transactions and other use title companies. Depending on the state in which you are making the loan, you will close with one or the other.

What Happens if the Real Estate Investor Stops Paying on the Private Money Loan?

As the private lender, you have a certain number of rights if your borrower stops paying. In general, you could:

- Call the loan due and accelerate payment (call for an early payoff in full)
- Foreclose and take the property
- Go after the borrower legally

Every state has it own little nuances when it comes to collecting on a loan that is in default. As the private lender, the importance of hiring an attorney to help you weed through the foreclosure process should not be overlooked. This will make sure that you do everything correctly and that you protect your loan in the most cost effective manner possible by doing everything according to state law.

If you proceed with an attorney and begin to force the hand of the borrower, all fees of the attorney, interest payments and penalties are due if the borrow wants to reinstate the loan. This should be stated in the Promissory Note so that there is no question as to the validity of the fees in the foreclosure proceeding. Once you gain legal title or possession to the property, because you have such a low LTV, you can simply list the property at a discount and sell it quickly to recoup your loan money.

What if a Renter is in the Property When and the Borrower Stops Paying?

You closing agent can prepare an “Assignment of Rents” that can be signed by the borrower at closing. This document can be created at little to no cost. An assignment of rents allows you to collect the rents instead of the borrower in the case of the borrower being in default.

What Paperwork Is Involved in Becoming a Private Money Lender?

The paperwork is quite simple, yet provides strong legal protection for your private money loan. There are two documents that set up your loan terms and security. First, a Promissory Note is signed by the real estate investor as evidence of their promise to pay your loan back. The Promissory Note identifies the terms of the repayment, the length of time of repayment, the interest rate, the payment schedule, etc. Second, the Mortgage or Deed of Trust is signed by the real estate investor and recorded in the public records by the closing attorney or title company to secure your loan against the property. Some states use mortgages and other states use deeds of trust.

Now, just so you don’t get confused. A “deed of trust” is NOT the same as the Deed. The Deed is the evidence of ownership. It is recorded in the public records and shows that the real estate investor owns the property.

The Deed of Trust is then a second document that is recorded along with the Deed and shows evidence that you have money invested and secured against the property. It's is your safety net that if the real estate investor sells the property you have a piece of paper on record that notifies the world that you are owed money and you will get paid.

How Do I Actually Fund the Private Loan –Where Does My Money Go?

Let's start the answer to this question with a statement: Never give money directly to the real estate investor. It's just poor business practice.

When you are ready to make a private loan, your money will go from your bank account directly to the closing agent (attorney or Title Company) in the form of a cashiers check or a wire. The real estate investor will not touch the money until after all of your funds have been properly secured by the real estate. The closing company will assure that this happens.

At closing, the closing company will make sure that the real estate investor signs the Promissory Note, the Deed of Trust and that everything gets properly recorded and documented.

What Do I Need to Do to Monitor My Private Loan?

The main this you want to do is to simply make sure that when you fund the loan, that is when you actually part with your money, that your funds are being secured with a Promissory Note signed by the real estate investor and that the title company is recording a Deed of Trust on your behalf for your money. Once this happens and this all happens simultaneously as you fund, you money is immediately secured by the property.

The next thing you want to do is make sure that the real estate investor that you made the loan to is actually doing the fix-up. To do this, require regular progress updates and you can even have regular inspections. You can pay a real estate agent, property inspector, appraiser or someone else usually around $25 to $35 to visit the property, take photos and then give you an update. This saves you time and is a very efficient way to monitor your private loan.

How Do I Get Paid When the Loan is Due or the Property is Sold?

A pay-off letter will be prepared, either by you, your attorney or by the real estate investor (approved by you) stating the final pay- off of your loan. This payoff letter is sent to the closing company that is handling either the refinance or the sale of the property so that they can collect and disburse funds directly to you at closing.

Here’s an example of how the numbers on a typical private loan will work:

After Repaired Value (ARV):

$135,000 Estimated Repairs:

$26,000

Purchase Price: $66,000

Closing / Holding Costs:

$2,500 Total Private Loan:

$94,500 LTV: 70%

Loan Terms 10%: ($788/month)

Loan Length: 6 months

Total Interest Paid to You: $4,728

Your Total Payoff: $99,228

So, in this case, you made a $94,500 loan to a real estate investor. The real estate investor paid you 10% annual interest rate on your money and the loan was out for 6 months. Each month you earned $788 and after 6 months, you were paid $99,228 for your initial $96,500 loan.

Did the real estate investor still make a profit?

You bet, the real estate investor still made a handsome profit even after paying you a high interest rate for your private loan and securing your money against the real estate during the whole transaction. Almost immediately after closing this private loan, the Private Lender on this deal made another loan with the same real estate investor, earned the same high interest rate and had another win/win deal.