

Investment Principal #4



“Your Key To Unlocking The Hidden Fortunes In Private Mortgage Lending!”



Generating Cash Flow and Wealth through Creative Real Estate Investing and the Power of Private Lending & Equity Joint Venture Partnerships

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“Your Key To Unlocking The Hidden Fortunes In Private Mortgage Lending!”

What is “Private Mortgage Lending”?

Welcome to Private Mortgage Lending – a highly lucrative field! Lucrative, because in it, you get to play the part of the bank! And what’s even better is that you won’t be making the same mistakes that banks did which led to the demise of a lot of them, because you’re going to learn how to lend with an entirely different, albeit safe, set of rules. Oh, and the best part? You’ll get to make the type of returns that the banks are currently making, and sometimes, even better!

Before we get started, however, it’s important that we establish exactly what private mortgage lending is, so that in our discussions, we’re all on the proverbial same page.

Private Mortgage Lending Defined...

“Private Mortgage Lending is the lending of a private individual’s money to a borrower(s) who pledge(s) real estate for the loan by way of a publicly recorded mortgage. The publicly recorded mortgage secures the loan that is evidenced by an original promissory note. The recorded mortgage secures the promissory note in the event of a default by the borrower.”

See? Now that wasn’t so difficult, was it? <grin!> Okay, all fun aside, let’s get down to brass tacks and re-state that in simple English!

You, the lender, loans money to Bob, the Buyer, who gives you an IOU in which he promises to repay the debt using specific terms, and, he gives you security for that debt in the form of a lien against the property. The IOU is also known as the promissory note, and the lien is known as the mortgage or deed of trust.

Two Important Documents

There are many other important documents to complete the transaction but none are more important for you, the lender, than the ones listed below.

1. The Promissory Note (Evidence of the debt)
2. The Recorded Mortgage (Security for the debt)

PROMISSORY NOTE: As previously stated, this is the evidence of the debt, also known as the IOU on the property. In it, the borrower acknowledges the debt and agrees to repay it under a certain set of terms. These terms include the interest rate, the length of time he has to repay the note, the periodic payment, and whether or not it is fully amortized or paid interest-only. This note is NOT filed as public record – you should view it as a personal “IOU” (unless you’re from the part of the country that says “I.O.Y’all”)

MORTGAGE/DEED OF TRUST: This document is the one that has teeth – it's the one that gives the lender the right to take back the property should the borrower default. This paper IS notarized and filed as public record. That way, should the property ever sell, you, the lender, get your money first before anyone else! And that's really important, especially when it's *your* money!

On a side note, when we refer to the term "mortgage" (the security instrument), keep in mind that some states call the security instrument a "trust deed" or "deed of trust." Whether your state calls the security instrument a mortgage or a trust deed, both instruments serve to protect you, the lender, in the event of a default. Both instruments secure the transaction. For our purposes throughout this report, we will use the two terms interchangeably.

How Do Become A Private Mortgage Lender?

The two main ways to participate in private mortgage lending are:

1. Fund a new (original) mortgage.
2. Buy an existing mortgage.

First of all, let's make sure that we are all on the same proverbial page when it comes to the language we're going to be using!

The lender is known as the *Mortgagee*. The easiest way to remember this is that the lender is also the one getting paid, or the *payee*. The borrower is known as the *payor* or the *Mortgagor*. It's the 'ee' and 'or' thing that will help you remember the players!

Now then, if you want to fund a new mortgage for a borrower, remember a couple of things that will help you:

1. You set the rate and terms of the loan. Granted, if you're dealing with our firm, we'll gladly share what we're paying our other private investors. It's in everyone's best interest to have complete disclosure on this matter, we're no different.
2. The rate and terms determine your return on your money.
3. You have the ultimate control in determining how long your investment will be, how liquid it is, and your return.

You can also get involved in private lending by buying a mortgage that already exists. Ultimately, it's the same thing – you're buying a receivable with a face-rate on that receivable. There is a downside, in that you cannot change the terms of the note once you've purchased it unless you have the agreement of the borrower.

Keep these items in mind if you want to invest in pre-existing, privately held notes:

1. When you buy an existing mortgage, you will usually pay less than its face value.
2. Purchasing it at a discount actually raises your yield to be above that of the face-rate of the note. Look at it as buying the note on sale!
3. If the note pays off early, your return increases dramatically!
4. The down side is that you're in it for the long haul: if you buy 30 year mortgage from someone and the payer doesn't sell or refinance, they, technically, have 30 years to pay you back and although you'll be getting monthly cash flow, you'll have to wait 30 long years to get all of your money back.

THAT'S why funding a NEW mortgage is the most common way to participate in private mortgage lending. And that's also why the remainder of this report will concentrate on funding new mortgages!

Do I Need A Mortgage Broker or a License to Make Mortgage Loans?

Under most state laws you cannot hold yourself out to the public as a mortgage lender when you are a private individual, unless you are loaning your own money. Under these laws you also cannot advertise your mortgage services.

That's okay, because the reason that you are on this site is to find a reputable outlet for your investment. Simply put, you don't need to advertise your mortgage services because you've already got a captive audience – us! Besides, in working with us, we hope to be able to educate you on what our other lenders are doing, and establish long term relationship with you!

We have quite a few private lenders with whom we work, so the best way for us to work with you is to build a trusting and friendly relationship based on mutual needs. We're going to want to know what works best for you, and to that end, will be asking you several questions to determine your particular needs:

1. Are you comfortable investing with us for up to 36 months, or would you prefer to invest with us for a shorter period of time, albeit at a lower interest rate?
2. Do you prefer residential or commercial properties?
3. We pay a little higher interest when we borrow money secured by 2nd liens but they are, by definition, a little more risky. That said, are you interested in loaning on 2nds as well as 1sts?
4. Some folks require monthly cash flow; others prefer to keep their money in the deal and let interest accrue. The latter returns a higher yield – what is your preference?
5. How much money are you comfortable investing?

6. Once you have approved a deal, how long will it take you to fund? (This is really important because the time it takes to close on a property is a very valuable tool in negotiating its price.

Each investment is different, so it's important that we know your needs so that we only bring you investments that meet your criteria. And the best way for us to get to know you is to meet in person if possible. Let us know the deals you're interested in funding, tell us a little about yourself, you know...that kind of thing. Our long term relationships are important to us and we want to make sure that they're mutually beneficial.

Why Does Someone Borrow Money From A "Private Mortgage Lender"?

I'm sure that you're asking yourself this question and rightfully so!

The answer is that the borrower, in most cases, must turn to the Private Mortgage Lender because they have been turned down for a mortgage loan by one or more institutional lenders, such as a bank, credit union, finance company or mortgage company. These institutional lenders offer conventional mortgages such as Fannie Mae or Freddie Mac, or FHA and VA mortgage products.

Institutional lenders have many requirements that the borrower must meet and I'll tell you that since the recent bank meltdown, these requirements are more stringent than ever! People who easily qualified for a loan a couple of years ago no longer qualify. Sure, they may have GREAT credit and have shown both the willingness and the ability to meet their obligations, but because they're self-employed and wrote-off a lot of their income on their taxes, they don't qualify for a conventional loan.

And then, of course, there's the real estate, which must also meet certain criteria. The property has to be in livable condition with no repairs needed. That's a huge problem if the real estate investor is buying a property that is owned by a bank, getting a HUGE discount on it, and yet the property needs fix-up. Conventional banks simply will NOT do this type of loan.

Let's face it: there is a lot of red tape with conventional lending. The process is cumbersome and can take a lot of time. Many borrowers are shut out of the process with institutional lenders, because they cannot prove their income or they have bad credit or both. In addition, the borrower can be shut out because the real estate is only land with no improvements on it, or the property is too rural or in need of some minor repairs. Many institutional lenders have guidelines that are very strict and inflexible.

The borrower usually does not turn to relatives to borrow the needed money because the amount of money is too great for a relative to lend. And besides, we ALL know how perilous it is to do business with family in many cases!

Soooo...the door is opened for the Private Mortgage Lender, who is nothing more than a private individual lending their own money to a borrower.

Ok, So Why Do Private Individuals Lend Their Money Through A Mortgage Transaction?

There are three major reasons why private individuals lend their money secured by a real estate. Specifically, it's because they get

1. Secured Investment
2. High Return
3. Liquidity

A Secured Investment with A Good Return

There are many things that can be said about having a secured investment. Notice that I chose my words carefully – I said secured, and not secure!

I would love to say “secure” but then again, doesn't any investment have inherent risk built into it? Private lending is no different even though you can minimize your risk by paying attention to some of the things that I have mentioned in this report.

On the other hand, the investment is secured with a lien against the property. And with that lien in place, there are three things that can happen:

1. The borrower pays as agreed and the private lender (you) get monthly income.
2. The borrower pays as agreed and the private lender (you) watch your money grow, because you've opted to wait until the end of the investment term to get your cash out, thus giving you a great rate of return.
3. Finally, should the borrower default or not pay as agreed, then the private lender forecloses and becomes the new owner of the real estate at a cost much less than the market value of the property.

And as far as making a good return, I guess the definition of “good” is really up to you. I can tell you that we typically pay our investors 2-3 times what they're currently receiving at the bank with their Certificates of Deposit, or what they're currently getting in their 401K plans. The actual interest rate on the note depends on the property, it's condition and location, the term of the loan, lien position, etc.

Mortgage Investments Are Considered Somewhat Liquid

Another good reason to become a Private Mortgage Lender is that your investment is somewhat liquid and in a couple of ways...

First of all, the terms of most investments are 36 months or shorter. So, you don't have to be involved in some long-term project in order to make a great return on your money. In fact, many investment terms are as short as 6 months, though most average 12 months.

Second, the owner (mortgagee) of a mortgage can sell that receivable at any time. The banks sell mortgages to each other constantly – you are no different as you can sell yours, too! (NOTE: You can only sell the payments you're entitled to *receive*...so you can't sell the mortgage on your home if you're the one obligated to *make* the payments!)

Circumstances change for private mortgage lenders, so for any number of reasons they may want to liquidate or sell a mortgage to go back to a cash position. And fortunately, there are companies across the country who specialize in buying private mortgages.

If you're considering selling your mortgage at some point in the future and want to keep this avenue open "just in case", I would recommend the following:

1. The higher the rate is on the mortgage, the better your chances of selling it at its face value. When the rate is relatively low sometimes the mortgage is sold at a discount from its face value. This will happen if the rate on the note is lower than what the buyer wants to earn.

Moreover, if the note rate is a very good return and there is a prepayment penalty clause in the note sometimes it can be sold at a premium. So remember the higher the rate the better the market will be to sell it sometime in the future.

2. If you plan on selling the mortgage, or even if you don't, be sure you keep accurate and legible records of the payments you receive. Even if you've opted not to receive payments, save the monthly statements. Believe it or not, you'll get a better price for a well-documented mortgage than for one that isn't.

3. Finally, your mortgage will be a lot more marketable if it has at 12 payments that have been made on it. That's not to say that you couldn't sell it to a private investor sooner – it just means that in the secondary lending market, the big companies that buy these notes want to see some sort of payment history, and prefer at least 12 months.

The point here is mortgages are liquid. Mortgages are not as liquid as IBM stock, but liquid enough to cash out within a couple of weeks. And by the way...

When you work with us and something comes up where you absolutely need your money back prior to the end of the term, please...let us know. We will work with you any way that we can and in some cases, even have other investors who would be willing to step in your place. Granted, it's not the rule, but we'll do whatever we can to maintain the integrity of our relationship with you!

What are the Cash Requirements to Make a Private Mortgage Loan?

There is no minimum cash requirement to get involved. Some private mortgage lenders lend as little as five or ten thousand dollars on one loan. Others lenders lend six figures on a single loan without batting an eye! There really is no right or wrong – there's only what is right for you.

When deciding on loan amounts that are right for you, keep in mind the word “diversification”. Diversifying will be a little more difficult to accomplish if you have less than \$25,000.00 to lend than if you had \$100,000.00 to lend, but it's still a great concept to keep at the forefront of your decision.

How Do You Diversify Your Loan Portfolio?

Diversifying your loan portfolio is quite simple. For example, suppose you want to lend a total amount of \$100,000.00. You could follow a strategy that many private mortgage lenders have by not making any one loan over 10% to 15% of the total amount you want to lend with mortgages.

So, in the case of having a total amount of \$100,000.00 to lend, you could make between 6 and 10 loans in amounts ranging from about \$10,000.00 to \$16,000.00. The total amount that you have loaned out would be diversified among several borrowers. And even better, your risk is also spread out between several properties and several borrowers.

A good rule of thumb is to be cautious and at the same time, do what makes sense to you. If you invest correctly in a real estate investment, you'll be protected by the LTV in each property.

And that brings up a great subject:

What is the LTV on a Property?

Maybe a better stated question is, “What is the maximum amount of money you should lend on any particular property?”

This is the most obvious and important question in every mortgage loan you make. This question warrants your utmost attention because in its answer lies the safety and risk of your investment.

Simply stated, you really should never loan more than 70-75% of the value of a property, and that includes the underlying liens. The LTV mentioned earlier is the Loan to Value ratio: the total loan amount in relation to the value of the real estate.

As an example, you wouldn't lend \$50,000.00 on a \$50,000.00 house, because you suddenly were required to sell the house at any kind of discount, you would not recoup your initial investment. Loaning \$50,000 on a \$50,000 house is also known as loaning 100% LTV. And as you may have guessed by now, 100% LTV is high-risk!

On the other hand, if you loan \$50,000.00 on a \$100,000.00 house, your exposure is limited to 50% of the value, resulting in a 50% LTV.

Now what happens if you are interested in loaning money secured by a 2nd lien? You simply take the 1st lien into account and add it in to the LTV figure. For instance, if the house is worth \$100,000 in its fixed-up condition (also known as ARV – After Repaired Condition), and the borrower borrowed \$60K to purchase it, then the existing LTV on it is...60%.

You come along and are interested in loaning \$10,000 necessary to fix-up the property. You have to add your \$10,000 to the current \$60K mortgage, for a Combined total of \$70K loaned against the property or...a combined LTV of...70%. See? You're still in the ballpark, even though it's a 2nd lien.

The key when considering 2nd liens is to pay close attention to the value of the property, and the other loans that are already in place.

So what does LTV mean to you?

It means that the lower the LoanToValue ratio, the more secure the loan is for the private investor! Oh, and that's a good thing!!

In Conclusion...

It's really been fun to share a little about Private Mortgage Lending with you, and I hope that you, too, got a lot out of it. That said, there are several avenues you can take from here:

1. Do Nothing (ouch! Really??)
2. Call us for more information (see the number on the Website)
3. Email us for more information.

And again, thank you! We look forward to working with you and sharing everything we can about this exciting investment opportunity.

How You Can Contact Us:

You can call us at: (661) 578-6758

You can also visit our web site at: www.REJVP.com

The faster you get the facts you need, the quicker you can earn better than average, safe returns on your investment dollars!

Conclusion

In this special report like in our 13 others, I've exposed to you some of the greatest secrets, strategies, tools and techniques for making substantially higher returns, frequently 200% to 400% higher than what you can usually earn in traditional bank certificates of deposit, money market and related investments.

I've shown you things to consider, things to look out for, things to be sure that you include and more. Please use the tools, strategies and techniques that I have shared with you in these pages to change your life for the better, to break free of the confines of traditional bank investing, where you are really loaning money to the banks so that they can in turn just turn around and loan it out at much higher rates to people just like I've shown you how to find and how to loan to in this report.

With this and all the free information available on our website, you now have everything that you need to take action and start investing as if YOU were the bank. However, it will only benefit you the way that I want it to, the way that you deserve it to, if you will take action and start putting what you've read and learned about here into practice with your own investments.

Private lending is liberating and is one of the best ways that I have found during my investing career to really beat the market in a safe, secured and insured way.

I wish you the best of luck in your new private lending journey, and I hope that you will feel free to contact me and ask me any questions that you have along the way. I am here to answer your questions, to guide you and to lend a helping hand to set you on your path to wealth through private lending in any way that I can. Please take advantage of the opportunity to contact me, ask questions and work with me to ensure that your private lending experiences are the best that they can possibly be.

In the spirit of service,



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