

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.

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