

Discover the Secrets of How to Fund Your Real Estate Deals with Private Lenders

**LEARN THE NEW SECRETS OF HOW TO FUND YOUR REAL ESTATE DEALS
IN THE POST-BUBBLE REAL ESTATE MARKET WHERE TRADITIONAL
LENDING SOURCES ARE GETTING VERY DIFFICULT TO OBTAIN**

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[PRIVATE LENDING PRESENTATION KIT](#)

DISCLAIMER

ABOUT THE AUTHOR

My name is **Mike Lautensack** and I started real estate investing in 1999 as a way to generate passive income and long-term wealth. Despite numerous mistakes and, what I like to refer to as "learning experiences", I started to have some real success by 2005 and made the leap to a full-time real estate investor.



In 2007, I started a residential property management company called [Del Val Property Management LLC](#) which serves Philadelphia and the surrounding suburbs.

Today, I continue to invest in real estate, grow and develop my property management company and now spend more and more time teaching and coaching real estate investors.

I started out buying single family homes from Housing and Urban Development ("HUD"), Veterans; Administration ("VA") and private sellers, using both bank money and my own personal funds to cover down payments. I quickly ran into a common problem when I ran out of cash and needed to find a better way to finance my real estate deals.

This is when I discovered the single, most important lesson I have learned in my real estate investing business; and that is, how to use **Private Lenders** to financing my real estate investments and **NOT** my own money. It was this discovery that allowed my real estate investing business to grow and prosper, as the lack of cash was no longer an obstacle.

This eBook is a summary of the information I use in my private lending program and is an excellent starting point for real estate investors interested in starting their own private lending program.

Good luck with your future endeavors and may your journey towards real estate wealth bring you financial success.

Mike Lautensack
[Private Lending Presentation Kit](#)

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What Is Private Lending

To say that the US mortgage market has changed in the last year is a huge understatement! We have seen the end of easy money financing and it will be some time before we see sub-prime loans, no-doc loans or hard money lending in many areas. Even traditional mortgage lending will require much higher credit standards and much larger down payments for real estate investors.

So how are you going to fund your real estate deals in this new environment?

Few individuals have enough of their own cash to purchase real estate investments, and those who do, generally know better than to use their own cash in their real estate investing business. **If you are a serious real estate investor you need cash to buy houses.**

It is a common story for new real estate investors to start out with lots of cash and little experience, only to lose all their cash in the learning process and have to learn how to do things the right way the second time around.



Even if you have a flush bank account or a home equity line of credit you'll eventually run out of money and need a consistent and dependable source of new money to buy real estate investments.

So how do you get this cash?

You can go to a bank and try to qualify for a loan and then wait to be approved. If approved, you will need to put up 20% to 30% down payment for each and every deal and pay all the bank's closing cost fees. How long will your cash last doing that!

Or, you can go to a hard money lender, but they will only lend you 65% loan-to-value (LTV) and you must fund the balance with your personal funds. Not to mention, hard money lenders charge 5 to 10 points as an upfront fee. Ouch!

So what is the answer? The answer is using private lenders to fund your real estate deals. Private lending is a consistent source of funds to purchase real estate deals that you can go back to again and again and again. In fact, the more you use, the more will become available as you develop relationships with more private lenders.

What is private lending and who are private lenders?

The definition of a private lender is an individual that you can negotiate directly with on a personal basis to borrow money for real estate investments. The money can be used to purchase rental real estate investments or to supplement funds borrowed from a bank to cover down payments.

Private lenders come from all walks of life and may not know the first thing about the real estate business. But what they do have is extra cash or assets that they can invest in your real estate deals. These individuals are generally middle class people, who have some extra funds to lend. They can be retired business people, corporate executives, professionals such as doctors, lawyers, or business owners or even blue collar workers.

Private lenders are looking for returns substantially above the 3% to 5% they get at the bank with CD's or money markets. **Most private lenders are looking for investment returns in the 9% to 15% range and secured by local rental real estate.**

Private lenders generally come in two forms. **First mortgage lenders** who will lend 90% to 95% of the purchase price or 70% of the after repaired value (ARV) and expect you to fund the balance or use another private lender to fund the balance. Or **second mortgage lenders** who will lend you the 20% to 30% down payment you need after you have arranged a bank loan for the first 70% to 80% of the purchase price.

So the concept of "private lending" can be defined as the process of borrowing real estate investment funds from private individuals at rates higher than these lenders can normally achieve using conventional investing institutions like banks and conventional investment vehicles like stocks, bonds, CDs, or money markets and secured by local rental real estate.

Sources of Financing for Real Estate Investing

There are many sources of financing available to use as a real estate investors. It is important to know the different financing options for structuring your real estate investment business. As you will see in this report, private lending has several advantages to the other sources.

Mortgage Loans – Mortgage Loans are the traditional type of financing for real estate investments and are generally provided by banks, mortgage companies and saving & loans. Mortgage loans are usually 15 to 30 years in duration with interest rates in the 6% to 8% range depending on your credit score and history. Mortgage loans require you to go through a qualifying process and involve lots of paperwork and can take weeks, if not months, to finalize.



“As an alternative to the traditional 30-year mortgage, we also offer an interest-only mortgage, balloon mortgage, reverse mortgage, upside down mortgage, inside out mortgage, loop-de-loop mortgage, and the spinning double axel mortgage with a triple lutz.”

Mortgage loans have several primary weaknesses, including a 20% to 30% down payment, a credit score of 700 or more and tight limits on the number of loans one person can make. In fact, the down payment requirements for investors have moved up to 40% in some cases. Banks and other financing organizations are also seriously clamping down on credit scores and typically require scores over 700, whereas, just a year ago, they would led on a score of 600 or less from a real estate investor.

Mortgage lenders will only let you acquire a certain number of properties before they will cut you off from any further funding. Fannie Mae and Freddie Mac, who really control the US mortgage market, recently imposed new lending restrictions and now only allow a maximum of 4 loans per investor.

Mortgage lenders are also very reluctant to make loans to LLC's or corporations and generally require you personally sign for the loan. This defeats many of the advantages of LLC's or corporations of asset protection and limiting liability.

Hard Money – Hard money loans are also referred to as rehab financing. Hard money loans tend to have very short time frames of 6 to 12 months and hard money lenders expect you to pay them off after 12 months with a new mortgage loan. These types of loans tend to have very high interest costs that will sometimes be over 20% with very high upfront and backend fees. On the positive side, hard money loans generally require less qualifying on the part of the investor because of the very low LTV ratios.

Creative Financing – Creative financing is a blanket term for techniques such as lease options, subject to, and owner financing that will allow you to acquire control of a property without putting money down. These techniques are great when you can use them, but are not applicable when the seller needs to sell for cash.

Revolving Credit Sources - Revolving credit sources include business lines of credit and credit cards. While these can be flexible sources of financing, the interest rates tend to be high and require high monthly payments. They also limit you to the size of your available credit line.

Private Lenders - Private lender are individuals with money to lend for investment purposes. They may or may not be wealthy, but they do have excess cash or assets available over and above what they need to live on. These individuals are willing to lend for a higher return than they can get with bank CD's or money markets. There are no limits on the number of private lenders you can have or the number of real estate deals you can do using private money.

What Are the Advantages of Private Lending Over Hard Money Loans or Bank Loans

There are numerous benefits and advantages to private lending versus hard money loans or mortgage loans to fund your real estate investing business. Knowing the advantages can mean the difference between making a real estate deal work or losing a good deal to your competitors.

Advantage #1: Speed and Cash Flow

The ability to close a real estate deal in less than two weeks is a huge advantage over having to wait weeks, or even months, for a typical bank loan approval. The importance of speed cannot be overstated in a competitive market and quick cash gives you a big edge over other investors.

Imagine if you are the seller and someone comes to you to buy your house and has a two or three month escrow period before closing plus several financing contingencies versus another investor who will close in two weeks with no contingencies. Not hard to tell which offer the seller will accept. And the real power of this offer is the seller may accept a lower price to close quickly with no contingencies.

So not only do you get the deal from the other investor, but you get it at a lower price. The power of private lending is the ability to close quickly and drive better deals terms to your advantage.

Advantage #2: Simple Paperwork

Have you ever gone to a closing on a traditional mortgage loan and had to sign 2 inches of paper work. Now image going to closing and only signing two or three documents (yes that is not misprint).

Private lending deals are incredible simple and the total paperwork is normally less than 10 pages and includes two or three simple documents. The documents included in a private lending transaction are a mortgage (Deed of Trust), an installment note and possible a

disclosure statement. The only other required paper work is to name your lender on your property insurance as you would in any normal loan situation.

Advantage #3: You Control Terms and Conditions

One of the incredible advantages of a private lending transaction is you control the terms and conditions of the loan. For example, you can offer a very short term loan of only 6 months if you know you are going to flip the property for a quick profit. Or you can offer a 5 or 10 year term if you plan on holding the property for a long term rental.

You can also control the conditions of the loan such as not allowing a prepayment penalty for early prepayment. Most normal mortgages and hard money loans require a 1% to 10% prepayment penalty to pay a loan off early. With private lending transaction you control the conditions and can simply add a clause that allows an early prepayment without a penalty. That can mean a huge savings down the road.

Advantage #4: Reduced Fees and Costs

Private lending money is less costly than mortgage loans or hard money loans. For example, most hard money loans can ultimately have total interest cost of 20% or greater by the time you factor in all the fees, points, interest and other costs. Even mortgage loans can be very costly with fees and upfront points factored in and the high interest rates most investors must pay versus home owners. Loans from private lender sources usually have no points and very few costs. The total cost of most private loans is somewhere in the 9% to 15% range with little upfront or back-end fees.

Advantage #5: Flexibility

Private lending provides tremendous flexibility for both you the borrower, but also for the private lender. The private lender can invest small amounts of \$5,000 or less in deals or large amounts to fund larger apartments or commercial property purchases. You can also work with lenders to structure a term that fits the lenders needs.

Here is a side by side comparison of the pros and cons of private lenders versus hard money loans and mortgage loans. The advantages for private lending are significant and can make a huge difference between a deal working and not working.

<u>Private Lender</u>	<u>Hard Money Loans</u>	<u>Mortgage Loans</u>
Interest Rate 9% to 15%	Interest Rate 15% or Higher	Interest Rate 7%
Fees - One Point	Fees - 5 to 10 Points	Fees – Three Points
No Credit Check	Credit Score 620+	Credit Score 700+
Term - 5 Years or more	Term - 6 to 12 Months	Term - 10 Years +
No Back End Fees	2 to 5 Point Backend Fees	1 to 3 Back End Fees
Loan to 95% LTV	Loan to 65% LTV	Loan to 75% LTV
Total Interest Cost < 13%	Total Interest Cost >25%	Total Interest Cost < 9%

The bottom line is private lending is undeniably an important component of any real estate investing business.

Using private lenders to fund your deals is the ultimate solution for any investor: you won't be using your own cash nor risking your credit score.

How Do You Find Private Lenders

Frankly, you advertise for them. It's as simple as that! Finding private money is not nearly as difficult as people think. We utilize a number of low key person to person marketing techniques as discussed below. However, I strongly urge you not to use any large public sources of advertising, such as Craig's List, or you may get a call from the SEC and you do not want that.

Here's how it works ...first, you do some simple marketing to find individuals interested in earning 9% to 15% interest on investments secured by local real estate. You will find these prospects everywhere. They belong to your local real estate investor clubs, church's, civic clubs, parent organizations, friends, family or even neighbors.

You will be surprised how easy you'll locate them and soon, they will be searching you out. Just let everyone know that you pay high rates of interest for loans that are secured by local real estate.

As prospects express interest, you explain that the investments are secured by local real estate and do not exceed 75% of the after repair value of each home. Each investment is based on a specific property, and they can decline any property which they are not comfortable with. All you require is that they approve quickly and can fund within 7 to 10 days.

A simple marketing plan can include several different activities such as:

Presentation Kit

One of the first things you need is good presentation kit that lays out your private lending program that you can use in one-on-one meetings or group presentations. I have developed a complete "done-for-you" kit that simply needs some minor changes to fit your situation. The [Private Lending Presentation Kit](#) is a 34-page slideshow or "flip chart" that I developed for finding prospective lenders in connection with buying, selling, and wholesaling real estate properties. The 34 pages are packed with tested and

extraordinarily effective strategies for getting people to give you money for real estate deals.

Additionally, we have also included in this Kit a number of pre-done marketing pieces which you simply need to modified with your name and contact information and they are ready to go for a quick start to your marketing program.

Elevator Speech

Network with everyone you know and develop a 60 second "Elevator Speech"

“Are you getting a safe 9 to 12% return on your idle cash or retirement funds? No! Well, we buy houses and pay cash for each house and we use private lenders to fund our deals. We pay 9% to 12% on notes secured by local real estate. If you are not getting that type of predicable return on your money, I’ll be glad to get you the details. We occasionally hold a free small luncheon for potential investors, or I could also sit down with you at your convenience and show you how it works. If you like what you hear, simply let me know how much you’re looking to invest and how long you can have your funds tied up. I’ll put you on my list and look for an investment opportunity that meets your needs. When I find one, I will call you. At that time you can pass or play. There’s no obligation.”

Small Local Newspaper Ads

Private Money Needed, Earn 14% plus 1 point, Rental, 70% LTV \$65,000 call xxx-xxx-xxxx

Mortgage Note for Sale: \$190,000 1st mortgage at 9% with low LTV. Call xxx-xxx-xxxx

Real Estate Investment Clubs

PRIVATE LENDERS NEEDED – Earn 9% to 12% hassle free on your idle cash or retirement funds secured by local real estate. I’m a professional real estate investor with over xx successful transactions completed since 19xx. I am not a financial planner, but a full-time buyer and seller of single family homes. We use private funds to pay cash for our real estate purchases and can pay you 9% to 12% when you help us fund our purchases. To learn more visit us at www.xxxxxxxx.com or call me at xxx-xxx-xxxx.

Flyers and Postcards

Flyers and postcards with a similar message as described above make a great lead generating piece. Typically, postcards can be printed and mailed for less than \$.50 per card. Response rates will be low, but it only takes one or two good private lenders to get your real estate investment business off the ground.

Speeches/Presentations to Groups

One of the best ways to get private lenders is to speak or present to groups. Senior citizen groups are always looking for presenters to attend their meetings and these people quite often have excess cash in CD's or IRA's that make them a natural lender.

When meeting with a potential private investor, either in groups or individually, do not put on a hard sell during your first meeting or two. Gaining private lenders is a process of establishing credibility and trust over a period of time. Your initial marketing materials should get them to contact you for more information, or attend a private seminar, where you will explain the details of your program.

Remember that some prospects will be interested in your offer and some won't. Learn the difference between the people who are not interested in what you have to offer and the people who are interested and focus your time and energy on those who express an interest in learning more about your private lending program.

If you follow some or all of the above marketing suggestions, you will have people with money seeking you out to lend money for your next real estate deal.

What Terms and Conditions Do You Need To Offer Private Lenders

The terms and conditions under which you will borrow from a private lender are under your control. However, most private lenders are talking to other investors and know approximately what normal private lending terms are and you should be competitive with other real estate investors or you will have a hard time attracting capital. We offer the following suggestions as a guideline for setting up your private lending programs.

<u>Terms/Rates</u>	<u>First Mortgage Lenders</u>	<u>Second Mortgage Lenders</u>
Interest rates	9% to 12%	12% to 15% *
Minimum Investments	\$50,000	\$5,000
Maximum ARV	75% - 85%	90% - 95%
Upfront Points	Zero to One point	Zero to Three points
Term	3 to 5 years	1 to 5 years

* We generally give 2nd mortgage lenders higher rates as they are taking on a little more risk by being in second position behind another bank or private lender and a higher ARV.

You can offer your private investors interest only payments on a monthly, quarterly, semi-annual, or annual basis. We allow the private lender to decide how often they will get paid. You can also offer interest only due upon the property sale which allows the private investor's principal and accrued interest to compound over the life of the investment for a higher total return. On our short term wholesales deals, we usually let the interest accumulate and pay it all at the sale of the property.

What Documents Do You Need For a Private Lending Program

In a typical private lender transaction, you the real estate investor (borrower) borrow money from a private individual (private lender) and the transaction is documented by a **Promissory Note** and **Mortgage**.

Additionally, as part of your program, you should always include a Certificate of Insurance, whereby you name the private lender as an additional insured.

We also recommend that with any documents you use, do a little research into SEC rules and your state's regulations to make sure they comply with all the rules and regulations applicable to your state or the SEC.

Promissory Note

One of the most important documents you will ever sign with a private lender is the actual Promissory Note that creates the loan obligation. The Promissory Note lays out the terms and conditions under which the private lender is willing to lend you money and under which you are willing to borrow money.

The Promissory Note is where you want to control the private lending process in your favor and give you the borrower the control and flexible you may need in the future. If the Promissory Note does not have the right clauses contained within it, you are potentially giving away tremendous control to your private lender and tying your hands in the future.

We recommend the following two clauses in any Promissory Note with a private lender.

Prepayment Penalty Clause

"The Borrower reserves the right to prepay this Promissory Note (in whole or in part) prior to the due date with no prepayment penalty"

The prepayment penalty clause allows you, the borrower, the right to pay off a Promissory Note prior to maturity without a prepayment penalty. Without this clause, you may not be able to pay off a Promissory Note early or worse yet, you may have to pay a large penalty for the right to prepay the Promissory Note.

For example, let's say you have a five year Promissory Note secured by a piece of real estate you own. You get a great offer to sell the property and see a big pay day in your future, but you need to sell without a penalty before you can realize that pay day.

Without the above prepayment penalty clause, you may have to pay the lender their full interest for the five years for the right to pay off early or the lender may require a penalty of several percentage points to allow you out of the Promissory Note.

With the prepayment penalty clause outlined above. you have the full right to pay the Promissory Note off early with no prepayment or interest penalty. The benefits of this clause can be very powerful and beneficial to you the borrower.

Substitution of Collateral Clause

"Borrower has the right to substitute like collateral of equal or greater value"

The substitution of collateral clause allows you to sell the underlying real estate without paying off the private lender Promissory Note by substituting the collateral with a different piece of real estate of equal or greater value.

With this clause, you can flip a property without having to pay off your private lender every time you sell a property. Imagine the work and inconvenience to you and your private lender if every couple months you sell a property and have to pay them off. Then a couple weeks later, you call them to reborrow the money and now you have to sign all new paper work. This can be a real burden on you and your private lender. In all likelihood, they will tire of the cumbersome process and look for other investments for their money.

A much better solution is to use the above clause. Every time you want to flip a property, you have the right to transfer the Promissory Note to another property of equal or greater value without paying off the private lender. The private lender is much happier because his money is always working without the inconvenience of filling out and signing new documents every couple months.

Mortgage

The Mortgage is the security document for the borrower's performance under the Promissory Note and usually is secured by the piece of real estate you are about to purchase.

The Mortgage is the document that you will record with your local county recording office. Generally, you should have a title clerk or attorney record the Mortgage to be sure it is done correctly and to avoid any problems later.

One of the bonuses in the our [Private Lender Presentation kit](#) it is a complete set of documents we have used for years and are thoroughly time tested for you to use in your private lender program. Why go through all the cost and trouble to create your own forms when we have already done it for you.

Certificate of Insurance

You should always provide your private lender with property insurance, including both an owner's title policy and a lenders title policy. You will want to make sure your lender is named as an additional insured on your hazard insurance policy, just like you would if Bank of America was your lender instead of your private lender.

Disclosure Statement

You may want to consider a disclosure statement form that outlines exactly what it is you will be doing with the property, how you plan to exit out of the property, the time line you are projecting and the risks involved with real estate investing and the possibility your entire plan could change while owning the property.

Private lending does have investment risk and it is possible the investor could lose some or even all of their investment. You need to make them aware of these risks before you use their money for investment purposes.

How Can I Learn More and Get Started With Private Lending

If you would like more information on how to set up your own private lending program please go to [Private lender presentation Kit](#). The Private Lender Presentation Kit will provide you with the tools and documents to get your private lending program off the ground and flourishing in no time at all. This kit will help you find, attract, and work with private lenders to fund YOUR real estate deals! Here are some of the things you will learn in the Private Lender Presentation Kit.

You will learn:

- How to put together your "Private Lending Presentation Package" for your group or individual meetings that will have people raising their hands to do business with you.
- The secrets of acquiring private lenders through marketing and one-on-one or group meetings.
- How to build your private lending marketing machine and lead-generating funnel to get potential lenders calling you to learn more.
- How to give a seminar for private lending prospects that will address many of their concerns and have them ready and able to start lending.
- How to build "credibility" with private lenders.
- And much, much more!!

Click Here for More Information => [Private Lending Presentation Kit](#)