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The Comprehensive Guide to Private Lending

Cutting Out The Middleman

Insider Secrets on How to Earn Two to Three Times More on Your Money than Banks Pay

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Preface

This book is the result of years of experience in Private Money Lending. It is my goal in putting together this book to share with you, other private money lenders and prospective private money lenders, the many experiences and lessons learned in this unique and extremely rewarding business.

I hope that you will take what I have collected here, the wisdom of many victories and some defeats in the private lending business, and use them to help you to create the life for yourself, your family and loved ones that you have always dreamed of.

There is in my mind no greater opportunity for the creation of wealth than exists by lending the money you have earned through your own hard work to others to invest in real estate, provided that you observe the caveats I have provided for you in this book. Enjoy the journey you are about to take!

In the spirit of Service,

Gabriel Contreras

Bakersfield, CA

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Introduction

Years ago, as I was working as a real estate investor and holding down another job as well, I ran into a gentleman who would forever have a significant and substantial impact on my life.

I was pretty enterprising for my age, but I had a little bit of the "know-it-all" arrogance of youth that life had not at that time knocked out of me. So, I thought I was doing pretty well earning money by purchasing real properties and repositioning them by adding value, then selling them at a nice profit.

But, then this gentleman whom I happened to meet as the seller of one of the properties that I was purchasing took the time to talk with me. He was impressed with what I had been able to accomplish at such a young age, and for whatever reason he decided to share some pearls of wisdom with me.

"You know," he said, "I've been in the investing game for a very long time and I've learned a thing or two that I think I just might share with you if you are open to hearing it and don't think you already know everything there is to know about this world yet."

"Well, I think I'm doing pretty well, but I am always interested in hearing what someone else who has more experience and more success has to say," I replied.

“That’s good,” he said, stroking his white whiskers with one hand as if he were trying to decide whether or not I was truly worthy of the information he was about to share.

“You see,” he continued, having decided that indeed I was capable of hearing what he had to say, “you are working way too hard. You’re out here finding properties, looking at houses, doing inspections, going to banks and begging for funding, then doing all I’ve seen you do to try to add value, and then you have to go find someone to live in them or to buy them. Frankly, that’s never going to make you truly rich!”

“I don’t know about that,” I replied, a little put off at his assertion that I was not going to be able to realize my own dreams of wealth and financial security, especially given the fact that almost everyone I knew who was truly wealthy had made their fortune by investing in real estate, even if they got their stake some other way.

“Everyone I know who is truly wealthy has made their fortune in real estate,” I insisted.

“Yes, I know, and I agree,” he quipped, cocking his head a little as if to assess whether I was really going to receive what he was about to say, “but they have not all made their money with the same degree of effort. That’s what you are doing wrong. That’s the mistake 99% of everyone I see investing in real estate makes.”

I was intrigued. “Okay,” I conceded, “then what would you do differently that would change all of that and allow me to achieve what I really want in this business?”

“The mistake you are making,” he continued, “is that you are limited by the amount of time you have. You simply can’t continue to do all the work that you are doing and scale your business to be able to grow to a critical mass where you can retire and not still be burdened by all the work that you are doing right now.”

“The fact is,” he continued, “there’s just not enough of you and enough time to do everything you need to do to really make a LOT of money, and I can see from what I already know of you, that is what you’d like to do.”

“Okay,” I said, “I understand what you’re saying, but as soon as I can afford it, I’m going to hire some people to help me out. I’ll just keep adding more and more employees as I need more and more help to make money doing this.”

At that point he laughed, and flashed me an artful smile that showed that my inexperience was amusing to him. “Look, whether you’re the person going out and doing the work or the person managing all the people going out and doing the work, you’re still stuck in a job.”

Oh, you may think you're working for yourself, but you're really just working to help your employees keep working for you, and if you stop for too long, if you take too much time off, if you put your business in the hands of other mid-level managers to help manage the people you are managing, well, you're going to find out pretty quickly that it doesn't turn out very well for you."

What he said made sense. I really didn't want to have a bunch of employees and I never considered myself someone who wanted a traditional job of managing a large company. I was more entrepreneurial. I actually enjoyed doing the work I was doing, but I did realize that it had its limitations.

I knew also that even if I hired a bunch of employees to help me out, they would never work the business in the same way I would. They just didn't have as much at stake. Sure, I could add partners instead of employees, but I knew that if I did, I'd still be subject to having to listen to what other people wanted me to do, and I really valued my independence.

He obviously saw my consternation and offered some relief when he said, "Look, you're a smart person. Just look at what I do. I made a pretty good amount of money real estate investing myself when I was younger, and just like you, I wanted to leverage that into something more, into something I could retire on, but I didn't want to have to work at the same pace I was working at for the rest of my life.

"So, one day when I was talking with a seller of one of the properties I was buying, just like you are talking to me right now, she shared with me how she was making money by making loans to people just like me and securing them with the real estate."

"She told me that she would be willing to loan me the money to finance my purchases if I would be willing to pay her more on her money than she could earn at the bank."

He went on, clearly a little nostalgic as he recalled this significant event in his life, "This was exciting for me because I could only buy one property at a time back then and she was offering me the chance to break out of the limitations that the bank had placed on me so that I could buy more properties and make more money than I ever had before."

"She introduced me to the concept of private mortgages and private lending, where she could loan me money at a higher than average interest rate and I could use her money to do my deals."

He straightened a little in his chair and looked me directly in the eyes as he said, "and that's where I learned that once I had enough money, I could get a whole army of people just like me to go out and find the deals and do all the hard work, and I could loan them money to do it, and I could protect my money by securing it with the real estate, and I could charge way more than I was ever going to get paid from my bank, and I knew right then that I had finally discovered the path to true wealth."

"Ever since then, I have not only been a real estate investor, but I have also been a private money lender. I loan money out to people just like you, just like I used to be, and you pay me ten to twelve percent interest. You secure your loan with the real estate that you're buying so if something happens I end up with the property and we both make money."

"You make whatever you're able to get from your deal, but I know that I'm going to get my money back plus interest after a specific amount of time."

That was a BIG day in my life. It's the day that I was introduced to private money lending, and like that gentleman, ever since that day, I have also been a private money lender, as well as a real estate investor.

Now, I share all of this with you because private money lending is one of the most amazing and profitable businesses that I have ever discovered that virtually anyone can do and that almost no one knows about.

That's why I decided to write this book – to share with you and everyone else who reads it a way to earn in one year what many people could not earn in three or four.

And, with the compounding effect of money, ten, twenty or thirty years from now, knowing the secrets of private lending could mean hundreds of thousands or even millions of dollars of additional retirement money for you and your family.

So, read this book carefully. Devour every page and take note of every strategy, because if you do, I can promise you that it will literally change your life and your future!

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CHAPTER 1

How You Can Safely Earn Two To Three Times Prevailing Bank Rates Of Return

How Can You Safely & Securely Earn Two To Three Times Current Bank Rates

High Yielding Investments Now Available For The Small Investor

You've worked hard for your money, and you're a good saver too. So, why is it so hard to earn a decent return on your money, something safe and secure, but also a whole lot better than the paltry returns banks are currently paying?

Banks Are Just Middlemen

Banks are no dummies. They understand the relationship between risk and return – the higher the risk, the greater the return. And the opposite is also true, if the risk is low, then so is the return.

So, when banks promise to pay you a fixed rate on your money, they want to be really sure that they can deliver.

Keep in mind too, that they still need to make money. They are in business too. And the way they make money is to borrow from small investors like you at low rates and loan the money out to someone else at much higher rates.

The difference is their profit. So, in reality, the banks are basically just middlemen, borrowing from you at low interest rates and then loaning your money to someone else at higher rates.

The security you're offered in return depends on what type of bank investment you make. Some may be insured by the Federal Government, while others may be more risky.

As you can see from recent events however, the banks are really just in the business of borrowing low and selling (or in their case lending) high.

What If You Could Have the Same Type of Security But Earn Much Higher Rates?

Okay, so the banks are loaning your money out to someone else, and they don't like risk. How do they protect themselves from the possibility that the borrowers they loan your money to will not repay those loans?

The answer in many cases is that they obtain collateral for the loans they make. They take an interest in an asset that has a value greater than the loan they are making. In many cases, the best asset they can find is a borrower's home.

So, when someone comes into the bank to borrow money, the bank says, "No problem, we'll give you a loan as long as you have something we can sell to get our money back, just in case things don't work out and you can't pay us back."

This is what's known as a "secured loan," and you see it all the time. The bank takes a mortgage or puts a lien on someone's house and then makes a loan to them. If the loan is not paid back, the bank takes the house and sells it to get the bank's money back.

Sounds easy right? Well, actually it is. There are lots of people out there who are buying and selling real estate, and many of them would be more than happy to pay you a higher return than your bank is, in exchange for you lending them money.

They'll even give you a lien (in the form of a mortgage or deed of trust depending on your state's laws) on their house. That way, you are in the same position as the bank with respect to having something of value owned by the borrower that you have the right to sell in the event that they do not repay the loan that you made to them.

By doing this, you "cut out the middleman" and you get to earn the higher rate of return that the bank would, instead of the lower rate of return the bank pays to its investors.

In this way, you can "become the bank."

You Can Now Invest The Same Way Banks Do!

Once you understand this, you quickly realize that you can now invest the same way that the banks do. All you have to do is find someone who fits the following criteria:

1. They want to borrow money
2. They are willing to pay a high interest rate
3. They have property that is worth more than the amount they want to borrow, and
4. They are willing to give you a lien on the property to secure the loan

When you find someone who fits these four criteria, you have the chance to earn two to three times as much as you could if you invested your money in the bank.

Why Doesn’t Your Investment Advisor Tell You About This Opportunity?

Sadly, one of the main reasons you won’t usually hear about this opportunity from an investment advisor is that there are generally no commissions for them to earn from this type of transaction.

Many mutual funds, insurance, stock and investment companies pay investment advisors large commissions for getting their clients to invest in their investment products.

However, the average real estate investor isn’t a large Wall Street company, and they may also be prohibited by state or federal securities or other laws from paying any kind of commission without first securing certain licenses. They’re just hard working people, like you and me, and they want to borrow money to invest in real estate at a fair rate without having to build in a bunch of commissions.

This is great for you as a “private lender” (someone who invests in these types of transactions) because the investment doesn’t have to be as risky and doesn’t have to generate a much higher return that covers both your stated rate of return PLUS the commissions paid to get you into the deal in the first place.

In other words, you usually don’t hear about these deals, because there’s nothing in it for a middleman investment advisor to make money from telling you about them!

So, How Do You Find Private Lending Opportunities That Pay Above Average Returns?

Let's face it, there are lots of people who would like to borrow money from you. The challenge is finding deals that make sense, deals that are safe and secure and that give a good cushion of security to protect your investment.

One of the best ways to find these types of deals is to talk to real estate investors. Real estate investors are frequently looking for private lenders who will loan them funds at a rate that is two to three times what the bank is paying, and they will offer real estate to secure the loan.

You can usually find real estate investors who have private lending programs at local real estate groups, real estate investment clubs and real estate meet-ups.

For a sample private lending program description, call or write us. We would be happy to share the details of our program with you to help educate you in how this type of program works.

Choose Your Private Money Investments Wisely

Now, don't rush out and loan all of your investment money to just any real estate investor. You need to be sure that you have a cushion of equity (the amount a property is worth over and above what is owed on it) before you invest.

You need to be sure that if things don't work out with the deal, you can take the property securing your loan and sell it quickly to pay off the amount you loaned on it.

The worst thing that could happen would be for you to lose part or all of your investment by failing to check the value of the property to be sure your loan is a good one.

Use “Comps,” Broker Price Opinions or Appraisals To Check Value

When you decide to enter into a private lending program with a real estate investor, before you invest a penny, get the complete information package on the property you are being asked to loan money on.

This package should include the following:

- Copy of the deed to the property (so you know who owns it)
- Recent Title search (to be sure the deed is still accurate)
- Title insurance policy currently in effect (to insure against ownership challenges)
- Hazard insurance policy (to insure against fire and other casualty losses)
- Statement of Value (see below)
- Property inspection (if available)
- Repair Estimates (if repairs are needed)
- Investor’s plan for selling the property to pay you back

Having this information helps protect your investment and also ensures that you are dealing with a real estate investor who knows what they are doing and has a game plan.

If you can’t get this type of information, then you should look for a different real estate investor.

Why You Need A Statement Of Value

One of the most important things you can do to ensure that you are going to get paid back is to be sure that the property you are lending on is worth substantially more than the amount you are lending.

The Importance Of A Low Loan To Value Ratio

Typically, you want the property have at least 25% equity. Equity is the amount of money that you would get if the property was sold and all the other loans on it were paid.

The Loan To Value Ratio (or "LTV") is calculated by dividing the amount of the loans (other than yours) on the property against the real current value of the property if it were to be sold.

For example, if you find out that all the loans outstanding against a property total $75,000, and the property is worth $100,000, then the property would have a loan to value ratio of 75%.

You determine this by dividing $75,000 by $100,000, which equals .75 (or 75%).

The lower the LTV, the greater your security.

Again, you usually want the property to have at least a 25% cushion of equity for you to invest in it.

That will give you the safety of knowing that the property could decline 25% in overall value and you would still be able to sell it and recover all of the money you loaned on it.

Let's take a look at how this might play out in real life in a declining real estate market:

If you have a real estate investor who borrows $75,000 from you as a private money loan to purchase a single family residence that is worth $100,000 in today's market, you have an LTV of 75%.

You would required the borrower to execute a mortgage or deed of trust in your favor in the amount of $75,000, and you would record that mortgage or deed of trust with the county recorder for the county in which the home is located.

By doing this you have accomplished three important things: First, you have written evidence of the obligation the borrower has to you with respect to repayment of the money you loaned.

Second, you have the legal right as a result of the mortgage or deed of trust to sell the home the borrower purchased using the loan you made in the event that the borrower fails to repay the loan according to its terms.

Third, by recording the mortgage or deed of trust with the county recorder for the county in which the property is located, you have put the rest of the world on notice of your claim against the property with respect to the mortgage or deed of trust in the event of the borrower's default.

This last step is critical because if you fail to record the mortgage or deed of trust, then the law generally says that you have failed to put the world on notice of your rights, and anyone else who records their claim against the property before you do will have priority of repayment over your rights.

Now, assuming that over the next 12 months the value of all homes in the area in which the home securing your loan to the borrower falls by 25%, the home will only be worth $75,000 after one year.

In the event that the borrower defaults on the loan, you could exercise your right to sell the property to provide the funds to repay you and you would still be able to recover 100% of the amount that you loaned to the borrower.

If you had instead made a loan on a higher percentage of the original value of the home, let's say 80%, then you would not have been able to sell the home for enough to recover the full amount of your loan.

In our example, you would have had a home worth $100,000 at the time of the loan. You would have loaned 80% of the value or $80,000, and after 12 months the home would be worth $75,000. If you sold it at that time because the borrower was then in default, you would only receive $75,000 and you would incur a shortfall or loss on your loan of $5,000.

On the other hand, if you had loaned 70% of the value or $70,000, and after 12 months the home was worth $75,000 (just as in the paragraph above), if you sold it at that time because the borrower was in default, you would receive $70,000 from the sale of the home, and the original borrower would receive $5,000, and you would have received 100% of the amount of your original loan to the borrower.

In fact, in the last example, where we have a 70% Loan to Value Ratio (because the loan amount of $70,000 divided by the original value of the home at the time the loan was made of $100,000 = .7 or 70%), the value of the home could have declined an additional five percent, and you would still have received enough value from a sale to recover 100% of the money you originally loaned to the borrower.

As you can see, determining the true value of a property before you make any loan on it is a very important part of the private lending process. Just as banks require appraisals so that they can determine the current market value of a home before they make a loan on the home, you should take steps to assure yourself of the true current market value of the real estate that you loan money on to ensure that you really have the security you think you have before you make a private money loan.

Using the Statement of Value To Determine The LTV

Once you have decided on a maximum LTV, you just need to confirm the current market value of the property and you're all set to decide whether the property is a good loan or a bad loan risk.

There are three primary ways to determine the value, which include:

1. Comps
2. Broker Price Opinion ("BPO")
3. Appraisal

Comps

Comps is short for "comparables" and refers to an informal survey of what similar properties near to the property you are lending on have recently sold for.

The easiest way to get comps on a property is to use a free online service such as Zillow.com to get the values, but a more accurate way would be to check the MLS (Multiple Listing Service) to see what similar properties have recently sold for.

When checking comps, be sure to find properties near to the property you are thinking about investing in, that also have a similar number of bedrooms, bathrooms and other features.

Usually, you can get a list of comps for free just by asking a local real estate agent or broker familiar with the area.

Broker Price Opinion ("BPO")

More formal than comps but less formal than a full appraisal, the BPO is often used by banks that want to establish a quick value for a property they are taking back in a foreclosure action.

The BPO involves contracting with a licensed real estate broker familiar with the area the property is located in.

The broker drives by and examines the property, then checks comps in the area using MLS and possibly other resources, and then prepares a written opinion of the property's value.

Appraisal

The most accurate, but also most expensive option for determining value is to get a formal written appraisal from an accredited appraiser.

These appraisals are much more extensive, require a much closer examination of the property and consider many more factors than comps or a BPO in determining a property's value.

Most private lenders use either comps or a BPO to satisfy themselves as to the current market value of a property as opposed to going through the process of getting a formal appraisal, but you should do whatever you need to do to make yourself comfortable with knowing the true current value of the property you are considering making a private money loan on.

Whatever method you decide to use to determine a property's current market value at the time you make a private money loan, remember that it is completely fair to require the borrower to advanced the costs that you incur in determining that value.

If you are comfortable with a Broker's Price Opinion, then you would certainly be within reason to request that the prospective borrower pay the costs of getting that BPO. Similarly, if you decide that you need a full blown appraisal to be comfortable with the value of a property, then by all means, insist on having one and require the prospective borrower to pay the costs of it.

One advantage to having the borrower cover the costs of value determination in this way is that you should dramatically reduce the amount of borrowers who try to have you loan money where the true value is not sufficient to meet your loan to value criteria. If they know that they are going to have to spend their money to prove the value to you, they may think more carefully about assuring that value is really what they say it is.

Otherwise, they would know that when the appraisal or BPO that you required was complete, if the value was not there, then they would have simply wasted their money and still have no loan.

Should You Become a Private Money Lender?

Private lending is not for everyone, but if you're not earning the return you want on your investment dollars, you may decide that it is a good option for you.

Done correctly, private lending can double or triple bank rate returns, while still offering safety or principal. If you aren't currently satisfied with the returns your money is earning, feel free to contact us to learn more about how private lending works.

In the following chapters and pages of this book, we'll take a deeper look at the private lending process, what steps you should take to become a private lender and how to ensure that you protect yourself when making private money loans while enjoying the benefits private lending can provide to you.

The next chapter, Understanding Private Lending Terms & Tools will give you an overview of the nuts and bolts of the private lending trade, so that you have a better understanding of the types of documents and the specific lender friendly tools that are available to you as a private lender.

These are the tools that you will use in your private lending business to assure that your loans will have the greatest possible chance of 1) being successfully repaid, and 2) providing you enough security from the collateral (the property securing your private money loan) to ensure that you are able to recover 100% of the money you loan to any borrower, plus any related costs of collection and disposition of the property securing the loan.

In the next chapter we will also be reviewing the terminology used by private money lenders and borrowers with respect to private money mortgages and loans on real estate, so that you can gain a familiarity with the language of the private money world and know what you (and your more experienced borrowers) are talking about as you begin this business.

With that, let's move on now to give you a greater understanding of the terms and tools you will be dealing with as a private lender.

CHAPTER 2

Understanding Private Lending Terms & Tools

Understanding Private Lending Terms & Tools

In the last chapter, we provided an overview of the private money lending process and how it works to provide you above average rates of return on your money. In particular, we reviewed how private money lending takes out the middleman present in most traditional investments, the bank, and puts you in their place where you can earn two to three times the rate of return you would most likely be paid as a traditional certificate of deposit holder or with a money market account.

Now that you understand some of the most basic concepts of private money lending, let’s explore in this chapter some of the terms and tools that private lenders need to be familiar with to profit from this enormous opportunity and to protect themselves against the risk of losing the funds they invest as private money loans.

Mortgages & Deeds Of Trust

Mortgages (or in some states Deeds of Trust) are just the documents that secure real estate. They say that in the event that a loan on a piece of property is not paid according to its terms, the holder of the mortgage or deed of trust has the right to take ownership of the property and sell it to satisfy the amount of the loan, plus expenses of collection and foreclosure.

Investing in mortgages and deeds of trust as a private lender can be a very profitable business. You become the private lender when you are the person who is making the loan and receiving the security or collateral in the form of the right to take back the property if the loan is not repaid or goes in default.

The “mortgage” is simply the name of the document in which the borrower gives you the legal right to sell property that the borrower owns to repay the loan that you are making to that borrower in the event that the borrower does not perform on the loan as required by its terms.

Said differently, the mortgage document is the document that you can take into court and show the judge that will permit the judge to agree that you can sell the property and get repaid the then outstanding amount of the loan you made.

The borrower who borrows money for you and gives you the mortgage on his or her property is usually referred to in the mortgage document as either the “Mortgagor” or the “Grantor” of the mortgage. And, you as the private money lender are usually referred to as the “Mortgagee” or “Grantee” of the mortgage.

A sample mortgage is provided in the Appendices to this book.

Some states don’t call the document we have just been discussing a mortgage. Instead they call it a “Deed of Trust.” You can check with an attorney or title company in your state to find out which of these documents is used in your state, but the basic premises that we just discussed apply equally to both mortgages and deeds of trust.

Characteristics Of Mortgages & Deeds Of Trust

Mortgages and Deeds of Trust are secured by real estate, as discussed above. In the event of default, the holder of the mortgage, called the Grantee or Mortgagee by lawyers has the right to take ownership of the property and sell or otherwise dispose of it to satisfy the amount of the loan, plus the costs of foreclosure and collection.

Mortgages and Deeds of Trust usually have a stated interest amount which may be fixed or may vary based on some index or other method. "First Mortgage" discussed in the paragraph below, usually carry a lower interest rate than second mortgages and are generally preferred by private money lenders because they are considered to be the safest type of mortgage that you can lend money on.

First mortgages are in a priority position to all other mortgages. In the event that the loan goes into default, the first mortgage holder receives all of the proceeds from the disposition of the property before any other mortgage holders.

Second, Third and More Subordinate mortgages receive any funds that remain after the first mortgage is satisfied in the event of default. This makes second, third and more junior mortgages significantly more risk laden than first mortgages, and for that reason that usually bear increasingly higher rates of interest to compensate their holders for assuming that risk.

Why Borrowers Prefer Private Money Mortgages

Borrowers, especially in today's economy, prefer private money mortgages to traditional conventional bank mortgages because private lenders usually have less onerous credit and lending requirements and policies. In fact, in light of the Global Financial Crisis that occurred as a result of the sub-prime lending practices of many aggressive banks and mortgage lenders, the current borrower requirements to obtain loans have become so onerous that today even many highly qualified prospective borrowers with good credit and high down payments are unable to qualify to receive traditional bank financing.

This creates a wonderful opportunity for people who have retirement account, pension fund or other investment money to lend. In today's environment, it is possible for investors to find highly qualified borrowers to loan private money to at rates significantly higher than they could earn in traditional bank deposits, but also that carry much more security than investments in the volatile and unpredictable stock market or commodities markets.

Differences Between Bank And Private Lender Concerns And Objectives

Banks are concerned with many factors that may not be as important to private money lenders, and so long as the private money lender makes the decision to extend credit to the borrower on the basis of believing that they can liquidate the property to more than recover the amount of credit they extended, they are generally happy to make the loan.

If fact, as a savvy private money lender, you want to be sure that you fully believe that if you had to take the property back, you could sell it quickly and fully recover the amount of the loan you made to the borrower. If you do not believe this, then you should not make the loan in the first place.

The borrower's credit and credit history generally do not matter as much to a private money lender because they are looking to the property to satisfy their loan and actually would not mind owning the property if it did have to be foreclosed upon.

Ask This Critical Question BEFORE You Make A Private Money Loan

In fact, when we are making private money loans, we do not particularly care what the credit history of the borrower is. We simply ask ourselves "Would I pay [insert the amount of the loan you are being asked to make here] for this property?"

This is a great question to ask because if you are not willing to pay the amount of the loan you are being asked to make for the property, then how likely do you think it is that someone else who you may be asking to pay that amount for the property in the future would make?

If your answer to this question is "no" then there is no way that you should be making this loan.

An Even Better Question

Even more importantly ask yourself this, "If I bought this property today for a purchase price equal to the amount of the loan I am being asked to make, could I sell if for 20% more than that amount in the next 30 days?

Once again, if the answer is "no" then you should not make the loan. Here's why:

First of all, you should look at every private money loan you make as if you are going to have to take the property back and sell it to recover the amount of money you are lending on the property.

If you are doing your research correctly and getting good, real current market values on the properties you are lending on, you will very likely not ever have to take a property back, but you have to assume that you are going to have to take back every property that you lend money on, because you never know when it is going to happen, even with a highly qualified borrower.

Thinking this way is simply good business. You are planning for the worst possible case, and you need to know that if that worst possible case occurs, you are in a position to get back all of the money you loaned, as well as the collection, holding and selling costs of the property that you have to sell to get your money back.

Estimated Selling Costs – A Rule Of Thumb

Most traditional lenders say that you should figure selling costs at about 10% of the value of the property. So, if you took back a property that had a value of $100,000, you should figure that your selling costs on that property would be about $10,000 (10% of $100,000 = $10,000).

If you loaned 75% on that property, then your loan investment would be $75,000. Add the assumed selling expense we just calculated to that, and you find that you need to be able to get at least $85,000 from the sale of the property to recover your original investment and the costs you would incur in selling the property to get your investment back.

In this case, you would be more than covered, because the amount that you loaned ($75,000) and the estimated selling and collections costs

($10,000) exceed the true market value of the property by $15,000. ($100,000 - $75,000 - $10,000 = $15,000). So, in this example you have a $15,000 “cushion” of equity in the home.

This equity cushion is important to you as a private money lender because it represents the dollar amount that the value of the home can decline by before you will be unable to recover your full investment in the private money mortgage loan you make on the property.

In our example, the value of the property could decline by about $15,000 or 15% and you would still be able to sell it, pay the estimated expenses of the sale and recover all of the money you loaned on the property. However, if the value of the property fell by more than 15%, say 20% or 25%, then you would likely suffer a loss once you factor in the costs of sale.

Note that this is the case even though you would still have a high enough loan to value ratio to appear to provide you 100% security.

Another Example

Let’s look at one more example just to be sure that you understand this. Let’s say that in our previous example of a $100,000 property that you loaned $75,000 (a 75% Loan To Value Ratio) that the value of the property declined by 25%. In that case, you could sell the property for $75,000 and still recover all of the money you loaned on it, right?

Well, not quite, because even though the proceeds from the sale of the property would be $75,000, and your loan was for $75,000, there will be costs of sale associated with disposing of the property. For example, marketing costs, real estate agent costs, holding costs for power, water and the like during the marketing and sales process, property taxes, association dues, etc.

Those costs can add up over a few months of holding a property for sale, and usually there will be some holding costs that will likely have accrued during the time prior to your taking the property back as well. That is, if you are in a position of having to take a property back, then the chances are pretty good that the borrower is going to be late on a lot of other expenses in addition to the loan you made them.

That means that you are going to have to get the property in shape to sell, cover those outstanding expenses or at least some of them, and pay the actual selling expenses. Additional selling expenses may include closing costs, title insurance costs, hazard insurance cost, homeowner warranties, repairs, etc.

So, in our example, if those costs ended up being about 10% of the selling price of $100,000, that means you would have an extra $10,000 that had to be deducted from the sales price before you could recover your loan.

Remember also, we said that the market price of the property could drop by 15%, and that was our cushion of equity. In this case, that would leave us with a market value of $85,000. Now, deduct your selling costs of 10%, which would be $8,500 (10% of $85,000 = $8,500).

That means that you would net $76,500 from the sale of the property ($85,000 market value - $8,500 selling costs = $76,500). As you can see, you would still be okay if the market value dropped by 15%, but if it dropped by 25% you would incur a loss.

Just keep these “hidden” or “non-apparent” costs in mind when you are making private money loans. You don’t want to get any unpleasant surprises if you do have to take a property back, and you need to ALWAYS assume that you are going to be owning and liquidating any property that you are making a private money loan on.

This is the safest and surest way to ensure that you never lose money on a private money loan.

Things Private Money Lenders Should Consider When Making A Private Money Loan

The following are the major factors that you as a private money lender should consider prior to making a loan to a prospective borrower:

Does the borrower have the ability to service the loan and make payments based on current income?

Are there any events that the borrower knows of right now that would negatively or positively impact the borrower’s income?

Will the loan be made with recourse or will it be non-recourse? You will be able to look to the personal assets of the borrower if the loan can be made with recourse, but only to the property if the loan is made without recourse.

Will the borrower be an individual or an entity that may have limited liability? If the borrower is an individual and the loan is made “with recourse” (see below), then you will be able to look to the borrower’s personal assets to obtain repayment in the event of default. However, even if the loan is made “with recourse” you may not be able to look to the borrowers personal assets for repayment if the borrower uses a limited liability entity such as a corporation, limited liability company or limited liability partnership to borrow the money. If you are not comfortable that the property securing your loan is sufficient to cover the amount of the loan at liquidation in the event of default, then you should consider asking your borrower for a personal guaranty.

Will the borrower be the sole obligor on the loan, or will the private money lender be able to look to someone else to repay the loan in the event the borrower cannot? That is, should you require a co-signer on the loan?

What is the LTV or Loan to Value Ratio Of the Property. You typically want a loan to value ratio of around 70% or less to ensure that you are protected in the event that the property value drops or there is a downward adjustment in the real estate market in the area in which the property securing the loan is located. Be sure to include the amount of all senior mortgages in making your calculation of loan to value ratio.

Would you be willing to pay the amount that you are being asked to loan for the property? If not, then you should not make the loan, because you need to always make your lending decision with the assumption that you are going to end up with the property. If you don’t think it’s a good investment at the amount of the loan you are making, then you shouldn’t make the investment in extending the loan to the borrower on that property.

How much could the true market value of the property that you are being asked to make the loan on fall before you would lose money on it. That is, what’s your equity cushion on the loan? If it is less than 10%, you should not make the loan.

How Can You Establish The Value Of The Property You Are Being Asked To Make The Loan On?

There are numerous ways to establish the value of the property that you're being asked to make a private money loan on. Probably the most clear and valuable is a formal appraisal, but most private lenders do not rely on appraisals when making a decision whether or not to issue a private money mortgage.

Instead, they rely on real estate brokers, comparable values of properties gleaned from recent property sales data maintained by the Multiple Listing Service and certain online real estate websites and information at the County Assessor's or Appraiser's Office.

Some of the best sources for determining value that are available online include www.Zillow.com and www.netronline.com.

Another informal method of determining property value is to retain a real estate broker to give you a BPO, or Broker Price Opinion on the property that you are considering making a loan on. You can usually get a BPO for substantially less cost than a formal appraisal and it will often be just as good for the purposes of thumb nailing value when trying to decide value in making a private money loan.

Where Can I Find Real Estate Investors Who Will Borrow From Me At Higher Interest Rates?

There is no shortage of qualified people who are looking for money from private lenders right now to make private money mortgage loans. We frequently borrow from private money lenders for our own real estate investing business, and you can also find potential borrowers through real estate investment clubs, real estate investment associations, real estate brokers and agents, mortgage brokers, your local bank and in the newspaper.

Another great source of finding private money mortgage investment deals is to look in the paper under “mortgages wanted” to visit websites like the www.GoBigNetwork.com or other “angel investor” sites and to begin networking and making friends with other private money mortgage lenders.

Title Insurance

Title insurance is an insurance policy that insures you against the risk that the person who is on the deed to the property and listed as the legal owner is not in fact the person who owns the property and has the right to secure your loan with it. Obviously, it is critical that any property that you are considering loaning money on is owned by the person to whom you are lending the money and who is offering you that property as security for your loan!

So, you need to require any private mortgage borrower that you are doing business with to provide you with a current copy of a valid title insurance policy and you should independently verify that the policy is in fact current and in place on the property BEFORE you make any loan to your prospective borrower.

Carefully read the title policy when it is provided to you so that you fully understand its terms and any exclusions that may impair your security with respect to making the loan on that particular property.

Also, be sure that the policy covers YOU! Your name should appear as the Mortgagee on the title policy - that means that you are the person who is making the loan and that the title company is aware of you and you are a covered party under the title policy. Do not let your lender talk you out of this! Also, be sure that you are clear with your borrower that the costs of the title insurance policy are to be borne by the borrower and not by you. After all, you are the one making the loan and the borrower needs to be sure that you are secured in your investment.

Hazard Insurance

In addition to title insurance, you also need to be certain that your investment in the property in the form of your private money loan is protected in the event that the property suffers some sort of damage or destruction during the period of the loan.

Therefore, you should also require your private money borrower to maintain hazard insurance on the property protecting against loss from fire, theft and similar circumstances.

Remember, if something does happen that causes your borrower to default, you want to be sure that the value of the property is sufficient to make you whole on your loan.

If something happens to the borrower and the property suffers damage, then without hazard insurance you face the risk of losing some or all of the amount of your loan. This is easily protected against by requiring adequate Hazard Insurance and making yourself be named as an “additional insured” on the policy.

Recordation

Recordation is a fancy way of saying "recording" and recording is important because it puts the rest of the world on notice of your claims against the property. Recording also grants you seniority and certain other rights over others who may have or gain a claim to the property that is securing your private money mortgage.

So, insist also that your loan be recorded with the county recorder for the county in which the property is located. Usually the title company will handle this for you and when they are done, they will provide you with a certified copy of the documents that were recorded stamped with the seal of the county recorder's office.

Maintaining Private Money Loan Records

You should keep all of your documents are records relating to the private money mortgage loans you make in a safe place. A fireproof and waterproof safe is probably the best bet if you plan to maintain the original records at your home, and a bank safe deposit box is not a bad option either. In that case, you may want to make copies of your documents and store the originals in the safe deposit box and the copies at your home in your personal office files.

The documents that you should have are the Promissory Note, the Mortgage or Deed of Trust, copies of Title and Hazard Insurance policies, and any Assignment Agreements, Satisfaction of Mortgage or Deed of Trust documents and, if applicable, your Servicing Agreement with the mortgage servicing company.

Loan Servicing

You may or may not want to take the trouble to service your own loans. Servicing simply means collecting the funds that are due from your borrower each and every month that they are due. Servicing periods may be different depending on the type and terms of the loan that you made.

For example, you may have been willing to allow your borrower to pay you all of your interest and principal at the end of the loan in exchange for a higher rate of return. In that event, you don't really need a loan servicing company, because you will only be receiving one payment. It is still a good idea to insist that the borrower retain a third party accountant or bookkeeping company to prepare monthly statements of account for you showing interest that has accrued and is owing to you.

This has the dual advantage of ensuring continued contact with the borrower so that you will know if something happens and you stop receiving your monthly statements and reminding them monthly that they are accruing a debt to you. The danger of making this sort of agreement is that you risk losing equity in your property each month as interest continues to grow and the security for your original loan is reduced by the amount.

The advantage of retaining a service company or at least an accountant or bookkeeper to track or handle your loan servicing is that they can do it as part of their jobs and you do not have to bother and waste your time keeping track of all your individual private money loans as your business continues to grow and you issue more and more loans. Your time is better spent doing what you love!

Seasoning

Seasoning simply refers to how long a mortgage has been outstanding and whether it is currently in good standing. A well seasoned mortgage will be one that has been outstanding for at least twelve months and on which the borrower has made timely payments in accordance with the terms of the mortgage during the full time it has been outstanding.

New mortgages are not considered to have any “seasoning.”

Conclusion

Use the terms and tools that have been provided in this chapter to help you in your private money lending business. In the next chapter, we will discuss how to get high returns safely, using private money loans secured by real estate with low loan to value ratios.

Chapter 3

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

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 an 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 is 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.

CHAPTER 4

How To Start Your Own Private Money Lending Program

How To Start Your Own Private Money Program

In the first two chapters of this book we took a high level view and learned generally about how private money lending works. Then, in the last chapter we reviewed the terminology used in the private money lending and private money mortgage world.

In this chapter we'll focus more on what it takes to become a private money lender and how you can get higher returns safely using private money loans that are secured by real estate with low loan to value ratios. Specifically, we'll review the Seven Steps To Private Lending Success, and then we'll spend the next seven chapters going into detail on each of the seven steps.

Becoming A Private Money Lender

If you're not earning the return you want on your investment dollars, your money isn't working hard enough for you.

Private Money Lending programs can help to fill the gap between investments that are secure but pay relatively low returns and those that pay significantly higher returns.

These higher returns are possible through private money lending secured by real estate investments that others find and that you basically finance. With private lending, you are in essence acting as your own private bank, only without all of the hassles and headaches of bank regulation or the customer service nightmares of trying to continually satisfy the demands of your depositors.

As you probably remember from the introduction to this book, we first learned about private money lending when someone who was an experienced real estate investor turned private money lender showed us the way and explained how the private money mortgage game works.

We were able to quickly grasp the benefits of private money mortgage finance because we already knew the real estate investing business from the other side of the fence. We had been using private lenders to finance our own deals for years, but it had never occurred to us to earn the same high returns that they were earning ourselves by using our extra funds to loan to other real estate investors at high interest rates.

Once we tried it, we were hooked. We had the experience because we already knew where to find a group of real estate investors. Now, we are still real estate investors at heart, and we are dedicated to providing people like you with information about innovative programs that give you more control over your investments while safely making them grow beyond current rates.

Filling A Void Of Much Needed Information In An Important Marketplace

That’s why we wrote this book in the first place, to guide others just like yourself through the process of private money mortgage lending. It’s funny because even though there are literally hundreds of books and guides and training programs on real estate investing, when we went to look for a comprehensive guide to private money lending that we could refer our investors to, we couldn’t find a single one.

There was a lack of information about the private money lending process in the market, and so we figured why not just go ahead and create one. That way, we could share the benefit of our experience with others and let them know that there is a wonderful way to earn substantially more money on your investments than traditional banks offer.

All you have to do is have someone to show you the way, and to show you the things that you need to look out for to be sure that your money is safe and secured.

How does a Private Money Lending program work? It starts with taking control of your investments, IRA's and pensions to build wealth.

By now you should know what a Private Loan or Private Money Mortgage is. It's a loan made from a private party who is not a bank or financial institution to a real estate investor where the loan that is being made is secured by real estate.

Private Money Loan Investors are given a first or second mortgage that secures their legal interest in the property thus securing their investment.

Whether you decide to be a private money lender who lends through first mortgages or second mortgages will depend on your risk tolerance and your desire to earn a certain rate of return.

For most people just learning about private money lending, we recommend that you limit your private money lending activities exclusively to first mortgage loans. Those loans are the most safe and secured because as we discussed in the last chapter, you are the first to get paid in the event that there is a default by your borrower.

While second mortgages and even more junior mortgages offer the lure of substantially higher returns, usually ten percent to twelve percent or more, they carry an incredible amount of risk in a declining real estate market like many areas of the United States face today.

In fact, thousands of second mortgage investors have lost their entire investments when real property areas declined and their borrowers simply could not continue to service the loans and defaulted.

Unless you have a great deal of experience, are operating in a real estate market characterized by increasing prices that appear able to continue their upward trend during the full term of the loan and you have a borrower with substantial additional assets who can cover the loan through those other assets in the event of default, you may want to avoid the siren song of the higher second mortgage lending loan market.

The Importance Of Loan-To-Value In The Underwriting Process

When considering Private Money lending as a lender, be sure to know what your Loan-To-Value ("LTV") ratio is. We talked about this earlier in Chapter 2, when we were reviewing the terms and tools of the private money lending business, but the concepts and ideas that we touched on there are so important to ensuring the security of your loans, it makes sense to go over them again here.

You need to master an understanding of loan to value ratios or you are not going to be able to know enough about your borrowers and the deals and prospective lending opportunities that they bring you to make an informed decision about which opportunities to actually make loans on and which ones to pass.

The Underwriting Process

The security of your private money loans depends on the quality of the underlying deals that you are lending on, so you need to master the loan to value understanding to help you in your underwriting process.

“Underwriting” is what banks generally call the process of reviewing a particular lending opportunity to make a determination on whether it merits making a loan on or not. Just as you are acting in the role of the bank by lending direct to borrowers instead of letting the bank pay you low returns while it turns around and makes loans to investors needing capital for deals, you will also have to act in the role of the bank’s underwriting department in making good lending decisions and identifying good lending candidates.

Banks typically fail to adequately protect themselves and have relatively high LTV ratios for their loans, maybe less now than before the mortgage meltdown, but traditionally anyway.

In fact, one of the major reasons that there even was a mortgage meltdown and a subsequent mortgage bailout was because banks became so lax in their underwriting policies and lending requirements and made loans on deals with such high leverage and to borrowers who had such low asset reserves.

These lower quality loans are frequently referred to in the mortgage lending and banking industries as “sub-prime” loans. Interestingly enough, the term sub-prime basically means not really up to snuff, not up to the normal quality of loans that they desire to make.

Analyze Prospective Private Money Mortgage Borrowers & Their Deals To Avoid High-Rick Sub-Prime Loans

So, it seems that it should not be terribly surprising to find that these loans have substantially higher default rates than loans that do meet the normal lending criteria. Your goal is to make no sub-prime loans, to evaluate each and every loan you make as if you are going to have to take the property back and become its owner, finish up the plan that the investor/borrower to whom you made the loan on the property was going to make and then liquidate the property and recover the full amount of your loan, plus the costs of taking the property back, getting it in shape to sell and marketing and selling it.

Remember that we determined that a good rule of thumb for the collection, holding, marketing and selling costs for any property that you have to take back is about ten percent of the sales price. So, you start by first deducting that ten percent from the amount you believe the property is worth in any liquidation valuation model.

We suggest that private lenders seek relatively low LTV ratios to increase security of the loan. Our standard LTV ratios are typically under 75% of the value of the property securing the loan and frequently as low as 60% to 70%. This means additional security on the investment.

The problem with loan to value ratios that are higher than 75% is that they simply do not allow enough room for a margin of error in the initial valuation or for declines in market values and the selling costs required to take a property back and liquidate it in the event of default.

These are issues that cannot be ignored because sooner or later, no matter how good your loan evaluating (or underwriting) process is, you are going to have a borrower who does not perform on their loan in accordance with the terms that you agreed to loan them money, and you are going to take back a property and become the owner and have to go through the process of liquidating it.

When that inevitable day comes, you want to be in a position of sitting with a high quality property that will allow you to get your investment in making the private money loan back in full!

Example of LTV Ratios

Okay, so now you completely understand the importance of knowing how loan to value ratios work. Let’s look at a few sample cases and learn from them just to be sure you’ve got this part of the process down, and then we’ll move on to an overview of the seven steps to private money lending success.

Let’s say that a property is valued at $100,000, a Private Lender will never have to loan more than $75,000 dollars on the property. That's a 75% loan-to-value ratio.

This is obviously a much safer approach from that taken by conventional lenders. These banks get into trouble because they make loans at an 85%, 90%, or even 100% loan-to-value ratio leaving them no equity for transfer costs, if they are ever forced into a position where they have to take back the collateral property.

Be A Smart Private Money Lender

As a private money lender, you want to never lend more than 75% LTV. It is in the private money lender's best interest to minimize risk and maximize return and this is why a loan should never be made without a 25% safety net. Don't violate this rule, because the security of your investment capital is at stake.

Seven Steps To Private Lending Profits

Alright, now that we've beaten the "be sure to have the right LTV horse" to death, let's take a look at how you can go about getting into Private Money Lending in earnest. We have identified seven distinct steps that any private money lender should take to ensure the greatest chance of success in making private loans to real estate investors.

They include:

- **Step #1** – Create Your Private Lending Program
- **Step #2** – Build Your Team
- **Step #3** – Get Your Documentation In Order
- **Step #4** – Find Borrowers
- **Step #5** – Analyze Deals & Complete The Underwriting Process
- **Step #6** – Complete Your Due Diligence

- **Step #7** – Fund Your Deals & Start Making Profits

In the next seven chapters, we'll cover each of these steps in greater depth. When we're done, you will have a complete plan for becoming a private money lender and enjoying the higher returns that private lending can bring to your investment portfolio.

Conclusion

As you can see, private money lending has the potential to be profitable and safe if it is done carefully and correctly. Be sure that you maintain the correct LTV when you loan money secured by real estate to ensure that the value is there to cover the return of your investment in the event of default.

With that, let's dive into the seven steps to private lending success, beginning with creating your private lending program.

CHAPTER 5

Creating Your Private Lending Program

Step #1

Creating Your Private Lending Program

The first step to private money lending success is to create a standardized program for determining how you will identify and evaluate potential deals to lend money on and on what terms you will go about funding them. That's what we'll cover in this chapter. When you're done, you'll know exactly what your program needs to have to give you the best chance of succeeding.

Why Create A "Program" In the First Place?

Creating a program that is your "standard" program has many advantages, including:

- Helps clarify your own goals in advance so you can stay on track and stay focused.
- Builds investor confidence by providing your private money borrowers with written terms of what their investment, role in the process, interest or return on investment will be.
- Builds credibility by creating an atmosphere of professionalism your borrowers will respect and hopefully give in return.
- Reduces private money borrower negotiation by presenting your "standard" program that you use with all borrowers.

- Eliminates confusion about the terms of the loan at the beginning of your relationship with your borrower.
- Reduces the likelihood of litigation after the loan is made by presenting all major terms of the loan to your borrower right up front.
- Makes it easier for borrowers to send you friends, family and associates by having a "package" they can show.
- Increases borrower compliance with the terms of the loans you make to them by providing them with a clear description of what they need to do and when they need to do it, as well as the consequences of non-compliance and default.
- Creates the right expectations of how the relationship will work, who will do what and what the overall "plan" is.

Clarify Your Goals

One of the biggest challenges faced by anyone making private money loans is clearly stating what the money that they are lending to their borrowers will be used for.

Before you make any loans to real estate investors who want to borrow money from you, you need to be clear on what they will be doing with your money after you lend it to them.

So, let's get started by clarifying that as the first step to creating your program:

I. What <u>type</u> of property you will be lending on?

   a. Residential:

      i. Single Family

ii. 1 – 4 Unit Properties

iii. Condominiums

iv. Development

b. Commercial:

i. Multi-family

ii. Apartment

iii. Condominiums

iv. Mini-Storage

v. Office and Industrial

vi. Strip Centers

vii. Development

c. Do <u>NOT</u> allow your private money borrowers to borrow funds from you for their personal residence.

II. Explain to your prospective borrowers the experience you or your team has in making private money loans for that type of property:

a. List of representative private money loans that you have made, and

b. List of any references or professional affiliations

III. What is the amount of the loan or the range of loan amounts that you are willing to make to your borrowers?

a. How much money do you want to make available to your borrowers?

b. Are you going to require a minimum loan amount to work with someone?

   i. Will it be a minimum per deal, or

   ii. Will it be a minimum amount available to loan in the form of a credit line? We suggest that you require a minimum amount for your borrowers of no less than $10,000.

   iii. Remember, borrowers who only seek a very limited amount to borrow are frequently the most challenging to deal with in terms of:

      1. Time spent “baby sitting”

      2. Dissatisfaction with the loan, its terms or return on investment from the deal that they are borrowing for

      3. Unanticipated challenges, shortfalls or other problems that may arise with respect to the loan they are requesting, and

      4. Potential for litigation

   iv. Clearly state how much the loan will be for and what the proceeds will be used for

   v. Do NOT make a loan to someone who is on their last dollar. They will almost always find a way to justify ripping you off because of their own personal desperation.

IV. What will the loan be used for?

a. Know in advance of agreeing to fund a borrower's loan, exactly what their plans are for the funds.

b. Examples, include:

- **i.** Acquisition funds to pay all or part of the purchase price to the seller
- **ii.** Debt retirement or reduction funds to pay all or part of the existing debt on the property
- **iii.** Rehab costs to make the property marketable, including:
    1. Repairs
    2. Remodeling
    3. Bringing up to current code
- **iv.** Costs of holding the property
    1. Debt payments
    2. Taxes and recurring fees
    3. Property maintenance
    4. Home owner's and related association fees
- **v.** Costs of doing business – will the borrower pay themselves any fees from your funds loaned to them for:
    1. Management services for services they render with respect to the property or the investment

2. To recover their overhead costs – the general and administrative expenses of their business operations

3. To recover costs and fees advanced with respect to the property

4. We usually do not lend to borrowers who plan to use the funds for overhead, as it deteriorates our own margin of safety by increasing the loan to value ratio.

vi. Costs related to generating income from the property:

1. Marketing expenses incurred in generating investors or buyers to sell the property to as part of your borrower's exit strategy to cash out of the property.

2. Marketing expenses incurred in finding tenants to occupy a property to offset holding costs or as part of your borrower's buy and hold strategy.

vii. Selling Costs - costs that your borrower will incur related to cashing out of the property at the time of sale (in addition to marketing costs referred to above)

1. Realtor or other selling agent costs

2. Escrow

3. Insurance

a. Title

b. Hazard

c. General Liability

4. Credits to buyer

5. Legal

V. What Is Your Borrower's Exit Strategy?

a. Is your borrower purchasing the property with the intent to flip it?

  i. If so, how long do they plan to hold it?

  ii. On what terms do they plan to flip it?

    1. Target selling price

    2. Expected, but not guaranteed, return on investment

b. Are they purchasing the property with the intent to hold it?

  i. If so, do they plan to hold for a fixed period of time or indefinitely?

  ii. How will they generate income from the property during the holding period?

VI. Is the Property Identified or Will Your Borrower Identify It In The Future?

a. If your borrower has already identified the property – then provide be sure that they provide you with as much information about the property as they can.

b. If they have not yet identified the property – then do not accept any investor funds until they do.

VII. Is your borrowers borrowing money or are they seeking an "equity" investor

a. Borrowing – If they are borrowing, then you should state the terms on which you will be making the loan to them, including:

- **i.** How Much?
- **ii.** How Long?
  - **1.** Can be a specified term, or
  - **2.** Until a certain event occurs (e.g. the property is sold)
  - **3.** Always good to include
    - **a.** A "sunset" provision – date certain for termination of the loan
    - **b.** Method for extending the loan in case your borrower gets in trouble (can be an excellent source of additional fees and return on investment for you).
- **iii.** What happens in the event your borrower needs the money longer?
  - **1.** Pay for extension
  - **2.** Penalty for not paying timely
- **iv.** Will it be a "recourse" or "non-recourse" loan?
  - **1.** Recourse loans – a recourse loan is one where your borrower is personally liable for the loan, even if the investment loses money.

a. Recourse loans carry much more risk for the borrower and much less for the lender, because the borrower is personally liable for the full amount of the loan, plus interest and expenses if things don't go as they planned.

b. Recourse loans frequently carry a "personal guarantee" or "PG" in industry jargon, which specifically states that your borrower is personally liable for the loan.

c. Depending on the circumstances, you may wish to provide a personal guarantee or "recourse" loan if you are the lender.

d. If your borrower does agree to have a recourse loan be sure to consider the following: be aware that when the debtor borrowing entity is a limited liability company (LLC), limited liability partnership (LLP) or corporation, the entity will be liable, but unless you also require a personal guarantee, your borrower will not be personally liable for the loan. This means that the entity that is liable on the recourse loan is only valuable to you if it has additional assets beyond the property itself to cover any shortfall should you take back the property securing the loan and sell it but fail to completely recover the funds you loaned in the first place.

2. Non-recourse loans – a non-recourse loan is one where your borrower is NOT personally liable for the loan, even if the investment loses money and the loan cannot be repaid.

    a. Non-recourse loans carry much greater risk for you than recourse loans because your borrower is not personally liable for the loan, interest or expenses if things do not go as planned.

    b. Your program should only include recourse loans if at all possible. Of course, your borrowers are going to argue for non-recourse loans and your ability to require recourse will depend on what other private lenders in your area are offering. A general rule is that there is "no harm in asking!"

b. Equity Partner – If you are looking to be an investor who can share the risk and also share in the profits of the deal, then you are looking to be an equity investor. Equity investors put money in the deal and participate with the real estate investor who found the deal (this person is also frequently called the "sweat equity partner") in the profits of the deal.

  i. What's the split?

    1. Does not have to be 50/50

    2. Can include a "pref" or "preference" so that you as the "money" in the deal receive a percentage return on your investment <u>before</u> profits are split.

3. What happens if there is a loss?

ii. What are the roles of the parties?

1. Will you be able to participate in major decisions with your "sweat equity" partner?

a. If so, the transaction may qualify for exemptions from the securities laws (see your attorney to be sure).

b. Usually, to qualify, you as the "money" investor must "actively" and "materially" participate in the deal.

2. Will the investment be passive with no participation

a. Can sometimes be less preferable to "active" participation because you do <u>NOT</u> call all the shots and don't have the right to get anyone's consent to major decisions.

b. Usually requires compliance with one or more state and federal securities laws (see your attorney to be sure).

VIII. How will you receive a return on your investment?

a. Will you receive monthly payments from your borrower?

i. What you call the monthly payments varies depending on whether you are an investor who is acting as a lender or acting as an equity investor.

1. Borrowers who are borrower money from you for their deals will pay you “interest” payments on the money you loan them.

2. Borrowers who are participating with you as equity investors will pay you “dividends” or “distributions” depending on the types of entities involved in the transaction.

3. Check with your attorney, accountant or tax preparer to be sure you are characterizing the payments correctly, and to determine the tax consequences of structuring the deal in one way or another.

ii. Advantages:

1. You may be happier receiving monthly cash returns on your investments

2. By “receiving as you go” your borrower does not have a large lump sum cash outlay at the end of the deal, which can help keep them from spending the monthly cash flow from the investments and not having enough to pay you your loan or interest you have earned at the end of the deal.

iii. Disadvantages:

1. Your borrower will lose the cash flow from the investment (if any) or have to allow for additional funds to pay you back each month, which can take away from cash needed for other deals they have, but for you, this has the advantage of being

a logical choice to be approached for additional deals, or to receive additional fees for extensions or credit line or loan increases.

2. Because of the monthly payment requirement, your borrower will lose the flexibility of having a looser time schedule for repayment, which is a positive for you because the tighter the terms for repaying, the less likely you are to lose your investment, and the better you will be able to see a problem coming if one does arise. By having regular payments required of your borrower, you will know sooner if they get into trouble and will have a problem repaying the loan. In other words, if your borrower is counting on income from the investment to assist in making monthly payments and for some reason things don't go as they planned, they may find themselves in a cash crunch as a result of unanticipated cash flow delays, and those delays could result in your borrower missing one or more payments and becoming in default on the loan.

IX. Will you invoice your borrower through monthly statements for interest or other payments due?

- **a.** Especially a good way to keep your borrowers on track for payments and due dates.
- **b.** If you agree to defer payments, you should still send monthly invoices, only showing the amount of interest accrued and due to you on the loan. Be sure to remember if you agree to defer interest that even though you are accruing that interest and issuing monthly invoices, your tax

preparer should not report in a way that causes you to pay taxes on the as yet unreceived interest income (unless you are on an accrual basis). Consult with your accountant or tax preparer to be sure.

c. Is a great way of keeping track of what your borrower is incurring as a cost of holding the property each month and the amount that you are owed, so that your borrower doesn't give you any unpleasant surprises at the end of the deal.

d. Have your monthly invoices prepared by a third party.

- **i.** Maintains appearance of professionalism on your part.
- **ii.** Adds credibility
- **iii.** Outsources clerical work you should not be doing in the first place so you can focus on more important income generating activities.
- **iv.** Use a bookkeeper to do this. You do not need to incur the expense of a Certified Public Accountant unless you are a public company or are required to provide "audited" financial statements.

X. What Returns Will Your Program Provide To You

a. The amount of return you will require is one of the most important components of your private lending program.

- **i.** If you require too high a return, then your borrower will not make enough of a profit on the investment to make it worth their time and work spent on the project.

ii. If you require too low a return, then you will not earn a high enough return to compensate you for the risk of making the loan and earning the higher returns that caused you to get into the private lending business in the first place.

iii. The ideal program balances these concerns.

b. Returns vary based on risk.

i. If your borrower's project or proposed deal carries a lot of risk, such as land speculation, development or similar projects, then you should consider requiring a higher return from your borrower to compensate you for that above average risk.

ii. If your borrower's project or proposed investment carries lower risk, such as a multi-family property with high current and historical occupancy and a high percentage of renters who are paying on time or a self-storage property with a history of high occupancy and high percentage of renters paying on time, then you may be justified in accepting a lower rate of interest or profit sharing percentage from your borrower because the loan or investment carries a lower than average risk.

iii. Average Returns On Loans - Typical programs for single family deals, average risk multi-family and apartment properties and self-storage are six percent (6%) to eight percent (8%) for loans secured by a first deed of trust or first mortgage on the property and eight percent (8%) to ten percent (10% for loans secured by a second deed of trust or second mortgage on the property. If you require a greater return to meet your investment objectives just ask for it and see what you can negotiate with your borrowers.

iv. Average Returns On Equity Investments – Typical programs for equity investments in single family deals, average risk multi-family and apartment properties and self-storage properties are 25% - 60% for the investor and 75% - 40% for your “sweat equity” partner.

v. More things to keep in mind when setting rates of interest for your borrowers:

1. Require that they pay you 2 to 3 times the 5 year rate offered on certificates of deposit. Check rates with www.bankrate.com.

2. Require that they offer a higher rate of return if the your mortgage will be in anything other than first position. (e.g. Second Mortgages).

a. Consider requiring an extra 1% - 2% return on such investments.

b. Second liens are riskier, but they do pay more and are ideal for those who do not have enough cash to take out a first lien position investment.

3. Require a higher return if payments are going to be deferred. Consider requiring an extra 1% - 2% return on such investments.

4. Require a higher return if the investment term is longer than 6 months. Consider requiring an extra 1% - 2% on such investments

vi. Usury laws

1. Usury laws were enacted to protect people like your borrowers who are borrowing money from people like you from paying too much interest on their loans. Check with an attorney in your state to find out what your state's usury laws are and be sure that the rates of interest you require are not higher than the maximum rate allowed by law.

2. The easiest way to protect yourself from the affect of any potentially applicable usury laws is to include a statement like the following after any stated return amount, "or the highest rate allowed by law."

c. In "equity deals" you can require your "sweat equity partners" to give you preferential returns

i. One way to provide yourself as an investor with assurance that you are confident of your projected returns and your borrower's ability to see the project through to successful conclusion is to require from them a "preference" or "pref"

ii. Prefs give you an agreed upon return on your investment <u>BEFORE</u> your borrower gets to participate in the profits.

iii. Typically, this may be done as a percentage "pref" deal along the lines of the following. "Prior to any distribution of Profits from the Project, Investor shall receive 100% of the Profits from the Project until such time as Investor receives a return on Investor's

Investment in the Project equal to ten percent (10%) of that Investment. Such priority return to Investor is referred to herein as the "Preference." After Investor receives Investor's Preference, Manager shall receive 100% of the Profits from the Project, if any, until such time as Manager has received an amount equal to Investor's Preference. Thereafter, the parties shall each receive fifty percent (50%) of the Profits from the Project.

iv. You can require from your borrowers any preference you like. It just depends on what you need to give yourself the return you need to get on your investments.

XI. Identify the term of the investment. How long will you have to wait to get your money back along with any return on that money.

a. Liquidity refers to how fast an investor can "liquidate" their investment and get their money back.

i. The most liquid investments are those like stocks which can be sold at almost any time and the investor can receive cash for the investment within a few days.

ii. Almost all real estate investments are considered to be "illiquid" because it takes time to sell real property and receive cash for it.

iii. Your program description should make it clear how long your money will be unavailable to you for use in any other investment.

b. Your program should provide for a minimum loan term of not fewer than six months.

c. Consider setting your term of investment for a minimum term similar to bank CD investment terms.

d. Consider requiring higher returns for borrowers who want to borrow funds from you for a longer term (e.g. longer than six months).

Conclusion

As you can see, there are many things to consider when putting together your private lending program. After carefully reviewing and re-reading this Chapter, take the time to chart out the overall terms of your own private lending program and begin to standardize those terms so that you have consistently across all of your borrowers and equity investments.

In the next Chapter, we'll go over the process of building your private money mortgage team.

CHAPTER 6

Building Your Private Lending Team

Step #2:

Build Your Team

Now that you have created your private lending program, it's time to start thinking about building a team around you to help you run it and get the most from it. There is no substitute for good, high quality, knowledgeable people to work with you and help you with all the different aspects of being a private money lender.

In this chapter, we will cover who the players are that you will need to have on your team if you are to have the best chance of succeeding in the private lending business.

Team Members And Their Roles

Building the right team is critical to your success as a private money lender. The following is a list of team members you will want to form relationships with:

Attorney

Any business can benefit from having the counsel of a qualified attorney to advise it with respect to legal issues that may come up in the course of its trade. This is particularly true in a business like private lending which may be subject to certain state and federal laws relating to issuing loans, notes and other debt instruments.

First, you will want to have your attorney review your promissory note document to be sure that it properly documents your relationship with your borrower and ensure that you have the best chance of recovering your loan to or investment with your borrower along with whatever interest or equity that your program requires them to pay you.

Next, you will want to be sure that your mortgage or deed of trust documentation properly secure your loan so that you are in a first position (or second or third if you are lending on a more subordinated loan basis) in the event that your borrower defaults on the promissory note and you are forced to take back the property secured by the mortgage so that you can sell it and recover your loan and collection costs. Your attorney can ensure that your note and security agreement (the mortgage or deed of trust) is properly recorded with the county recorder for the county in which the property securing your loan is located.

If you are participating with your borrower on any sort of equity basis, your attorney can prepare the documents needed to reflect that relationship as well. Your attorney can also review IRA custodian agreements and the underlying transaction that you are planning on lending on if you want to be sure that everything is properly documented and that you are properly protected from a legal standpoint.

Last but not least, a tax attorney can review your transaction or at least a model of your transaction to give an opinion that it meets any Individual Retirement Account related rules and is compliance so as not to risk any penalties or rule violations that could subject your investment to additional taxes that you are not anticipating.

Accountant

You will also want to have an accountant or bookkeeper who can prepare your monthly invoices to your borrowers to be sure that they are kept informed of their monthly interest and other payment obligations to you, as well as to keep track of what you should be receiving when and from whom.

Your accountant or bookkeeper will also be able to gather the necessary information at the end of each year or reporting period that you will need to prepare your state and federal tax returns. They will also be able to prepare monthly, quarterly and annual financial statements that will allow you to get a handle on how your business is doing.

Typically these will include income statements (also referred to as profit and loss statements) which will list your income and expenses. This allows you to determine whether your private lending business is operating at a profit or a loss. Also, they will include a balance sheet, which provides you with a "snapshot" in time of what assets you own and any liabilities that you have.

Keep in mind that you probably do not need to have an accountant who is a Certified Public Accountant (CPA) unless you are going to try to take your private lending business public or plan on selling it to a large company at some point in the future. The only real reason to use a CPA to prepare taxes and financial statements is that they are licensed to "audit" statements. This is a more formal accounting process where the accountants perform certain reviews and verifications of financial records and then issue an opinion stating that they fairly reflect the company's financial position.

Title Company

Title insurance protects you from claims by others that they own the property that secures your loan. Before you loan money on a property that your borrower claims to own, you need to be sure that they own it. To do that, you will have a title company perform a "title search" to review the county recorder's records to be sure that your borrower's name appears there as the legal owner of the property and to discover any claims by others who are recorded against the property

Once your title company completes this search, they will issue a "title binder" that basically says that the title company guaranties that it performed that ownership search and that it will cover a certain amount of damages in the event that it is later determined that there is another legal owner or that someone else has a superior claim against the property to your claim.

In the event that your borrower does not yet own the property and plans to use the funds that you are lending to them to acquire the property, your title company will ensure that the property's legal owner and claims are such that after closing your borrower will become the legal owner of the property and that there will be no liens or claims against it.

When a property is being purchased, the title to the property will pass from the current owner to the new purchaser. Typically the current owner will execute a deed to transfer ownership of the property to the new purchaser and deposit it with an escrow company. The escrow company will also receive the purchase price from the new owner/purchaser and hold it, waiting to release it to the first owner pending its receipt of the deed to transfer title to the property, as well as the title insurance company's title insurance policy insuring that the person selling the property and receiving the purchase price is in fact the true owner, and that there are no additional claims against the property that were not disclosed to the buyer.

Before you lend money to a borrower, you will want to have your title insurance company issue a policy insuring that the borrower has ownership of the property you are lending on and that there are no claims against the property that have priority over your claim. If your borrower is using the money you are lending to acquire the property, then you will want the title insurance to insure that the owner of the property from whom your borrower is acquiring it has the legal title to the property and that after the sale and payment of the purchase price, the borrower will be the owner and your mortgage will be in senior position to all other claims against the property.

Failing to require and issue title insurance on the property you are loaning against could result in your mortgage or deed of trust ending up in a junior position to someone else which could jeopardize your loan investment and result in the complete loss of the amount you loaned to your borrower.

Types of Title Insurance

There are typically two different major types of title insurance policies, an owner's policy and a lender's policy. You will want to have a lender's policy issued to protect your private money mortgage loan to your borrower.

Owner's Title Insurance Policy

The owner's policy assures a purchaser that title to the property is vested in that purchaser and that it is free from any "defects" including liens, encumbrances or other claims except those that are listed as "exceptions" to the policy or "exclusions" that simply are not covered by the policy.

Title insurance also insures against losses and damages suffered by the insured in the event that the title becomes "unmarketable" so that the property cannot be sold or encumbered in the future. Usually the amount of title insurance is sufficient to cover the purchase price paid for the property. Usually the premium for the title insurance policy will be paid by your borrower and not by you as the lender. Coverage usually lasts as long as the insured retains an ownership interest in the land that is insured.

Lender's Title Insurance Policy

The type of title insurance policy that you as a lender will want is a "lender's policy" or "loan policy." These policies are usually issued only to mortgage lenders. You will want this type of policy if you later plan to sell your mortgage in the secondary market or to some other investor. The “secondary market” is made up primarily of high volume purchasers like Fannie Mae, FHMLC and large private institutions.

What A Lender’s Title Insurance Policy Covers

Lender’s policies are usually in the form of an “ALTA” policy. “ALTA” is an abbreviation for American Land Title Association, and this form generally covers you as the lender from the following risks:

1. Title to the property on which the mortgage is being made is either:
    - Not in the mortgage loan borrower (typically your borrower)
    - Subject to defects, liens or encumbrances, or
    - Unmarketable
2. There is no right of access to the land

These risks are important to insure against because in the event that you are forced to foreclose on the property and become the new legal owners because your borrower defaults, you will need a title that is “clean” and marketable so that you can sell the property and apply the proceeds to the amount the borrower owes you, plus closing and selling costs.

3. The lien created by the mortgage
    - Is invalid or unenforceable
    - Is not prior to any other lien existing on the property on the date that the policy is written, or
    - Is subject to mechanic’s liens under certain circumstances

These risks are important to insure against because in the event that you are forced to foreclose on the property, these sorts of claims could interfere with your ability to complete the foreclosure and take ownership of the property so that you will be in a position to sell it to recover the amount you loaned to your borrower.

Note also, that the ALTA policy also covers another very important potential cost, the attorney's fees and related costs in the event that you have to defend any matter that you are insured against. Sometimes this can be one of the most valuable parts of your insurance policy, because even if you prevail in a title insurance dispute, attorney's fees could easily run into the tens of thousands of dollars.

Self Directed IRA Custodian

Another important member on your private money lending "team" is a "Self-Directed IRA Custodian." Basically, an IRA custodian is a fancy term for a bank, savings and loan association, financial institution or other fiduciary that holds your IRA (Individual Retirement Account) funds and invests the money that you have in your IRA into investments that you specify.

You are not allowed to be your own IRA custodian, so this is not a job that you can do yourself. If you have an IRA, you are required by law to have an IRA custodian. Your Self-Directed IRA Custodian basically just holds your IRA funds for you and invests them wherever you direct, subject to certain limitations imposed by law.

The advantage of having a "self-directed" IRA custodian is that many professional IRA custodians provided by IRA companies will only invest in a very limited “pool” of investment options, usually exclusively the financial products of the institution that is providing the custodian. A self-direct custodian can invest in any legitimate investment that you want to invest in, giving you a tremendous amount of freedom to choose the investments that best fit your investment objectives, risk tolerance and philosophy.

Most people who get into private lending opt to have a self-directed IRA custodian so that they are not completely at the mercy of their IRA custodian’s employer. IRS law permits you to make the decisions about where you are going to invest the money, whether that be stocks, real estate, private money mortgages or something else. You can still have a self-directed IRA and have an IRA custodian that will help you direct your funds if you want that advice.

This means that even if you are not a banker or broker, but know the real estate market of the area in which you wish to buy property to invest in, you can still get the property you want without having to get the approval of your IRA custodian. Better still, if you want to be a private lender and invest in private money mortgage loans or lend money to real estate investors as a private lender, you can do it through your IRA!.

One of the reasons some people prefer to use their IRA to invest in private money mortgages is that they feel more in control of their money and what it can earn for them. Rather than having your investment decisions made by some high commission pawn of the investment and mutual fund companies, using a self-directed IRA custodian allows you to make the investments that make the most sense for you.

Your self-directed IRA custodian will be able to help you stay within IRS guidelines with your IRA and its private money mortgage investments. It is up to you to do your homework and due diligence and choose good properties to make loans on.

Comparison Shop For Your Self-Directed IRA Custodian

Choosing a self-directed IRA custodian is similar to shopping for any major purchase. You don't just go with the first option you happen to find. You want to take the time to compare benefits, backgrounds, any advantages the self-directed IRA custodian offers and how quickly they respond to your questions. Self Directed IRAs are becoming ever more popular today because they give you more control over your investments.

Some of the most popular Self-Directed IRA Custodians include the following:

Equity Trust Company
225 Burns Road
Elyria, Ohio 44035
(888) 382-4727
www.TrustETC.com

The EnTrust Group
Corporate Headquarters
9444 Double R Boulevard, Suite A
Reno, Nevada 89523
(888) 340-8977
www.TheEnTrustGroup.com

Pensco Trust Company
P.O. Box 26903
San Francisco, CA 94126
(800) 969-4472
www.PenscoTrust.com

Mortgage Broker

A mortgage broker acts as a go-between who sells mortgage loans on behalf of individuals or businesses. Traditionally, banks and other lending institutions sold their own products; however as markets for mortgages have become more competitive, the role of the mortgage broker has become more popular. Mortgage brokers are the largest sellers of mortgage products for lenders.
The majority of mortgage brokers are regulated to ensure compliance with banking and or finance laws in the jurisdiction of the consumer; however, the extent of the regulation depends on the jurisdiction. Only one state within the U.S. has no laws that govern mortgage lending.

What Mortgage Brokers Do

The nature and scope of a mortgage broker's activities varies widely, but typically the following tasks are handled by mortgage brokers:

- Marketing to attract clients
- Assessment of the borrowers' circumstances. This may include assessment of credit history (normally obtained via a credit report) and affordability (verified by income documentation).
- Assessing the market to find a mortgage product that fits the client's needs.

- Applying for a lenders agreement in principle (pre-approval)
- Gathering all needed documents (paystubs/pay slips, bank statements, etc.),
- Completing a lender application form.
- Explaining the legal disclosures.
- Submitting all material to the lender.

The mortgage broker industry is regulated by 10 federal laws, five federal enforcement agencies and 49 state laws or licensing boards. Many banks have used brokers to outsource the job of finding and qualifying borrowers, and also to outsource some of the liabilities for fraud and foreclosure onto the originators through legal agreements.

During the process of loan origination, the broker gathers and processes paperwork associated with mortgaging real estate.
A mortgage broker works as a conduit between the buyer and the lender, the loan officer typically works directly for the lender. Most states require the mortgage broker to be licensed. States regulate lending practice and licensing, but the rules vary. Most have a license for those who wish to be a "Broker Associate", a "Brokerage Business", and a "Direct Lender".

You can use the services of a good mortgage broker to assist you with some or all of the activities mentioned above. Even if you don’t use a mortgage broker for these services in your private lending business, their knowledge and contacts can often be a huge advantage and help to you in your business, especially when you are first getting started.

Conclusion

Building your team out with most of the players discussed above will help tremendously as you get started with private lending. Even if you are an experienced private lender, having the contacts and perspective of at attorney, accountant, title company, self-directed IRA custodian, etc. can be an invaluable aid to maximizing your return on investment and finding and keeping the best loans possible.

In the next chapter we will discuss what you need to do to get your documentation in order to properly document your private money mortgage loans.

CHAPTER 7

Getting Your Documentation In Order

Step #3

Getting Your Documentation In Order

After you have created your private money lending program and built out your team, the next step in the process is to get your documentation in order. To help you with this step, we have provided numerous sample documents in the appendices of this book. In this Chapter we will briefly review each of the documents and what they are used for and why they are important.

As with all legal documents, it would be a great idea for you to review all of the documents that you plan to use in your private lending business with your attorney before you try to use them in real transactions. You will be dealing with a good deal of your own money when you are making private money loans, so you will want to give yourself the most protection possible to ensure that your documents are legal in the jurisdiction in which you plan to use them.

The most common documents used in private lending, their function and value are as follows:

PROMISSORY NOTE

Here are some characteristics of promissory notes:

- The promissory note is a promise to pay, signed by the borrower in favor of the lender.

- It contains the terms of the loan such as the interest rate and payment obligations.
- The promissory note is generally not recorded.
- When the loan is paid, the promissory note is marked “paid in full” and returned to the borrower, along with a recorded Reconveyance Deed.
- During the term of the loan, the lender retains the promissory note.

A promissory note, also referred to as a note payable or just a “note”, is a contract where one party (the obligor, debtor, maker or issuer) makes an unconditional promise in writing to pay a sum of money to the other (the oblige, creditor or payee), either at a fixed or determinable future time or on demand of the payee, under specific terms. It contains a specific promise to pay, rather than simply acknowledging that a debt exists.

The terms of a note usually include the principal amount, the interest rate if any, the parties, the date, the terms of repayment (which could include interest) and the maturity date. Sometimes, provisions are included concerning the payee's rights in the event of a default, which may include foreclosure of the maker's assets.

Demand promissory notes are notes that do not carry a specific maturity date, but are due on demand of the lender. Usually the lender will only give the borrower a few days notice before the payment is due. For loans between individuals, writing and signing a promissory note are often instrumental for tax and record keeping.

In the United States, a promissory note that meets certain conditions is a negotiable instrument regulated by article 3 of the Uniform Commercial Code. Negotiable promissory notes are used extensively in combination with mortgages in the financing of real estate transactions. Promissory notes, or commercial papers, are also issued to provide capital to businesses. However, Promissory Notes act as a source of Finance to the company's creditors.

In your private money lending business, you will have a promissory note executed by your borrower to evidence their obligation to repay you the amount of money that you loan to them. It will state their name, address, the amount borrowed, your name, address, the term of the loan (when it must be repaid), the rate of interest that will accrue on the loan, when interest payments are due, whether interest is simple or compounded and with what frequency and what happens in the event of a default. A sample Promissory Note is attached in the Appendices of this book.

MORTGAGE

A mortgage is the transfer of an interest in a property to a lender as a security for a debt - usually a loan of money. While a mortgage in itself is not a debt, it is the lender's security for a debt. It is a transfer of an interest in land (or the equivalent) from the owner to the mortgage lender, on the condition that this interest will be returned to the owner when the terms of the mortgage have been satisfied or performed. In other words, the mortgage is a security for the loan that the lender makes to the borrower.

In your private lending business, you will need your borrower to execute a mortgage (or deed of trust – see below – if you are in a deed of trust state) to provide you with the collateral or security in the form of the real estate you want to secure your loan.

DEED OF TRUST

Some states do not use mortgages, they use deeds of trust instead. Whether you will use a mortgage or deed of trust to secure your loan to your borrower in your own private lending business will depend on which of these two types of states you live and loan in. Basically a deed of trust is the same effective thing as a mortgage. It is the security for your loan to your borrower, and it is the document that is recorded in the public records.

A deed of trust contains three parties:

- The Trustor, which is your borrower
- The Trustee, which is an entity that holds "bare or legal" title
- The Beneficiary, which is the you, the lender

The deed of trust is an instrument that identifies the following:

- Original loan amount
- Legal description of the property being used as security for the mortgage
- The parties
- Inception and maturity date of the loan
- Provisions of the mortgage and requirements

- Late fees
- Legal procedures
- Acceleration and alienation clauses
- Riders, if any, regarding such clauses as prepayment penalties or terms of an adjustable rate mortgage

Because mortgages do not contain a trustee, many borrowers are confused between a mortgage and a deed of trust. Deeds of trust contain a trustee, an independent third party that does not represent the borrower or the lender.

- The trustee is an entity, generally a title company, that holds the “Power of Sale” in the event of default.
- The trustee also re-conveys the property once the deed of trust is paid in full.
- In the event of a default, the trustee files a Notice of Default; however, in most instances, the trustee will substitute another trustee to handle the foreclosure under a Substitution of Trustee.
- After the 90-day period in the public records, and a 21-day publication period in the newspaper (these time periods may vary from state to state), the trustee then has the power to sell the property on the courthouse steps without a court procedure.
- During the three months following recordation of the Notice of Default, the borrower can redeem the property by making up the back payments and paying the trustee's fees.
- Once the trustee sells the property at a Trustee's sale, it is final.

MODIFICATION OF MORTGAGE

You've probably heard quite a bit about loan modifications in recent times. Whenever the parties to a mortgage agree with each other to modify the terms of the mortgage or loan, a modification of mortgage agreement should be signed by both the parties to document whatever they agree to concerning the new terms that will govern their mortgage relationship.

ASSIGNMENT OF MORTGAGE

Most mortgages are sold at least once during the life of the loan. A mortgage company or your local bank will sell the loan to free up their cash and then lend out more money other home buyers. When the mortgage is sold of it is called an assignment. The party that bought the mortgage is now responsible for dealing with you the customer to make sure that all payments are made for the next 15, 20 or 30 years.

An assignment of a mortgage is a bank to bank, or entity to entity transaction, or in your case, something you will sign if you decide to sell or transfer your private money mortgage loan to another investor. You generally do not need your borrower's permission and you do not have to notify your borrower that his or her loan has been sold. Instead, it is up to the new party that has bought the loan to send out a notification to the borrower. This notification will let your borrower know to whom he or she will be making any required monthly payments, contact numbers and addresses for customer service issues and any other important information that they will need.

In general, nothing else about the borrower's mortgage will change.

The monthly payment amount and interest rate should stay the same. Once your borrower gets your notification, they should immediately contact you and verify that you have indeed sold your loan off to another lender/investor.

SATISFACTION OF MORTGAGE

The Satisfaction of mortgage document is the document that is used for releasing a mortgage lien, indicating the borrower has paid the debt in full. It is also known as a discharge of mortgage or mortgage release. The release of lien is also noted in public records.

LOAN SERVICING AGREEMENT

The loan servicing agreement is the agreement between you as the lender and a third party company that will manage your loans for you. There are companies that lenders can hire to perform all of the clerical work related to managing their loan portfolio. Companies that handle these sorts of tasks are usually called loan servicing companies. Probably the most well known company is:

Ocwen Loan Servicing, LLC
P.O. Box 785057
Orlando, FL 32878-5057
Telephone: (800) 746-2936
www.OcwenCustomers.com

As your loan portfolio grows, you may find that is easier to retain the services of a professional loan servicing company to collect your payments, send statements and perform the other services that you may need with respect to managing your loans and relationships with your debtors.

TITLE INSURANCE POLICY

We have discussed Title Insurance and Title Insurance Policies at great length elsewhere, so we won’t spend much more time describing what they are and what they do here. The main function of lender’s title insurance is to protect you as the lender from claims against the property by third parties who might have a superior position to your mortgage or who might have ownership claims against the property.

HAZARD INSURANCE POLICY

Hazard insurance is an insurance policy that combines various insurance protections, which can include losses occurring to one's home, its contents, loss of its use (additional living expenses), or loss of other possessions of the homeowner, as well as liability insurance for accidents that may happen at the home.

It is a multiple-line insurance, meaning that it includes both property and liability coverage, with an indivisible premium, meaning that a single premium is paid for all risks. Standard forms divide coverage into several categories, and the coverage provided is typically a percentage of Coverage A, which is coverage for the main dwelling.

The cost of homeowners insurance often depends on what it would cost to replace the house and which additional riders—additional items to be insured—are attached to the policy. The insurance policy itself is a lengthy contract, and names what will and what will not be paid in the case of various events. Typically, claims due to floods, or war (whose definition typically includes a nuclear explosion from any source) are excluded. Special insurance can be purchased for these possibilities, including flood insurance. Insurance must be updated to the present and existing value at whatever inflation up or down, and an appraisal paid by the insurance company will be added on to the policy premium. Fire insurance requires a special premium charge, plus the addition of smoke detectors and on-site fire suppression systems in order to qualify.

The hazard insurance policy is usually a term contract—a contract that is in effect for a fixed period of time. The payment the insured makes to the insurer is called the premium. The insured must pay the insurer the premium each term. Most insurers charge a lower premium if it appears less likely the home will be damaged or destroyed: for example, if the house is situated next to a fire station, if the house is equipped with fire sprinklers and fire alarms.

As a private mortgage lender, you want to be certain that the value of the property securing your loan to your borrower stays in place. Therefore, you should insist that your borrower maintain an active hazard insurance policy covering the real estate that is securing your loan just in case anything happens to it during the time that the loan is outstanding. Typically, you will require your borrower to pay for and provide proof of maintaining this type of policy and perhaps name you as an "additional insured" on the policy.

INSTRUCTIONS TO IRA CUSTODIAN

A self-directed IRA enables you to determine which investments your IRA invests in, usually only limited by the requirements of the Internal

Revenue Code with respect to permissible investments. So, with self-directed IRA's you make the investment decisions instead of someone else, such as the manager of a mutual fund who may have a vested interest in selecting certain "company branded" investment vehicles instead of those that best fit your investment objectives, risk tolerances and philosophies.

To transfer funds from your self-directed IRA to whatever investment you want to make with those funds you contact your self-directed IRA custodian and tell them that you want to transfer whatever amount of funds you want to invest from your existing IRA into the investment that you want to invest in. It's that simple!

Conclusion

Now that you have your documentation in order and understand what each document is, does and why you need it, it's time to find some borrowers to start lending money to. In the next chapter we'll discuss ways for you to find qualified borrowers to lend money to at rates substantially higher than you can earn in traditional bank investments such as certificates of deposit and money market funds.

CHAPTER 8
Finding Borrowers

Step #4

Find Borrowers

Now that you have created your private money mortgage lending program, built your team and gotten your documentation in order, the next step is to go and find some borrower and start making loans! This is the most exciting part of the process because you are now ready to start earning those above average returns that you have been looking for and hearing about so much from other private money lenders.

In this chapter we will explore lots of different ways that you can go about finding borrowers who are eager to pay you high interest rates to have you loan money to them. Just don't forget the other steps in this seven part process to be sure that you are properly protected.

Those Borrowers Are Out There

Believe it or not, but just as much as you want to find people who have good deals to lend money to, there are people already out there with great deals who need money to finance them. And, best of all, they are willing to pay you high rates of interest to get those deals funded. Not only that, but they will have no problem at all securing the loans with real estate that has enough value to ensure that your loan principal is protected.

So, how can you find them. Well, you can always contact us using the information on the front or in the back of this book and we can help connect you with quality investors who want to borrow money from you. Or, you can talk with us about helping you place your private money loans. But, there are also lots of other places you can look. Here are just a few. If you need more, feel free to contact us for a list!

The places you can find prospective private money lenders for your loans include:

Local Real Estate Investment Associations and Investment Clubs – Look at www.REIClub.com for a complete list.

Meet Up Groups – Check out www.MeetUp.com for a list of real estate meet ups in your area.

Real Estate Forums – just Google "real estate investing forums" and you'll find dozens of high quality sites with real estate investors hungry for private money loans. One of our favorites is www.BiggerPockets.com.

Real Estate Investor Training Sites – check out sites that specialize in providing educational information to real estate investors like www.RealEstateProfitCoach.com

Twitter – Search on www.Twitter.com for real estate investors. They will be very interested in your private money loan offerings.

Facebook – Also check out www.Facebook.com and look for Facebook groups that have real estate investing interest specialties.

There is really no end of resources of investors looking for private money to fund their deals. Try these resources and contact us if you need more!

CHAPTER 9

Analyze Deals & Complete The Underwriting Process

Step #5

Analyze Deals & Complete Underwriting Process

We already touched on valuation and analysis in prior chapters, so this will be a quick review and we'll also add a few more resources. The biggest part of the analysis process is just to be sure that your lender is qualified and that the deal has enough room in it, in the form of loan to value ratio, to protect your investment.

Deal Analysis & Underwriting Checklist

Okay, here's the information you're going to need to do your valuation (to be sure the property has sufficient value to protect your investment) and to qualify your prospective borrower (to be sure that they are a good credit risk for you):

1. Be sure that your borrower has regular income with a history of at least 2 years of steady payments (you can check tax returns if your borrower will provide them).
2. Ensure that the loan to value ratio on the property underlying the deal is no greater than 70%. You want to have at least 30% of CURRENT MARKET VALUE as an equity cushion to protect against property declines, collection and

selling costs should you have to repossess and sell the property in the event your borrower defaults.

3. Be sure that there is nothing concerning the property that would make it unmarketable or hard to sell in the event you have to take it back if your borrower defaults. Remember, don't make loans on property that you would not be happy purchasing yourself for the amount of the loan you are about to make on it.
4. Check the value of the property you are considering making a loan on using www.Zillow.com and www.NetrOnline.com to find and get values from your county assessor or appraiser.
5. For determining property values, also ask your broker friends to run comps or comparables using their Multiple Listing Service ("MLS") service for completed sales. Be sure they use "completed sales" and not listing prices to estimate property values.
6. Get an appraisal if you want extra assurance about a property's value, or if you don't want to pay for a full blown appraisal, consider getting a BPO ("Broker's Price Opinion") on the property.

CHAPTER 10
Complete Your Due Diligence

Step #6

Complete Your Due Diligence

Alright, we're almost done with our seven steps to private money mortgage lending success. You have created your program and built your team. You've gotten your documentation in order, found people to make loans to and analyzed your deals and completed your underwriting process. Now you just need to do your due diligence and verify that what your borrower says and what your preliminary research has shown is true and correct before you actually make your loan to your prospective borrower.

Due diligence is just a fancy way of saying that you should verify your information. Here's how you do it:

1. **Verify Physical Condition of Property –** Go and visit the property that you are considering making a loan on to be sure that you have physically inspected it and know its true condition and location. There is no substitute for physically setting foot in any property that you are considering making a loan on. The best way to not get taken advantage of or be defrauded is to go and see the property. I can't stress this enough.
2. **Verify References** – Get references from your prospective borrower and then CALL THEM! Even though you may think that it is easy for people, even bad people, to get others to

conspire to hide their bad habits or traits, getting a list of references and then actually following up on them and calling all of them to see what they say will tell you a lot about the person whose references you are calling. Very often, the people who give you references will assume that you are just following formalities and that you won't call the references they give you. Make them wrong. You may be surprised at what you hear, pleasantly or otherwise, but at least you will get an idea of who you are dealing with.

3. **Verify Assets and Income** – If you are counting on assets or income of your borrower with respect to repayment of any loans you make them, be sure that you verify employment, income (tax returns are great) and funds on hand (you can get a recent bank statement for this).
4. **Verify Property Value** – Have any valuations of the property verified by your real estate agent, mortgage broker and title company. Use these three sources to double check your own value research.
5. **Verify Title Insurance** – Have a title search performed to be sure that the property you are considering lending on does not have claims or liens that are superior to yours. Be sure that you require and physically receive your title insurance policy or that escrow has instructions not to release funds to your borrower until the title policy is effective.
6. **Verify Hazard Insurance** – Be sure that your borrower has secured a valid hazard insurance policy on the property that you are using to secure your loan.

7. **Verify Exit Strategy** – Last but not least, you need to be sure that the market supports whatever exit strategy your prospective borrower has in mind to get out of the property and get your loan to them repaid. This may be as simple as verifying the average number of days that a property in a certain value range in a certain area stays listed on the market before it sells and then comparing that to the time your prospective borrower says he or she believes it will take to flip a property being purchased for a quick flip. You can verify the market for rentals and occupancy and average rent rates for rental units and multi-family property investments. Just double check your prospective borrower's exit strategy and compare that to the available statistics to be sure that they match up. Remember, you need to assume that you may very well become the owner of the property and you want to have an exit strategy of your own that will get you out of the property and get your investment back as quickly and as completely as possible.

CHAPTER 11
Fund Your Deals & Start Making Profits

Step #7

Fund Your Deals & Start Making Profits

After you have verified all the items discussed in the previous chapter, all that is left is to fund your deals and start making profits.

The best way to fund your deals is to go through a third party escrow company. The escrow company can receive all the funds and documents and then follow your instructions to be sure that all of the conditions you require to be fulfilled prior to the funds being released to your borrower are fulfilled.

Ask your real estate agent, mortgage broker, attorney, accountant and title company for references for a good escrow company.

CHAPTER 12

7 Secrets To Finding The Right Investment In Today's Troubled Market

7 Secrets To Finding The Right Investment In Today's Troubled Market

You've scrimped, you've saved, and now you're ready to invest and have your money working for you. You probably want a high yielding investment with minimal risk, and something that is fairly liquid so that if you need to access that cash, you can do so fairly quickly. Oh, and while you're at it, you really want something that has minimal risk and that is secured.

Yeah…right…is that really possible?

The challenge is that there are a lot of not-so well-meaning folks out there with their hands out, palms up, ready to take your money, regardless of whether or not you benefit! As far as they're concerned, EVERYTHING that they offer is a *good investment*!

Then again, there are some really good people out there, too! These are the folks that have integrity, and that offer investments that minimize your risk and maximize your return. So, the big questions are:

How can you tell the difference? What makes a good investment?

Before you consider *any* investment, you should first do a little research and ask some specific questions. And that's what this report is all about: Asking the right questions! The answers, in turn, will allow you to make a more educated decision; one that is right for you and for your situation.

Here are a few questions that you should be asking…and before we go on, let me mention that we'll cover each one of them in depth later in this article:

1. Is the investment *secured* and if so, by what?
2. Is the investment *insured*?
3. Is the investment *liquid*, or will you be required to tie-up your capital for an indeterminate or long period of time?
4. What kind of returns does the investment *yield*? And do those returns offset whatever risk is involved with the investment?
5. Does the investment produce *monthly cash flow,* or does interest accrue until the end of the term (like a bank Certificate of Deposit)
6. Does the investment require a lot of *capital*? Or can you get into it for a modest amount?
7. Is the investment an ACTIVE one where you're required to work to get a return (as in buying a house that needs fixing-up) or is it PASSIVE, meaning that your money does all of the work for you!
8. And finally, do you need a license to do this in your state? (Yes…I can count! I just thought I'd add an extra!)

WHEW! Answering all of those questions seems a bit daunting, doesn't it?
Tell you what: let's eat the proverbial elephant one bite at a time and review each one of them! And for fun, let's review each one of them in the context of Private Lending (isn't that why you're on this site?)…

Is the Investment Secured?

Obviously, when you're investing any amount of money into anything, you'd like to know that if things go bad, you have a way to recapture your principal. If you invest in an oil well, for example, you probably can't repossess the well if it doesn't produce. The same thing applies in the stock market and quite a few other investments…

Private lending on real property is different: your money is secured by two items, one with more *teeth* than the other:

NOTE: This is the form that the borrower signs acknowledging the debt, and agreeing to repay it following a written set of terms. In the banking business, the NOTE is referred to as the *evidence of the debt*. If you've ever borrowed money to purchase or refinance a house, you've signed this agreement to repay the debt.

MORTGAGE/TRUST DEED: This is the document that gives the lender the right to take the property back in case of default of any kind, including non-payment, delinquent taxes, property condition, etc. It is filed as public record and basically says to the borrower: *"If you don't pay…you don't stay!"*

So, when you loan money backed by real estate, you should always insist that the borrower give you both a note and a deed of trust/mortgage (state-specific document) at the closing. That way, you'll have a secured lien against the property. And keep in mind one other important item:

ALWAYS limit your loan to under 70-75% of the market value of the property!!

Banks made a huge mistake by loaning 95-100% of the value of the property, and in many cases, even more! First of all, these were high-risk loans. Second, when properties devalued across the country, they took huge losses!!

Don't make their mistake! One of the great things about being a private lender is that you're getting a secured investment, protected by both the lien against the property and the equity in the property! That's why they also call it *equity lending*.

Is the Investment Insured?

Private lending is one of the few investment vehicles that is protected by not just one, but two forms of insurance with you, the lender, named as the loss payee. In other words, should either one of these policies pay off, you, the lender, will get your money before anyone else!

The two types of insurance are title insurance and hazard insurance. Let's look at each of them and how they protect you, the lender:

HAZARD INSURANCE: This is an insurance policy taken out by the property investor that names you as the beneficiary should the property ever burn down, get destroyed by a natural disaster, etc. Most folks know this as property insurance – what they fail to remember is that in almost all real estate transactions, it's the lender that gets paid off before anyone else! The lender in this case is…you!

TITLE INSURANCE: Personally, I love this type of insurance, because it gives the lender the assurance that their lien is a valid one; one that will be paid off before any other liens. The way it works is that the property investor pays to insure you, the lender, against all encumbrances against the property. The title insurance company's abstractors research the title to the property, and when the deal closes, insures that all back-taxes are paid, as are all other liens against the property (things like weed liens, city-imposed liens, HOA liens, etc.).

How Liquid is the Investment?

A more specific question here would be whether you can pull your money out of the investment in a relatively short period of time, or whether you're required to stay in it indeterminately.

Most of the time, when you invest in company start-ups, you'll end up leaving your capital in the deal for quite some time. Sure, there are other investment vehicles that are semi-liquid, like the stock & bond markets, but keep in mind that getting out is subject to the vagrancy of the market: can you sell at a price high enough to get back your initial investment?

And, if you leave your money in an investment for longer than 36 months, you run the risk of the economy changing, meaning that you might be able to get a higher rate of return someplace else!

Private lending, on the other hand, is liquid in two ways and, it isn't subject to the whims of the market!

1. Similar to a bank's Certificate of Deposit, most terms are 36 months or less. With a bank's CD, you're obligated to stay in the investment until the term is over, unless you want to incur a penalty. However, when you loan money privately to a real estate investor, in many case they'll work hard to replace your money early if necessary just to keep a good relationship with you. That doesn't mean that you should enter into an agreement

for 36 months expecting to get your money out early! It DOES mean that private individuals are a lot more flexible than banks or other institutions!

2. You can also sell your receivable (loan) during the term should you need quick cash! There are companies all over the U.S. that buy private mortgages. Their buy-rates are determined by the amount of the note, the location, type, and condition of the collateral, the interest rate, etc. We normally tell our clients about a firm that we use, SMI Funding. Their principals have been in business for over 15 years and we've found them to be fair as well as efficient. If you'd like to find out more about them, email one of the principals, Jayme Kahla, at Jayme.Kahla@smifunding.com.

What Kind of Return (Yield) Should I Expect From This Investment?

Many people seem satisfied with a bank's CD rate of return which, as of this writing, is about 1.5% for a 6 month CD and about 2.5% for a three-year commitment. (Source: bankaholic.com)

Let's say, however, that the inflation rate is higher than 1.5% to 2.5%. That is certainly possible, because historically, any time a country prints money, the inflation rate goes through the roof. The point is, if the inflation rate exceeds your rate of return, *you're actually losing money!*

In order to stay ahead of inflation, you need to be making at least twice bank rates. What if I told you that you could get as much as three times bank rates in a secured investment?

That's where private lending comes in. Market rates for private loans range anywhere from 2-3 times what you would earn in a CD at your bank. That said, there are some things that you should consider about this type of investment:

1. *What will the market bear?* Sure, wouldn't we all like to get 40-50% passively on our money? Of course we would! But the market, however, keeps things competitive and as a result, the current rates for secured real estate investments run 2-3 times bank CD rates.

2. *How long do you want to keep your money invested?* Again, bank CDs set the standard here, with lower yields for shorter investments, and higher yields for longer ones. So, if you only want to invest for 6 months at a time, you should expect a lower return than if you want to invest for 36 months.

3. *Does the risk offset the yield?* 2nd lien mortgages are a little more risky than 1st lien mortgages – as a result, they pay better. So while you can probably receive a 5-10% return on 1st lien mortgages, if you're willing to invest in a 2nd lien mortgage, expect your yield to be 1-2 points higher. Oh, and the good thing about investing in 2nd liens is that they require less money!

Does the Investment Product Monthly Cash Flow?

Some people like monthly cash flow from their investments, and others like their investment to accrue interest over time, paying off at the end of the investment term. There really is no right or wrong answer – the only answer is the one that is right for you!

So let's look at a few things to consider when researching this particular question, and be sure and first ask yourself: *What's more important to you – monthly cash flow, risk, or time invested?*
First, understand that the property investor is willing to pay a higher rate of return if you invest with him for a longer, rather than a shorter term. He'll also pay a higher return if you're willing to collect your payments at the end of the investment rather than wanting something every single month. And of course, he'll pay you more if you are willing to subordinate to 2nd lien position.

The reverse is true: traditionally, you'll get a lower rate of return if you want your interest paid monthly, invest for a short time only (6 months) and want only 1st lien position.

You should also consider the following:

1. *Is there cash coming in on the property?* In other words, if the investor is rehabbing the property with the intent of reselling it, there isn't any money coming in to make payments every month. On the other hand, if he is renting the property out long term, he should be able to afford monthly payments.

2. *Get a statement every month.* Even if you elect to receive a higher return and not cash out until the end of the investment term, you should ask for monthly statements so that you know what your money is earning, each and every month.

3. *Do You Need Cash Flow?* We have several private investors that are retired and really want, and benefit from, monthly cash flow. They love this option over that of the bank, mainly because they're getting a higher rate of return and they're getting a check

every month. In this way, they can live off the interest of their investment without touching the principal.

We also have investors who appreciate a little higher return – they're very comfortable leaving their interest in the investment until the end of the investment term, at which point they cash-out both their initial principal and all of the accrued interest.

Does the Investment Need a Lot of Capital?

A lot of investments require that you have at least $100,000 in order to invest. And while that's great for people who have acquired significant capital, there are also a lot of people who have smaller amounts that they, too, would like to invest.

One of the great things about private lending is that you can get into a high yielding secured investment for not a whole lot of capital. Granted, when you're first starting out and only want to invest smaller amounts, you'll probably be taking a 2nd lien position. Sure, they're a little riskier than 1st liens, but remember, they usually also pay more than 1st liens. And the really great part is that on many 2nd liens, you can invest as little as $15,000, and sometimes, even less.

That's not to say that a good investor can't help you place large amounts, too. The difference will be both in the lien position as well as the collateral itself.

The bottom line is that once again, you are the final decision maker and you need to do what is right for you and meets your investment needs.

Is the Investment ACTIVE or PASSIVE?

One of the things that you should consider in any investment is whether it is an ACTIVE one where you're required to work to get a return (as in buying a house that needs fixing-up) or is it PASSIVE, meaning that your money does all of the work for you.

We work with some *active* investors, though not as many as you might imagine. An *active* investor wants to be involved with the property – we consider an active investor more of a JV partner and as such, they are actively involved in the decisions about what property to buy, how to structure the deal, what improvements to make, when and how to sell the property and how much to sell the property for. This active participation generally helps to distinguish the relationship from a "security" that would require registration or exemption from registration.

Some of our active investors are working with us on commercial projects; others like to see their money at work and, having nothing else on their hands, like to be at the job site "overseeing" the work every day! Hey, to each their own, right?

On the other hand, we have a lot of passive investors, too. These are people who are content just knowing that their money is working for them, 7 days a week, 24 hours a day, and they don't have to lift a finger! Their money accrues interest every single day whether they're at work, at home, or on some island in the Caribbean!

Again, you need to do what is right for *you*.

Do You Need a License to Do This In Your State?

State and Federal Lending laws were designed to protect "Ma & Pa" consumer from the evil lending conglomerates! LOL! Okay, so may all lenders aren't evil, but the Fair Lending Act (FLA), the Truth in Lending Act (TILA), the Real Estate Settlement and Procedures Act (RESPA) and their corresponding Regulations X and Z were designed to keep the so called big boys from trying to pull the wool over the eyes of the consumer.

That said, in most states, you do NOT need a license to be a private lender, provided that you are only loaning your own funds and not those of someone else. You should, however, be aware of several things that may affect your loan:

1. **<u>Usury:</u>** You don't ever want the interest rate of your loan to exceed your State's usury laws. If you stay in the market range of 2-3 times bank rates, you'll be fine, as no state that I know of has a usury rate that's 10% or less.

2. **<u>High Cost Lending Laws & Section 32:</u>** Back when the lending industry went crazy, individual States as well as the Federal government imposed interest rate limits on home loans, saying that anything that exceeded these "high costs" must be fully disclosed as a "high cost loan." Now granted, the original intent only applied to owner-occupied refinances. Special interest groups, however, rallied around this concept and so, the High Cost Lending in most states is seen as anything over 12%.

   <u>YOU DON'T HAVE TO WORRY ABOUT THIS IF:</u>

a. You run everything by an attorney. A good closing attorney will NOT let you close a high cost loan without all of the proper documentation.

b. You keep the interest rate at going market rates for private real estate loans: somewhere in the neighborhood of 2-3 times normal CD rates. That will pretty much insure that you don't run afoul of either usury or high cost lending issues.

3. **Occupancy:** Some states have pretty stringent homestead laws, protecting the homeowner who actually lives in his own property. These laws do NOT apply to investment properties owned by an investor. So, to protect you, I would highly suggest that you do not loan money on owner-occupied properties but rather, only on investment properties.

Private Lending is a Great Investment

Let's go back and review the 7 (or was that 8?) things to consider when making an investment.

You want an investment that is secured, insured, relatively liquid, high yielding, doesn't require a lot of capital, provides cash flow, is passive and doesn't require licensing!

You've learned how to find the right answers to these questions, and you've also learned that Private Lending provides opportunities in all of those areas.

So How Do I Get Involved?

Now that you've decided to learn more about private lending, the next step is simple: pick up the phone and call me (my information's on the Website) or drop me an email. I welcome the chance to meet with you and tell you more about this tremendous opportunity.

CHAPTER 13

The Little Known Secrets of Private Money, Hard Money, & Equity Financing

The Little Known Secrets of Private Money, Hard Money, & Equity Financing

No-Money-Down real estate deals sound enticing and the late night gurus make it seem as if anyone can get cash back at the closing table on all their deals. Yes, you can do a real estate deal and get cash back at the closing table. Yes, you can buy a property with no money, no job and no credit. But for those of us in the real estate investing business, we know that everything comes with the proverbial string attached. The trick is to know which strings you can pull-on and which strings will hang you!

Many of the so-called no-money-down deals sound great when you hear them on the late night television, but reality is a separate thing. In fact, when you get into the actual mechanics of structuring the deal, you may find yourself dangerously close to committing loan fraud. And since federal prison is probably not your idea of an idyllic vacation spot, education is the best insurance to keep yourself away from the scams. Until you have gained enough experience to know when to walk away, remember this basic rule: *If a deal sounds too good to be true, it probably is.*

I've been investing in real estate for the past twenty years, and I've spent a good portion of that time also as a mortgage banker, playing the game at the Wall Street level. Because of this, I pretty much know real estate financing inside and out, so it comes really as no surprise to me that when I survey my clients, they state that *funding* their deals is their number one concern. Let's face it – there is usually some money involved in the exchange of property; it just doesn't always come out of their pocket!

There are two very *legal* ways to get into a property and get cash back at the closing table, especially in today's prohibitive lending arena: use either Hard Money or Private Money! And while Hard Money has become a little more difficult to get since the banking meltdown, it's important that you, the potential private lender, understand both.

HARD MONEY

Hard Money is a term used to describe money that is usually easy to get (determined by the deal) and loaned at a relatively high interest rate, usually for a short period of time. Hard Money has been termed the "loan of last resort" but that isn't necessarily the case for real estate investors. Typically, the person who is using Hard Money cannot use traditional methods of financing such as going to a bank or mortgage company either because their income is not verifiable, their credit may have "dings" or because of the condition or type of property. These days, it may also just be that Banks and Lenders have prohibitively tightened their lending guidelines.

Whatever the case, most real estate investors refer to "hard money" as "easy money"! And the reason that it's easy is that the hard money lender doesn't base the loan on an extensive set of borrower qualifications but rather, on the strength of the project itself. Granted, the fees and interest rate are pretty steep, but keep in mind that an investor will usually put them in place for only a relatively short term, say 6-12 months.   Always keep in mind that Hard Money is NEVER intended to be a substitute for long term financing. Instead, Hard Money should always be used either for acquisition and fix-up, or for short-term, so-called *bridge* financing.

Banks do *not* make Hard Money loans. Banks look at a person's ability to repay (credit history, income) and base the loan either on those guidelines, or on their ability to sell the loan to another lender.

Hard Money is the opposite. A Hard Money lender looks at the value of the asset and lends based on the loan to value (LTV) ratio. Because these loans are based on the value of the asset rather than the borrower's credit, the loan to after repaired value (ARV) ratio is usually 65% - 70% as opposed to a bank's LTV of 85% to 95%. For example, if a house has an after repaired value of $100,000, a Hard Money lender will loan a maximum of $65,000 - $70,000 on the property. Real estate investors use Hard Money to finance rehab properties (that banks won't lend on) and to close deals quickly when fast action is required.

The interest rate on Hard Money loans runs between 12% - 18% and most lenders charge between 2 - 5 points (a point is 1% of the loan amount) as their fee.

For example, on a Hard Money loan of $100,000 with five points, the amount paid for the points would be $5,000. Most Hard Money loans are for short periods of time, six to twelve months, and are paid back monthly as an interest-only payment. In our example, the payment on $100,000 loan would be $1250.00 a month, assuming a 12% interest rate.

Contrary to perpetuated myths, Hard Money lenders are not "leg-breakers" or shadowy characters. [[*ASIDE…okay, the first hard money lender I went to, almost 15 years ago, did fit into this category. This guy was so slimy that I felt I needed a bath to clean off all the slime as soon as I left his office! Thank goodness – we never did business, and he was the EXCEPTION to the rule!!*]]

NOTE: Unless they are lending only their own money, most Hard Money lenders are either mortgage brokers or loan officers who are licensed and regulated by their individual state. They, in turn, work with a group of investors. These are the people who actually write the checks. In fact, the mortgage broker usually makes the fees that are charged (1-5 points) for his/her efforts, and the investor usually makes the interest rate that's being charged.

Their investors (the people who actually lend the money) are usually well-off individuals like doctors, lawyers, etc., a real estate investment trust (REIT), a third party's self-directed Roth IRA or any other private entity - a corporation or LLC. The fees and interest rates are legal and less than what a lot of credit card companies charge.

At those rates of 12-18%, you may be asking yourself, *"Who would use Hard Money?"* The answer is that many real estate investors use Hard Money loans for their deals. There are all sorts of reasons for using Hard Money as opposed to going through a bank or mortgage company, including the concepts of speed, property value and of course, the ability to fund 100% of the acquisition and the fix-up.

In today's market, many investors are purchasing properties that are, due to foreclosure, owned by banks. Unfortunately, these banks only understand *cash* when it comes to selling their properties. And of course, if you give them cash and close quickly, you can usually get some pretty sweet deals! So it is that many times an investor finds a deal that must be closed on…quickly!! Banks and mortgage companies take too long to close a loan, so the investor turns to Hard Money.

On the other hand, sometimes a property needs extensive rehab work and banks don't want to loan on a property that is not in re-sellable condition if the borrower defaults. Hard Money lenders know the property is being bought to be rehabbed and they're willing to look at the after repaired value (ARV) of the property, not the as-is value. An added bonus is if the property is purchased at a deep enough discount, many times the Hard Money lender will include rehab funds in the loan amount. The investor doesn't have to dig into his own pocket or take out an additional loan to rehab the property. Bear in mind, however, that the TOTAL ACQUISITION and FIX-UP COSTS need to stay below the 70% of ARV threshold to meet the hard money lender's guidelines.

Who, then, uses Hard Money? Hard Money is used on deals where the property investor needs to close quickly. Hard Money lenders can usually close within 7-14 days of receiving the information they need on a property. If the property investor needs repair money and has cut a good deal on the property, a Hard Money loan can be the way to go. And let's be clear: the best time for a property investor to use a Hard Money loan is when they know they will not be holding the property for more than six months or, if they have the ability to replace the hard money with cheaper money by refinancing and paying off the Hard Money loan.

Paying 15% interest and five points seems pretty steep to those not in the real estate investing industry. But if the property investor only uses the loan for six months, paying the interest and points on a deal can be **a lot better than having to take on an equity partner to finance a deal and then having to split the profit with him 50/50**. Most investors would rather pay a high interest rate for a short amount of time than give away half of a deal. Hard Money loans are not for everybody and they are certainly not for the faint of heart. But they have their place in an investor's arsenal of tools.

It's the *Availability* of Capital, Not The *Cost* of Capital That Creates Wealth

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The Benefits of Private Money

Now then, no talk about alternative real estate financing would be complete without comparing Hard Money to Private Money. And yes, Virginia, there *is* a difference!

NOTE: This is where YOU come in!!

On the one hand, hard money involves a usually-licensed third party who finds the investors and puts the loan together for a well-deserved fee. On the other hand, Private Lenders are just that: private regular folk like you and me who don't mind lending out their hard-earned money in order to get a good return on it. And don't let the media fool you – people like us are everywhere!

And to help you realize that Hard Money really *isn't* your competition, look at it this way: with Hard Money, the property investor is using and paying a middleman. With Private Money, they're going directly to the source.

And the lending guidelines are usually just the same as those with Hard Money with a couple of major exceptions:

1. If you're not a licensed lender and are loaning your *own* money, you will be a little less stringent than a Hard Money lender, setting guidelines that work for your particular set of circumstances.

2. You can perform a lot more quickly, are more flexible in your terms, and can write the loan to fit both your needs and the needs of the deal.

So how do you develop relationships with property investors that will invest with you, giving you that opportunity to earn high yielding, safe and secured returns on your investment?

Simple…

Give us a call here (phone number is on the Website and the back of this book) or drop us an email. Certainly, we are NOT the only game in town, but we really do know what we're doing when it comes to investing in real estate and we'll be happy to share with you A) how we work with private money and B) results experienced by other private lenders.

We'll also be glad to share with you other reports that extensively explain the "how-to's" of private lending: what works, what doesn't, how to avoid the pitfalls, and how to get a safe and secured investment on your money, without making the same mistakes the banks made that got them into so much trouble!

Now then, a lot of our investment partners have questions regarding both private and hard money, and how they fit in the grand scheme of things. So, to help you with your education, and in the interest of creating a long-term relationship with you, I thought that you'd be interested in the following questions regarding both private and hard money.

CHAPTER 14

12 Questions Asked & Answered About Private Money

12 Questions Asked & Answered

About Private Money

1. I don't completely understand the no-money down concept. Can you explain?

Sure. The late-night infomercial boys haven't been entirely straight with us: they say that there are plenty of "no money down" deals in the marketplace. In my experience, there are a few, but even those are not usually **good** deals. *(After all, if you only care about getting "a job" or "a spouse", I can fix you up real fast. You won't like it, though! What we're after are "**good** jobs" and "**good** spouses", right?)*

On the other hand, there are a lot of good deals that do, in fact, require cash of some form, either for a down payment, or to purchase the asset outright. Here's the trick, though: if the property investor knows what they're doing, they've established relationships with someone like you to A) give you a good return on your investment and B) to allow them access to the money to do the deal!!

When real estate is approached with this intent, the ways to do deals increase exponentially. Let the infomercial students keep frantically searching for the "no money down" deal, while they pass up the opportunities like Bank REOs that can easily be picked up for pennies on the dollar, all because of financing sources like *you* who can perform literally with a moment's notice! (after some due-diligence, of course!)

This technique is an excellent way of finding great deals in even competitive markets, because most of the competition will not have the financing capability that you do.

2. What is "Hard Money"?

It's all the non-standard people and places where property investors go to attract money for their deals. There's usually a licensed mortgage broker involved who will arrange the financing and get paid a fee for it. It's a lot easier to get than traditional financing, with the property, and not the borrower, becoming the criteria for doing the loan. Hard Money lenders are usually found through the Internet, the local real estate investment club, and of course, some of them also advertise in the newspaper.

CAUTION: A lot of Hard Money lenders were greedy during the "heyday" of lending and loaned way too much on any one property! And…they are currently paying for their past mistakes! As a result, they have tightened-up their lending criteria considerably, which really opens the door for private lending.

3. What is Private Money, and how does it differ from Hard Money?

Private money is obtained directly from the source: people like you! These include among others, private individuals, retirees, people who have been laid off, REITS, hedge-funds, etc. The property investor doesn't pay a middleman fee, and the interest rates and terms are a lot more negotiable than with Hard Money, making this type of loan a lot more attractive for a real property investor. The other GREAT thing about Private Money is that the terms are purely the result of what you and the property investor decide.

4. With the current credit markets in turmoil, is now a good time to extend a private real estate loan?

Any time is a good time to finance a deal, as long as you know your various options. In today's economy, property investors and end-users alike realize that getting financing from a traditional lender is going to be difficult. For that matter, banks have also tightened up their lending regulations, as have many Hard Money lenders.

However, that's not the case with Private Money. The people with money to invest, people like you, are not the guys with one foot out the skyscraper window because they gambled wrong and now have lost billions of dollars in the "subprime mortgage" mess.

And how do you protect your money in today's economy (or any economy for that fact)? Simple! Make sure that you don't loan more than 70-75% of the After Repair Value of the property, make sure that your loan is secured by a lien against the property like a mortgage or deed of trust, and make sure that you are insured with both Title Insurance and Hazard Insurance.

SIDE NOTE: And by the way, I've written Special Reports on each of these topics…for more information, please contact me and I'll gladly share them with you.

5. I get approached a lot by real property investors and oftentimes, they ask me how I compare to hard money. What do I tell them?

First of all, they're comparing you to "hard money" because that's what they've been taught is often the fastest way to get money for their deal. And, it's what they're used to! Hard money lenders usually will just look at the quality of the deal and will loan them money regardless of **their personal** situation—if the deal's good enough. If it's marginal deal they may still lend to the private investor, but at a higher interest rate and/or less amount of money.

Hard money lenders got greedy in the lending feeding frenzy of the last decade, to the point that they violated their own rules, often lending well above the 75% threshold, sometimes even 90% and above. As a result, when the market turned, they were left holding the bag with more owed on the properties than they were worth. Understandably so, they subsequently tightened their guidelines to mitigate future losses, and of course, had to "eat" the losses that they HAD incurred.

You as a private lender didn't go through that painful lesson (at least, I hope so!). So, you know that you'll keep your investment BELOW that 75% threshold, and you know that you're also going to "get to know" your investor before investing with him! And you offer the following benefits:

1. You can fund quicker than hard money lenders.
2. Your rates are a LOT better.
3. You are more flexible with your terms.
4. You can afford to have payments accrue and not require monthly payments.
5. You will consider investments of varying lengths – from as little as 6 months up to 60 months.
6. You also have the ability to partner with them as an equity partner in certain situations.

Remember, you're offering them a GREAT deal by offering to loan them money secured by real estate, at a safe margin, for a yield that is comparable to bank rates. They are willingly going to use your services, because the alternatives are credit cards, regular banking sources, traditional lenders and finally, hard money lenders.

6. What are some things that I should watch for as I work with real property investors?

Excellent question! And one that will determine in both the long and short term your relationship with your investors.

1. First of all – make sure that they know their deal backwards, forwards, and upside-down! Feel free to ask them all of the questions that you may have that come to mind, and be sure and LISTEN to their answers. If they have done their homework, they'll know most of the answers off the top of their head. If, on the other hand, they are wishy-washy and

vague, kindly decline the opportunity permanently or, until they find the answers if they are willing to do so.

Some questions that you should ask:

A. Why is this a good deal compared to all of the other deals out there?
B. What about the area makes it a good deal?
C. What happens if the property values decline, or if there are delays in the rehab, or if the property doesn't sell as planned?
D. What is the up-side?
E. What is the down-side? What is the worst thing that could happen, and have you planned for it? If so, what is your plan? If not, then why not?

2. Make sure that they are PASSIONATE about their deal, and that they have thought it through. If they are not excited about their deal, there's no reason that you should be.

3. Make sure that they present themselves in a professional manner, and that they approach their business the same way. If they look at this as a hobby, they'll treat your money the same way. In fact, they should probably have a prepared presentation for you.

4. If they argue with you, run the other way!! It simply shows that they don't respect your business acumen and…here's the really important part, they don't respect the fact that it's your money and you can do what you want with it! ☺

7. Should I just do a regular loan, or should I ask for a part of the deal?

Personally, I like working with my investors where they write a check and simply make a good return on their money. On the other hand, I have no problem partnering with folks and sharing the equity with them, provided that the deal warrants it.

Your situation is just that: YOUR situation. And while I can't advise you as to whether you should be a "debt" lender (who just loans the money secured by the property) or an "equity" lender (goes on title), I would suggest that you thoroughly explore the options that we offer, so that you are comfortable in how your money is being used and secured.

8. Should you make your investor promise you a particular rate of return on your investment? If so, what is it? Is there a range depending on the level of investment?

The short answer to the first question is ***no***! They should NEVER *promise* a rate of return. When they do that, it starts to sound like a guarantee, and they don't want to be in the business of making investment guarantees? I don't, because I don't want to have to explain that to the SEC.

"But", you say, *"shouldn't I know what to expect for my rate of return?"*

Absolutely! And that rate is listed plain as day on the note! On the other hand, please understand that there are NO guarantees. Real estate ebbs and flows with the economy, and so to some extent, will returns.

On the other hand, your rate of return should be listed on the note that they sign, and in some states, maybe even on the deed of trust. The note (I.O.U.) will also explain the terms of repayment. So you see, you are loaning at a certain rate as stated in the documents. However, as with any investment, you run a risk (as slight as it may be) that your investor won't make his scheduled payment, or more likely, that they won't get the money back to you when expected. In fact, you may end up making a little less interest than originally planned.

Your real property investor should talk about *ranges* of numbers, and be clear on the factors that can result in the range. For example, they might talk about different cash flow amounts based on occupancy and rent levels that the property might achieve. Especially if you are partnering with them, they NEVER want to guarantee any rate of return just in case Murphy rears his proverbial head!

The point is that neither you nor your property investors have a crystal ball. If they are adamant about specific numbers and don't acknowledge the vagaries of the deal, they might be more inexperienced that you initially thought. The experienced investors are those who acknowledge that things often "come up" and have contingency plans in place in case they do.

9. Should I respond to an ad in the newspaper that is looking for private investors?

My college roommate and one of my best friends in the world is an SEC lawyer. One of the things that I vowed when I got into business for myself was that I would never conduct myself in a manner that would find me across the table from him in a "business setting", if you catch my drift!

Advertising in the newspaper for private investors to fund their deals can mean certain death with the SEC! Oh, and just in case you don't know, SEC is another term for the Securities and Exchange Commission, which regulates investments at the federal level.

The bottom line? If the property investor is blatantly advertising in a newspaper for a specific deal, he either isn't aware of the Federal regulations or…he is flaunting them. Be sure and find out – and RUN from someone that you do NOT know that offers you specific returns on a specific deal at your initial meeting.

10. Should I ever allow my property investor to comingle my funds with someone else's on the same property?

NO! The technical answer is that if they are not licensed to offer a security, they cannot pool money. To the average real estate investor, however, the mere concept of pooling money, let alone actually doing it, is a big no-no!! In fact, if you want your property investor to stay out of trouble, just follow this rule: One investor, one property. Under no circumstances should you allow your money to be pooled more than one investor's money when financing a property.

Now, having said that, are there *legal* ways to pool money? **Absolutely**, and they involve SEC licensing, or attorneys, and a host of other regulations. IF your investor wants to legally pool your money through a limited partnership or any other legal avenue, be SURE that A) he has a licensed and competent attorney prepare all of the documents and B) that you have your attorney review them before you write any checks!

11. What if I am approached by family and friends for money?

Friends and family can occasionally be OK borrowers, as long as you treat them like any other borrower – everything is understood up front, and everything is in writing. It depends on the individuals. In fact, my brother doesn't invest with me, but my cousin is earning a higher than average rate of return on his money that he's placed with me, and he's very happy!

When they approach you, just keep a few simple things in mind:

1. First of all, NEVER loan on their primary residence, unless you're OK with not ever seeing the money again. I know...you want to help them because they're in trouble, but the fact remains, while you may be a hero now, when you foreclose to get your money, you become the villain. I've seen many family

relationships broken over mundane money matters and frankly, in my opinion, it just isn't worth it!

2. Make sure that you treat them like any other property investor that approaches you. If they are investors, they should be passionate about their deal, know it backwards and forwards, and know, too, both the upside and the downside of the deal. They should also have contingencies in place for the downside.

3. Give them a little bit of a break! I think that we tend to be harder on our relatives than on our friends, and as such, may be more reticent to deal with them. Put your relationship aside for a minute and evaluate them on the same basis you would your other investors. Are they experienced? Knowledgeable? Passionate? Have they thought things through? Is everything in writing? Remember, they ARE offering you double to triple what you're getting with bank CD rates, so don't discount their offer just because you know them! They may have a side to them that you never considered!

12. How do I differentiate between the "good guys" and the "bad guys?"

Your property investors should treat you with respect, and…visa versa! Here are, in my opinion, some reasonable things to expect from a long-term, mutually beneficial relationship:

1. They should always take your calls, and visa versa! Even if they're busy, they shouldn't hide behind voice mail, faxes or emails. Instead, they should be available to answer

your questions and make you feel good about investing with them.

2. Have them send you pictures of their project. I'm sure that you'd love to see both the progress and besides, that way you know that work is progressing!
3. If a deal pays off sooner than expected, make sure that they FIRST send your money plus profit to you, and THEN ask you if you want to reinvest. If they're unwilling to give you your money at the end of a deal, red flags should be flying all over the place!
4. Expect them to do what they say they're going to do, and you do the same! If you commit to funding a deal based on due-diligence and if that due-diligence comes through, don't back out at the last minute. Their livelihood depends on you and just like a bank, if you say that you're going to fund based on further investigation and that investigation proves positive, you should do so.
5. If you don't want to do the deal, let them know immediately. Why? Because you want to give them plenty of time to round up another funding source to complete the transaction.

So…that's it! A little something on private lending from a fellow real estate investor who uses it, and from a 'recovering' mortgage banker, who is really glad not to have to go down that road any more!!

Happy Investing!

CHAPTER 15

Legal Guidelines for Private Lenders

Legal Guidelines for Private Lenders

So, you want to be a lender?

Good for you! There are some absolutely great high yielding returns to be made in this, or any, real estate market. And, as long as you follow the guidelines set out by the states and the Federal government, the chances of you running afoul of any laws is, indeed, very slim.

So, should you worry? I say absolutely not.

And on the other hand…

You SHOULD protect yourself and your borrowers by disclosing everything that affects both their ability to borrow from you and their ability to both understand and repay the loan.

So with that said, let's look at some of the guidelines and laws set out by the various governing entities to protect you, the lender, and of course, the borrower.

Something You Should Really Pay Attention To:

You'll find that because I'm a *recovering* mortgage banker that I'll tend to answer questions from Mortgage Banker Point of View and from my experience in real estate lending all over the country. You'll ALSO find that because laws differ from state to state and because I'm not an attorney, I'll ALWAYS suggest that you have an attorney review your documents, especially when you're first starting out.

The last thing that you want to deal with is running afoul of government rules and regulations. And let's face it: *why should you?* It's so easy to bring in an attorney to create or review the documents, and then you can be pretty much assured that you're not only making money, but you're also following the rules!

So, one of the first questions is:

Do You Need a Mortgage Broker's License?

Of course, the answer is, "it depends!" (See?? I warned you!)

Actually, the answer really lies within the scope of whether or not, as a lender, you are using your personal money, or whether you're arranging a loan for a client using someone else's money! Therein lays the issue in most states.

In most states (be sure and check the laws in your state), you do not need a license if you are loaning your *own* money. So, if you're using your IRA or Retirement Account funds, the chances of you needing a license are pretty slim.

On the other hand…

There may be times when you come across a great deal and you're a little short of cash, so you entice your friend to go in on the deal with you. In my opinion, this is not a good idea UNLESS the two of you form an entity like a corporation and each contributes cash to that entity, and then the entity makes the loan.

There is also the situation where you like the business so much that you may want to become what is called a "hard money" lender. A hard-money lender is really a fancy name for someone who contacts other people with money and offers to loan it out for them – taking a percentage of the loan as a fee (usually 3-5%) and maybe even taking a spread on the interest rate by charging one rate to the borrower and paying interest at a different, lower rate to the private individual.

In this case and in most states, you DO need a mortgage broker's license! Why? Because you are now loaning out someone else's money.

So, stick with loaning out your own money for now, and please be sure and check with your attorney governing the laws in your state. In fact, why even speculate? Just find out what applies in your state and proceed accordingly.

Now then, loaning out your money is one thing; *servicing* the loan is something entirely different!

Do You Need a License to Service the Loan?

Again, the answer is, "it depends!"

The term servicing applies to the collection of payments. In most cases, the actual lender is responsible for collecting the payment. In some cases, however, the lender (that would be you in this case) employs an outside third-party to collect the payments or, to use the vernacular, "service the loan."

If you're lending using your own money, you don't need a license to collect what's owed you (unless you have Uncle Guido on your collection team in which case, you may need more than a license!). In other words, it's perfectly alright in most states to collect your own payments and *service* your own loan.

On the other hand…if you didn't originate the loan with your own money, you may, indeed, need a license to service it. I just ran into a situation where GMAC wanted to see my "servicing license" in order to sell me a bunch of defaulted paper. I didn't the license for my intended use, but it just shows that there are lots of regulations in our business that you should be aware of, and the easiest way to do so is: run everything by your attorney!

Now that we've established that you probably don't need a license (but you should check!) to loan out your own money, let's talk about a rage that has been sweeping the country:

High Cost Lending Laws

Back in the heyday of banking which wasn't all that long ago, bankers (and yes, I was one of them) realized that they could charge higher fees and interest rates to the people who had bad credit.

Folks with bad credit had a lot higher incidence of foreclosure and rightfully so – they're credit reports showed that they hadn't paid a bill in months and yet, they could find lenders to give them a loan. And before you say, "greedy lenders" keep in mind that they only offered these loans because they knew that they could ultimately sell them up the proverbial food chain to the Wall Street firms who, in turn, would put them in tranches and sell them overseas.

What does this really mean?

It means that lenders knowingly made loans to people who were very poor credit risks, and whose likelihood of foreclosure was very high! [[SIDE NOTE: the people with good credit represented a default risk of 3/10 of one percent. On the other hand, those with poor credit represented a default risk of 10-12%.]] Yikes! No wonder the lenders charged so much on these high-risk loans – they knew that they had a high default risk on their hands and wanted to offset that loss with higher fees.

Now then, instead of just not loaning to high-risk borrowers in the first place, lenders decided that it was okay to do so because they could ultimately sell the loan and make the risk someone else's problem! Oops! The default rate started to climb…

Add to that the consumer protection groups who feel that it is everyone's right (not privilege) to own a house, regardless of whether or not the borrower actually earned that right by saving for a down payment or (heaven forbid) meeting their obligations and paying their bills on time!

These groups were, in turn, backed by well-meaning lawmakers across the country; lawmakers that were up for re-election, lawmakers that didn't understand the high-risk credit market and wanted to put "two cars in every garage and a chicken in every pot!" and so got behind the movement that said, in short: "we don't want the lenders to offset their losses with higher prices so, anything above 11.99% should be considered a *high-cost* loan and should be documented as such.

So now, you've got government intervention saying that lenders should simply charge less money to originate high-risk loans!

But you still want a high return on your money, right?

Don't worry! High-cost lending only applies to owner-occupied houses and I recommend that you never loan on a house where the owner lives there for the simple reason that you're going to have a lot more hassles taking back the house in case of foreclosure.

The other reason that you shouldn't worry is that if you charge what banks normally charge on their loans, you'll be well-within state and federal government guidelines. Remember, if they're charging 7-8%, you should be too and then – YOU DON'T HAVE TO WORRY!

And speaking of worry…the other question that comes up a lot is:

What About Usury?

Usury refers to the legal interest rate than can be charged in your state with anything exceeding the legal limit being referred to as *usurious*!

Do you want to stay away from usury? Sure you do, and the answer is quite simple: don't be greedy! Seriously, it's that simple! Merely copy what the banks are doing and you'll be fine. You can also go online and look up the usury rate for your state, but remember, the banks have millions and millions of dollars invested in your state, and they're not knowingly going to give out usurious loans. That's why I mentioned earlier, "if you charge below 11% in your state and only loan to investors (vs. occupants), you'll be fine. Of course, the conservative side of me (and the author, too) suggests that you check with legal counsel!

State Laws

Each state has its own laws governing the lending of money – laws that vary according to the lendee (person receiving the money) and whether or not the lender is lending his/her own money. Again (I know, I'm beginning to sound like a broken record!), loan your own money, and make sure that the person to whom you're loaning is a property investor and NOT using the subject property as their homestead or primary residence, and be sure to keep the interest rates down in the "comfortable" range where the banks have theirs. (If you choose to go higher, be SURE and check w/ legal counsel.)

Federal Lending Laws

If you're a full-time private lender, you'll certainly want to pay attention to the federal regulations. On the other hand, even if you're not a full-time lender, why not just adhere to those regulations anyway?!

The **Truth in Lending Act** (TILA) of 1968 is a United States federal law designed to protect consumers in credit transactions, by requiring clear disclosure of key terms of the lending arrangement and all costs. The statute is contained in Title I of the Consumer Credit Protection Act, as amended (15 U.S.C. § 1601 et seq.). The regulations implementing the statute, which are known as "Regulation Z", are codified at 12 CFR Part 226. Most of the specific requirements imposed by TILA are found in Regulation Z, so a reference to the requirements of TILA usually refers to the requirements contained in Regulation Z, as well as the statute itself.

The sole purpose of TILA is to promote the informed use of consumer credit, by requiring disclosures about its terms, cost to standardize the manner in which costs associated with borrowing are calculated and disclosed. TILA also gives consumers the right to cancel certain credit transactions that involve a lien on a consumer's principal dwelling (*remember what I keep saying about lending only to people who are investors and who don't live in the property?*), regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes. With the exception of certain high-cost mortgage loans, TILA does not regulate the charges that may be imposed for consumer credit. Rather, it requires uniform or standardized disclosure of costs and charges so that consumers can shop. It also imposes limitations on home equity plans that are subject to the requirements of Sec. 226.5b and certain higher-cost mortgages that are subject to the requirements of Sec. 226.32. The regulation prohibits certain acts or practices in connection with credit secured by a consumer's principal dwelling.

Ok – enough with the gobbledy-gook of techno-speak. Here's where you really need to pay attention:

> The lender must disclose to the borrower the annual percentage rate (APR). The APR reflects the cost of the credit to the consumer. It contains things other than interest such as origination fees and discount points. The Truth-in-Lending Act defines "finance charge" as all fees paid either directly or indirectly by the person to whom the credit is extended, incident to the extension of the credit. There are exceptions, to this rule, found at 12 CFR 226.4. Generally, the fees paid to the lender are considered finance charges regardless of any costs they are designed to cover.

WANT A HINT?

Don't charge any points or fees to do the loan, and your APR will be the same as the interest rate on the loan. On the OTHER hand, if you DO decide to charge fees, have a professional figure out what the APR is. When you add fees, the APR will be higher than the actual note rate.

TILA was also created because various companies associated with the buying and selling of real estate, such as lenders, real estate agents, construction companies and title insurance companies were often engaging in providing undisclosed kickbacks to each other, inflating the costs of real estate transactions and obscuring price competition by facilitating bait-and-switch tactics.

For example, a lender advertising a home loan might have advertised the loan with a 5% interest rate, but then when one applies for the loan one is told that one must use the lender's affiliated title insurance company and pay $5,000 for the service (whereas the normal rate is $1,000). The title company would then have disbursed $4,000 to the lender as a referral fee. This was made illegal and the reason is pretty obvious: to make prices for the services clear so as to allow price competition by consumer demand and to thereby drive down prices.

The ***Real Estate Settlement Procedures Act***, (known as "RESPA"), was an Act passed by the United States Congress in 1974. It is codified at Title 12, Chapter 27 of the United States Code, 12 U.S.C. § 2601–2617.

The Act prohibits kickbacks between lenders and third-party settlement service agents in the real estate settlement process (Section 8 of RESPA). Even reciprocal referrals among these types of professions could be construed in court as a violation of the law of RESPA. It requires lenders to provide a good faith estimate for all the approximate costs of a particular loan as well as a HUD-1 (for real estate purchase loans) or a HUD-1A (for real estate refinance loans) at the closing of the real estate loan. The final HUD-1 or HUD-1A allows the borrower to know specifically the costs of the loan and to whom the fees are being allotted.

The bottom line is: have your attorney provide each of these documents to the borrower/investor. And have the borrower/investor

PAY for your attorney to prepare them. After all, you're the one loaning the money – you shouldn't have to incur any costs!

And the same goes for having your attorney prepare…

The Note & Deed of Trust

And when you finally get ready to loan the money, please make sure that you are protected. Don't buy into any sob-story that the investor may throw at you; instead, insist that your lien is protected either by a partnership agreement that owns the house or, if you strictly lending the money, by a note and deed of trust.

The NOTE is nothing more than an I.O.U. wherein the investor agrees on the amount that he/she borrowed, as well as the terms of repayment. The note is the document that you would keep in your possession, and would be signed by your investor.

The DEED OF TRUST, on the other hand, is the document that gives your loan "teeth" by securing it with an asset: namely, a lien against the house. They have a saying in the South about this document that allows the lender to legally foreclose; they say the document really says to the borrower, "You don't pay…you don't stay!"

What Happens in Case of Foreclosure?

That's a really good question! And actually, there are several things that can happen:

1. You can simply get the deed from the borrower, take over the property and resell it, or put another payer into the property.

2. You can plan ahead and have an attorney hold on to the deed so that you don't actually have to get it from the borrower in case of default, but from the attorney.
3. Finally, you can go through the foreclosure process, which is governed very strictly by State law with respect to time line, notification, and procedure.

Let's look at each option…

Get the Deed From the Borrower

Whenever you're loaning money, you should have a good rapport with your borrower. If you don't know the borrower or if your "gut" tells you not to lend to him, then…don't!

If you follow this simple rule, you may be one of the lucky ones that never has to go through foreclosure. Oh, sure, there will be issues that arise from time to time – issues where the borrower takes a little longer to pay you back because the house either hasn't sold or the fix-up is taking longer than expected. That's why it's always good to have the borrower share an exit strategy with you so that you know what to expect.

An example is that I have a friend, Greg, who rehabs houses near a major Army base. Historically, he's never had a problem selling his properties. And so it was with confidence that I recommended him to one of my major private lenders, who in turn, loaned him $50K for the acquisition of the house. Greg put in around $15K of his own money to fix-it up, and the newly renovated property is worth around $100,000.

Not a bad deal considering that the private lender has a 50% 1st lien against the property!

The challenge came when the property just didn't sell! Greg's strategy had always been to buy cheap, fix-up, and then sell! He didn't realize that selling properties in this economy to military-grade buyers would be difficult to say the least! Greg knew he had to change his strategy, especially when the due date for the loan came and went and Greg still hadn't sold the property!

The private lender, Debbie, called me and mentioned that she was concerned about him not selling the property. She wanted her money which was due her (it had been 12 months) but she also understood the market conditions and knew it wasn't his fault.

The solution?

Greg is in the process of refinancing his property with a conventional lender who will pay Debbie in full, after which, he'll lease the property until the market changes. She'll get every cent that she is owed including interest, and the only down side to her is that she didn't receive her money when she expected to, but had to wait a few extra months to get it. Oh, and don't cry for her – she made interest on those extra months, too!

Greg got the house, Debbie got her money, and all of it was because the two of them communicated! Sure, the loan was technically in default, but because they were on good terms and he is the kind of person that takes responsibility for his debts, they were able to work it out with both of them coming away winners!

On the other hand, if he hadn't been able to refinance it, she could very easily have gotten the deed from Greg and, in turn, taken it upon herself to resell the house. He would have been out his fix-up money unless they had an agreement that he would be reimbursed. But, she would have captured the profit upon sale, a profit of approximately $30K, which isn't a bad return on her original $50K investment!

Have an Attorney Hold the Deed

This option is a little tricky and I would highly suggest that you get an attorney to review it for you and facilitate it for you if he/she will. It's tricky because there are several ways to protect yourself, and you want to make sure that you choose the right way for you.

Let me give you an example: If you want to, you can become "equity partners" with the investor. Your money goes into the partnership and the partnership buys the house. If your investor flakes out on you, that's okay, because as the person who controls the partnership, you are still in the driver's seat. NOTE: You will need an attorney to set this up for you so that you are A) protected and B) that you have all of your bases covered, both legally and as a partner. You'll also appreciate your attorney's help because there are certain tax ramifications when the IRS views you as a Partner rather than as a lender.

Foreclose

Of all of the options, this is my least favorite and frankly, probably the most rare among private lenders. Why? Again, it's because the world of private lending is a little different than conventional lending, with the point being that in our world, people actually *communicate* (well, most of the time!) and create solutions!

If, however, you do end-up foreclosing, my recommendation is that you have an attorney do it for you, and include the costs in the amount owed to you by the borrower. Our job as private lenders isn't to be legal experts, so why not let the lawyers who are familiar with the law, handle all of the legal stuff? Let's face it: laws differ from state to state and include such variances as different stages in the foreclosure process, the time for each of those stages, things you can and cannot do (in Texas, you have to post a foreclosure notice in a specific sized font!!).

The time will vary from state to state; California and New York have two of the longest processes. Oh, and if someone doesn't pay you what you're owed when the property goes to foreclosure sale, then you legally get the property back! That's a great thing, but depending on the rehabber, you may or may not want the house (is it finished??).

I'm sure you get my point – there are things that can go wrong, but you've become a savvy-enough investor to realize that yes, you can protect yourself by doing the following:

1. Only loan to investors, and not to owner/occupants.
2. Check beforehand to see if your investor has a history of paying his bills.
3. Make sure that you don't loan more than 70-75% of the After Repaired Value on the house.
4. Get to know the investor before you make the loan.

So now you know some things that you should watch out for when lending your money. Protect yourself, your investment, and by all means, be sure and run everything by an experienced real estate attorney first! It's not a guarantee of any sort, but it WILL certainly give you peace of mind knowing that you've done everything legally, morally, and ethically.

CHAPTER 16

How To Get Control Of Your Retirement Account And Triple Your Returns!

"How To Get Control Of Your Retirement Account And <u>Triple</u> Your Returns!"

RETIREMENT

Most of us want to make sure our investments are going to help pave the way to a comfortable retirement. The government encourages retirement investing by allowing, among other things, the Individual Retirement Account, or "IRA." Let's talk about IRAs…

Wall Street's Biggest Lie…

The big investment firms on Wall Street tout the benefits of investing through an IRA. And they're right: IRAs can be great vehicles, given their tax-favored status. However, the biggest lie on Wall Street is the "Self-Directed IRA." They should call it, "The IRA Where WE Dictate What You Can Put In It, Because We Know Better!"

Sheesh! What a joke!

Sure, there are some investments that the government will not allow in your IRA, but there are a whole group of investments that the government is just fine with you putting in your IRA…but the fee-hungry investment firms don't want you to know about these!

Why? Because they don't get their fat fees if you invest in those types of investments.

Here's the truth…

You CAN invest in real estate through an IRA…but probably not through the one you already have. That's because if you set up your IRA through one of the major Wall Street firms, or your typical bank, you were probably sold a bill of goods that real estate was “not suitable”.

That’s what they want you to believe, so you’ll stop asking questions.

Did you know you can invest in the following type of real estate through a truly “self-directed” IRA:

- Raw Land
- Single Family Homes
- Apartments
- Mobile Homes
- Commercial Property
- Real Estate Notes
- Mortgages
- Tax Liens

Feel free to contact Equity Trust – those guys really know what they’re doing. And, they’ll be happy to give you the information that’s been kept from you all these years…the exciting possibilities of having real estate investments grow tax deferred in an IRA.

By the way, you can invest for retirement and not put the investment in an IRA or any other type of tax-deferred vehicle. You simply invest with after-tax dollars.

Remember, we’re not your attorney or tax advisor. We suggest that you check with them about any investment you’re thinking about making.

CHAPTER 17

Investing With Your Individual Retirement Account (IRA)

Investing With Your IRA

One of the best places to get seed capital to become a private lender is the low-interest earning money currently in your IRA. One of the great things that I have discovered is that there are so many legal ways to make money with this capital, especially by using your IRA to own and control both real estate and paper.

Having said all of that, take a look below at all of the investments available to anyone who has a truly self-directed IRA or 401K plan:

- Residential real estate—including apartments, single family homes, and duplexes
- Commercial real estate
- Undeveloped or raw land
- Real estate notes (mortgages and deeds of trusts)
- Promissory notes
- Private limited partnerships, limited liability companies, and C corporations
- Tax lien certificates
- Foreign currencies
- Oil and gas investments
- Publicly traded stocks, bonds, mutual
- Private stock offerings, private placements
- Judgments/structured settlements

- Gold bullion
- Car paper
- Factoring investments
- Accounts receivable
- Equipment leasing

Now frankly, I don’t suggest that you start investing in foreign currencies or oil and gas investments unless you know a lot about them. On the other hand, I am highly vested in both real estate and notes with the natural outcome of passing this information on to you. Let’s look first at the Real Estate IRA…

Real Estate IRA

There are three things that you should know about a real estate IRA:

1. The term "real estate IRA" encompasses any type of real estate investment in a self-directed IRA or 401(k).

2. When you combine the advantages of a self-directed IRA with your knowledge of real estate, IRAs allow you to earn tax-free/tax-deferred returns on your investments.

3. The rate of return on your investments is based on your knowledge and expertise in real estate. IRA investing is not based on the ups and downs of the stock market.

Real Estate in IRAs

The Little-Known Secret That Allows Real Estate Investors to Create True Wealth

Historically, real estate has given many Americans a stable investment vehicle that provides both income and appreciation. One of the greatest tools available to real estate investors is government-sponsored retirement plans, such as IRAs and 401(k)s.

Most investors believe that their only IRA investment options are bank CDs, the stock market, and mutual funds.

Few Americans realize that they have the option to self-direct their IRAs and other retirement plans into real estate—and that they can benefit from the tax advantages those plans provide. IRA investments earn tax-deferred/tax-free profits.

Imagine not having to pay taxes right away—or ever—on your real estate deals. Instead of paying 25%, or 30%, or even 50% of your profits to the government in taxes…you keep it.

Additional advantages of the real estate IRAs include:

- The power of compound interest
- A reduction of taxable income
- Asset protection
- Estate planning

If you're a successful real estate investor, or if you're just looking to diversify your retirement portfolio, the combination of real estate and your IRA can be very powerful.

Types of IRA Real Estate Investments

Here's a partial list of real estate-related investments that you can make with a real estate IRA:

- Raw land
- Single-family homes
- Commercial property
- Apartments
- Duplexes
- Condos/townhomes
- Mobile homes
- Real estate notes
- Second mortgages
- Partial notes
- Real estate purchase options

Just imagine – pretty much anything real estate related is available for you to purchase in your IRA! And the really great part is that I don't even get a commission for referring you to a company that can do it for you! LOL! Seriously, for more information on this, check out the folks at Equity Trust.

Real Estate IRA Rules

Everything good for you, they say, is either illegal, immoral, or…fattening! While that may or may not be true, it IS important that you know the rules surrounding this great investment tool.

CHAPTER 18

Seven Things You MUST Know About Investing in Real Estate With A Self-directed IRA

Seven Things You MUST Know about Investing in Real Estate with a Self-directed IRA

1) Your IRA Cannot Purchase Property Owned by You or a Disqualified Person:

One of the most common questions about a real estate IRA is: *"Can my IRA purchase a property that I currently own?"* The answer is always ***no***.

IRS regulations don't allow transactions that are considered "self-dealing," and they don't allow your self-directed IRA to buy property from, or sell property to, any disqualified person, including yourself.

2) You Cannot Have "Indirect Benefits" from Property Owned by Your Self-Directed IRA:

Can your self-directed IRA purchase a vacation home for you to occasionally use? Can you rent office space for yourself in a building that your self-directed IRA owns?

No.

The purpose of the IRA is to provide for your retirement at some *future* date. It's not intended to benefit you (or any other disqualified person) today. If your IRA engages in a transaction that, in some way, benefits you or a disqualified person, this is considered an "indirect benefit."

3) Real Estate IRA Investments Are Uniquely Titled:

You and your IRA are two separate entities. As such the investment needs to be titled in the **name of your IRA—***not* in your personal name. All documents related to the investment must be titled correctly to avoid delays.

The correct title for most real estate IRA investments is:

"XYZ Custodian [your custodian here] FBO [for benefit of] [Your Name] IRA"

4) Real Estate in an IRA Can Be Purchased without 100% Funding from Your IRA:

You can purchase property in more ways than just an outright purchase of the full amount from your account. These other options include using undivided interest and partnering with others.

5) IRA Investments that Use Financing Must Pay UBIT

Your self-directed IRA can purchase real estate using financing as long as the loan is non-recourse. If you *do* use financing, unrelated business income tax (UBIT) is due.

6) Real Estate IRA Expenses Must Be Paid from Your IRA:

All expenses related to property owned by your self-directed IRA (maintenance, improvements, property taxes, condo association fees, general bills, etc.) *must* be paid from your IRA.

7) Real Estate IRA Income Must Return to Your IRA:

All income generated by property owned by your self-directed IRA must be paid into your IRA.

CHAPTER 19
Purchasing Real Estate in IRAs

Purchasing Real Estate in IRAs

How Do I Purchase Real Estate in an IRA?

This is one of the most common questions regarding IRAs.

Purchasing real estate in your IRA isn't much different from a normal purchase of an investment property. There are a few exceptions, but this is the basic process:

1. Open a self-directed account and fund the account through a contribution, transfer, or rollover. Again, I recommend Equity Trust Corporation, and you can reach them at www.trustetc.com.

2. Identify the investment property—make sure you follow self-directed IRA rules.

3. Complete the necessary paperwork to effect the transfer.

4. Check that correct titles are on all documents—e.g., “Equity Trust Company Custodian FBO [Your Name] IRA.”

5. Ensure that all payments made to and expenses paid from the investment go through the IRA.

When you're ready to sell the property, your custodian provides the necessary paperwork and works with you and your title company/closing attorney to complete the transaction. All proceeds from the sale are tax free and go back into your IRA.

Own Rental Real Estate in Your IRA

Obviously, if you can’t put your own house in your IRA, then most likely you’ll be putting in Rental Properties. With a self-directed IRA, you can own rental real estate or other types of property that generate income and expenses.

All expenses and income related to property owned by your self-directed IRA must be paid from, and returned to, the IRA.

Real Estate IRA Income: How Funds Get Back to Your IRA

Here are some key points to remember about property income:

- All profits/income related to the investment must return to your self-directed IRA.
- Renters/Payers must write checks to your self-directed IRA, not to you personally. For example, a check would be made out to:

  "Equity Trust Company Custodian FBO IRA#1234"

- If you use Equity Trust, they will provide deposit coupons to accompany any checks for deposit, and coupons must be submitted with payments.
- Checks can be remitted from renters/payers directly to Equity Trust (with deposit coupons) or they can be sent to the IRA owner and then forwarded to Equity Trust.
- **IMPORTANT:** You are not permitted to deposit IRA payments into your personal accounts. Checks must be deposited directly into your self-directed IRA. Co-mingling of funds could be considered a prohibited transaction.

Property Expenses

Here are some key points to remember about property expenses:

- All expenses related to the investment must be paid from your IRA proportionate to your IRA's investment in that property. For example, if you purchased a 50% interest in the investment, then 50% of the expenses must come from your IRA (i.e., 50% ownership of property = 50% expenses).
- You must complete an investment form to instruct your custodian to make a payment from your account. Reoccurring expenses can be automated if you decide to use Equity Trust.
- **IMPORTANT:** You are not permitted to pay IRA expenses from your personal accounts. Expenses must be paid from your self-directed IRA. Co-mingling of funds could be considered a prohibited transaction.

Prohibited Transactions Under the Provisions of ERISA

A prohibited transaction, including prohibited real estate IRA investments, can bring into question the tax-deferred status of your account, potentially resulting in the disqualification of your IRA and severe tax consequences.

The following is the definition of a prohibited transaction that comes from IRS Publication 590 and speaks of those acts that you should avoid so as not to incur additional taxes and other costs, including loss of IRA status.

> *"Prohibited Transactions*"
> *Generally, a prohibited transaction is any improper use of your traditional IRA account or annuity by you, your beneficiary, or any disqualified person.*
> *Disqualified persons include your fiduciary and members of your family (spouse, ancestor, lineal descendant, and any spouse of a lineal descendant).*

The following are examples of prohibited transactions with a traditional IRA:

- *Borrowing money from it.*
- *Selling property to it.*
- *Receiving unreasonable compensation for managing it.*
- *Using it as security for a loan.*
- *Buying property for personal use (present or future) with IRA funds."*

-Source IRS Publication 590

Further Information

- Section 4975 of the Internal Revenue Code - Internal revenue code referencing prohibited transactions with IRAs.

Three Most Popular Ways to Invest in Real Estate with a Self-directed IRA

There are three basic ways to purchase real estate with a self-directed IRA:

1. Purchase with cash
2. Partner with family, friend, or business associate
3. Borrow money for investment

1) Purchase with Cash - The Most Straightforward Approach

If you have sufficient funds in your self-directed IRA to cover the purchase price, closing costs, taxes, insurance, etc., you can purchase a property outright. All ongoing expenses are paid in total from your self-directed IRA, and all income/profits are returned in total to the IRA.

2) Partner with Family, Friend, Business Associate

If you don't have enough funds for a cash purchase, your self-directed IRA can purchase an undivided interest in a property.

For example, your self-directed IRA could partner with a family member, friend, or business associate to purchase a property for $100,000. The friend could provide 70% of the purchase price ($70,000), and your self-directed IRA could purchase the remaining 30% ($30,000).

All ongoing expenses must be paid in relation to your percentage ownership. In our example, for a $1,000 property tax bill, the friend would pay $700 (70%) of the bill and your self-directed IRA would pay $300 (30%).

Likewise, if the property collected monthly rent of $1,000, the friend would receive $700 (70%) and your self-directed IRA would receive $300 (30%).

3) Borrow Money (Receiving a Loan) for Investment:

An IRA may obtain financing (loan/mortgage) for a real estate investment. However, you must be aware of two points when considering this option:

- **Loan must be non-recourse -** Per IRS regulations, an IRA cannot guarantee a loan or be used as collateral. A non-recourse loan only uses the property for collateral. In the event of default, the lender can collect only the property and cannot go after the IRA itself.

- **Tax is due on profits from leveraged real estate -** If your IRA uses debt financing (i.e., obtains a loan) on a real estate investment, a tax will probably be due on profits. This tax is called unrelated business income tax (UBIT).

CHAPTER 20

Partnering To Purchase Real Estate With An IRA

Partnering to Purchase Real Estate with an IRA

If you don't have enough funds for a cash purchase of real estate with your IRA, you can partner with others.

Okay, so you're ready to take advantage of all the benefits of real estate in a self-directed IRA—the tax-free profits, the asset protection, and the potential for high returns and creating lasting wealth. You even have a couple of investment properties that you're ready to purchase.

The only problem...? You don't have enough money in your IRA to purchase the property outright, and you don't want to get a non-recourse loan.

Fortunately, you have options—*including having your self-directed IRA partner with other investors to purchase the property.* This is often called "purchasing an undivided interest" in the property.

How to Partner to Purchase Property with Your Self-Directed IRA

Here's how to purchase property with a self-directed by partnering with other investors:

1. Seek out potential partners in friends, family members, co-workers, or business associates.
2. Once you've identified a partner for the deal, combine your self-directed IRA funds with the other investor's funds to purchase the property.
3. Your self-directed IRA then owns a percentage of the property proportionate to the percentage of funds you contributed.

4. Your self-directed IRA is responsible for a portion of all property expenses equal to the percentage of ownership, and the same portion of all income related to the property goes into your self-directed IRA.
5. Once the property is sold, your self-directed IRA receives a portion of the proceeds matching the proportion of your original investment.

Isn't Partnering with Myself or Family Members a Prohibited Transaction?

While the premise is somewhat similar to a prohibited transaction, they're actually two completely different scenarios. The difference is based on who currently owns the property or investment.

If you, a family member, or other disqualified person already owns a property, then investing in that property with your IRA is prohibited.

However, in the partnering scenario, if you and a family member or other partner, want to purchase a new property that's not already owned by a disqualified individual, this is *not* a prohibited transaction.

A Partnering Example with Your Self-directed IRA

Let's assume that the property you want to purchase costs $100,000, but your self-directed Roth IRA has only $20,000. You reach out to a friend of yours who has $30,000 in a traditional IRA and a business associate who can invest $50,000 of his own money. Combining the money together, you now have sufficient funds to purchase the property.

Your self-directed Roth IRA now owns a 20% interest in the property. Title for the property reads:

[Your Custodian] FBO [Your Name]
Roth IRA 20% Undivided Interest

Going forward your self-directed Roth IRA is responsible for 20% of all expenses related to the property. Similarly, your self-directed Roth IRA receives 20% of all income generated by the property.

A year after purchasing the property, you and your partners decide to sell it for $150,000. With a 20% interest, your self-directed Roth IRA receives $30,000 or 20% of the sale proceeds—an amazing 50% return ($10,000 profit) on your original $20,000 investment.

As you can see, even without a large bankroll to start out, you can still create profitable real estate investments with your self-directed IRA.

NOTE: While this type of transaction is fairly straightforward and common, you'll want to make sure it's at "arms-length" and that you avoid the possibility of "self-dealing," both of which are prohibited by IRS regulations. **<u>Consult with a financial or tax professional.</u>**

CHAPTER 21

REAL ESTATE FREQUENTLY ASKED QUESTIONS

Real Estate Frequently Asked Questions

What are the differences between buying real estate for me, personally, and purchasing a real estate investment for my IRA?

There are four main differences between purchasing real estate for yourself and for your IRA:

1. **Title -** When purchasing an asset for your IRA, it must be properly titled to your IRA. Specifically, it must read " **[Your Custodian] Custodian FBO** *[Your Name]* **IRA**." Ex: "Equity Trust Company Custodian FBO John Smith IRA."

2. **Funding -** When purchasing an investment (or any portion of an investment) for your IRA, funds must come directly from your IRA. Your custodian will send the funds directly to the title company/closing agent/attorney per your instructions.

3. **Expenses/Income -** Any expenses associated with your IRA investment must be paid from your IRA and any income must be paid into your IRA.

4. **Signatures -** Documents pertaining to your IRA investments must be signed by the custodian serving on behalf of your IRA.

Can my IRA purchase real estate that I currently own?

No. This is considered a prohibited transaction (see IRC 4975). You may not purchase a property, or interest in a property, that is currently owned by a disqualified person (this includes you and family members of lineal descent).

Can my IRA purchase real estate that my corporation, partnership, or LLC owns?

No. See the previous question.

May I live in or work in a property that my IRA owns (e.g., personal residence, retirement or vacation home, office)?

No. This is considered a prohibited transaction (see IRC 4975).

Can I pay funds directly to a seller?

Yes, by completing an investment form, you instruct your custodian where to send the funds. Typically, funding to purchase real estate is sent to a title company, attorney, or escrow agent. Funds can be sent by check, cashier's check, or wire.

Can I transfer/rollover funds from an existing IRA, 401(k), or 403(b) to a self-directed IRA at Equity Trust for the purpose of investing in real estate?

Yes. You can choose to transfer or rollover all of, or portions of, your existing retirement accounts to Equity Trust. You can then self direct these assets into investments in which you have confidence, knowledge, and expertise.

I plan to purchase a rental property with my IRA. Does the rental income have to go back into my IRA?

Yes, all income generated by an IRA-owned property must return to your IRA. This ensures that you retain the tax-deferred or tax-free status of the investment.

How does the rental income actually get into my account?

Rental payments are sent to Your Custodian for the benefit of (FBO) your IRA. For example, if you were using Equity Trust Company as your custodian, the checks or money orders would be payable to:

"Equity Trust Company Custodian FBO *[Your Name*] IRA #xxxxx."

Once received, the checks or money orders are deposited into your IRA.

Can my IRA invest in a newly formed entity (e.g., limited partnership, Limited Liability Company, C corporation, land trust) that will invest in real estate?

Yes. Investments in newly-formed private entities are not prohibited under the Internal Revenue Code, with the exception of subchapter S corporations (please see IRS Letter Rulings).

Can my IRA purchase an interest in a subchapter S corporation?

No. IRAs are not qualified as investors in subchapter S corporations.

May I use funds from my IRA to renovate property in order to sell it at a higher price?

Yes. However, your IRA must pay all expenses associated with a property that it owns, including renovations. Further, all proceeds from the sale of the renovated property must be deposited into your IRA.

How do I sell a property owned by my IRA?

When you're ready to sell a property that's owned by your IRA, you need to request the original documents from the custodian. This is done by completing an investment form.

Once the property has been sold, all funds from the sale must be deposited into your IRA. These funds must be sent to your custodian with a payment coupon.

When I sell a property owned by my IRA, may I keep a portion of the proceeds and send the remaining portion to my self-directed IRA?

No. All income generated from the sale of a property owned by your IRA *must* be deposited directly into your IRA.

WHAT DOES IT ALL MEAN??

This may seem fairly daunting but remember, it's easy when you bring in professionals. Much of the information in this report has been culled from experts – it's always better to outsource the stuff you're not good at to someone who is! That's we use Equity Trust – you can use any company you'd like, but be sure and check them out first! Oh, and one last thing that my lawyer and accountant made me say:

As stated in the beginning of this document, I, the writer, am not an attorney nor am I an accountant, so don't misconstrue any of this as any form of legal or financial advice. That means that you should check out everything I said here with your attorney or your accountant or, go to Equity Trust and let them advise you. Happy Investing!

CHAPTER 22

Conclusion

Conclusion

In the past 21 chapters of this book, 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 book.

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,

Gabriel Contreras

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Support@REJVP.com

APPENDICES

PROMISSORY NOTE

PROMISSORY NOTE
SECURED BY DEED OF TRUST

This Promissory Note Secured by Deed of Trust (“Agreement”) is effective as of the ___ day of __________, 20___, by and between _____________________ [Secured Party Name], a/an _____________ [state] _________________ [entity type] ("Secured Party"), and ____________________ [Debtor Name], a/an _______________ [state] _________________________ [entity type] ("Debtor").

Recitals

A. On or about _______________, Secured Party and Debtor entered into an agreement whereby Secured Party would loan to Debtor the amount of ___________________________ and No/100ths Dollars (US$_____________.00).

B. Pursuant to the terms of the verbal agreement and to properly document the loan, Debtor has agreed to execute this Agreement.

In consideration of the foregoing and following promises, covenants, conditions and premises, and for other good and valuable consideration, the adequacy, sufficiency and receipt of which is hereby acknowledged, the parties hereby agree as follows:

Agreement

1. Recitals Part of Agreement. The recitals are a part of this Agreement.

2. Principal Repayment. Debtor hereby promises to pay, in lawful money of the United States, to the order of Secured Party, on or before ________________, 20__ (“Maturity Date”), the Principal Sum of __________________ Thousand and No/100ths Dollars (US$____________,000.00) (“Principal Sum”).

3. Interest and Monthly Interest Payment. Debtor shall pay to Secured Party interest at seven and one-half percent (7.5%) per annum on the Principal Sum as defined in this Agreement less any payments credited to Principal made by Debtor to Secured Party in monthly installments ("Monthly Interest Payment") due and payable on or before the fifth day of each month for which payment is due with the first Monthly Interest Payment due and payable on or before the fifth (______th) day of ________________, 20_____.

4. Collection Costs. Debtor agrees to pay the actual expenditures made in any attempt to collect any amount due to Secured Party pursuant to the Terms of this Agreement.

5. Secured Transaction. On the terms and conditions stated in this Agreement, Debtor hereby grants to Secured Party a security interest in and to all of the property listed on Exhibit A, attached hereto and incorporated by reference ("Collateral") and the proceeds or products of such Collateral.

6. Waiver or Presentment, Notice of Dishonor and Protest. Debtor waives presentment, demand and protest and the right to assert any statute of limitations.

7. Debtor's Obligations Secured By This Agreement. The obligations of Debtor secured by this Agreement are as follows:

a. To pay the obligations to Secured Party when they are due.

b. To pay all expenses, including attorneys' fees and court costs, incurred by Secured Party in the perfection, preservation, realization, enforcement and exercise of its rights under this Agreement.

c. To indemnify, defend and hold harmless Secured Party against loss of any kind, including reasonable attorneys' fees and costs, caused to Secured Party by reason of its interest in the Collateral.

d. To preserve all rights and privileges held by Debtor.

e. To keep Debtor's property and the Collateral in good repair.

f. To pay all taxes when due.

g. To give Secured Party notice of any litigation that may have a material adverse effect on Debtor or the Collateral.

h. Not to change Debtor's name or address, or to use a fictitious name, without first notifying Secured Party in writing.

i. Not to sell, lease, transfer, or otherwise dispose of the Collateral except as authorized by Secured Party in writing.

j Not to permit liens on the Collateral, except existing liens and current tax liens.

k. To maintain fire and extended coverage insurance on the Collateral in the amounts and under policies acceptable to Secured Party, naming Secured Party under a lender's loss payable clause, and to provide Secured Party with the policies and certificates at Secured Party's request.

l. To perform all acts necessary to maintain, preserve, and protect the Collateral.

m. To notify Secured Party promptly in writing of any default, potential default, or any development that might have a material adverse effect on the Collateral.

n. To furnish Secured Party reports relating to the Collateral at Secured Party's request.

8. Appointment of Attorney In Fact. Debtor hereby appoints Secured Party, or any other person whom Secured Party may designate, as Debtor's attorney in fact, with the following powers:

a. To perform any of Debtor's obligations under this Agreement in Debtor's name or otherwise.

b. To give notice of Debtor's right to payment, to enforce that right, and to make extension agreements with respect to it.

c. To release persons liable on rights to payment, to compromise disputes with those persons, and to surrender security, all as Secured Party determines in its sole discretion when acting in good faith based on information known to it when it acts.

d. To prepare and file financing statements, continuation statements, statements of assignment, termination statements, and the like, as necessary to perfect, protect, preserve, or release Secured Party's interest in the Collateral.

e. To endorse Debtor's name on instruments, documents, or other forms of payment or security that come into Secured Party's possession.

f. To take cash in payment of obligations.

g. To verify information concerning rights to payment by inquiry in its own name or in a fictitious name.

h. To prepare, execute, and deliver insurance forms; to adjust insurance claims; to receive payment under insurance claims; and to apply such payment to reduce Debtor's obligation.

9. Debtor covenants, warrants, and represents as follows:

a. This Agreement is a valid and binding obligation of Debtor. This Agreement creates a perfected, first priority security interest enforceable against the Collateral in which Debtor now has rights; and will create a perfected, first priority security interest enforceable against the Collateral in which Debtor later acquires rights, when Debtor acquires those rights.

b. Neither the execution and delivery of this Agreement, nor the taking of any action in compliance with it, will (1) violate or breach any law, regulation, rule, order, or judicial action binding on Debtor, any agreement to which Debtor is a party; or (2) result in the creation of a lien against the Collateral except that created by this Agreement.

c. No default or potential default exists.

d. Debtor owns and has possession of the Collateral, subject only to those liens and adverse claims listed in Exhibit B.

e. If any of the Collateral consists of fixtures, the Collateral subject to this Promissory Note and Security Agreement includes those fixtures. Debtor has provided Secured Party all information needed to make the fixture filings required to give Secured Party's security interest in that fixture Collateral priority over all third parties with an interest in the real property to which the fixtures are attached.

10. Debtor will be in default under this Agreement if:

a. Debtor fails to pay any installment when due, or its entire indebtedness to Secured Party when due, at stated maturity, on accelerated maturity, or otherwise.

b. Debtor fails to make any remittances required by this Agreement.

c. Debtor commits any breach of this Agreement, or any present or future rider or supplement to this Agreement, or any other agreement between Debtor and Secured Party evidencing the obligation or securing it.

d. Any warranty, representation, or statement, made by or on behalf of Debtor in or with respect to this Agreement, is false.

e. The Collateral is lost, stolen, or damaged.

f. There is a seizure or attachment of, or a levy on, the Collateral.

g. Debtor, if a business, ceases operations, is dissolved, terminates its existence, does or fails to do anything that allows obligations to become due before their stated maturity, or becomes insolvent or unable to meet its debts as they mature.

h. Debtor issues any additional shares, options, warrants, rights or other debt or ownership interest or potential ownership interest in the Collateral.

11. When an event of default occurs. Secured Party may declare the obligation(s) immediately due and payable without demand, presentment, protest or notice to Debtor.

12. Termination. This Agreement will continue in effect even though from time to time there may be no outstanding obligations or commitments under this Agreement. The Agreement will terminate when (a) Debtor completes performance of all obligations to Secured Party, including without limitation the repayment of all indebtedness by Debtor to Secured Party; (b) Debtor has no commitment that could give rise to an obligation; and (c) Secured Party has notified Debtor in writing of the termination.

13. Miscellaneous. Debtor will pay all costs and expenses of collection, including reasonable attorneys' fees, post judgment collection and enforcement costs, expert fees and expenses. No waiver by Secured Party of any breach or default will be a waiver of any breach or default occurring later. A waiver will be valid only if it is in writing and signed by Secured Party. Debtor's representations and warranties made in this Agreement will survive its execution, delivery and termination. This Agreement will bind and benefit the successors and assignees of the parties, but Debtor may not assign its rights under this Agreement without Secured Party's prior written consent. This Agreement will be governed by the laws of the State of _______________, as amended from time to time. This Agreement is the entire agreement, and supersedes any prior agreement or understandings, between Secured Party and Debtor relating to the Collateral. Time is of the Essence. This Agreement may not be modified in any way unless such modification is in a writing signed by all parties to this Agreement.

14. Notices. Notices under this Agreement are considered to be effective three (3) days after they are deposited in the mail, with prepaid first-class postage, addressed to the addresses listed above. Either party may change its address for service of notice, by notice to the other.

In Witness Whereof, the parties have executed this Agreement to be effective as of the date first set forth above.

DEBTOR:

____

[TYPED DEBTOR'S NAME]

EXHIBIT A

COLLATERAL

1. That certain real property located in the County of ________________, State of _____________________ as more particularly described herein, with a street address of ____ (APN ____-___-__-___):

PARCEL 1:

LEGAL DESCRIPTION GOES HERE

Debtor will notify Secured Party in writing before any change occurs in any of the above.

EXHIBIT B

LIENS AND ADVERSE CLAIMS

1. None.

MORTGAGE

MORTGAGE

THIS INDENTURE, made as of the _____ day of __________, 20___, by and between __________, ("Mortgagor"), and ____________, ("Mortgagee").

W I T N E S S E T H :

AMOUNT OF LIEN: "NOTE"

WHEREAS, Mortgagor is justly indebted to Mortgagee in the sum of __________ DOLLARS ($ __________) in lawful money of the United States, and has agreed to pay the same, with interest thereon, according tothe terms of a certain note (the "Note") given by Mortgagor to Mortgagee, bearing even date herewith.

DESCRIPTION OF PROPERTY SUBJECT TO LIEN: "PREMISES".

NOW, THEREFORE, in consideration of the premises and the sum hereinabove setforth, and to secure the payment of the Secured Indebtedness as defined herein, Mortgagor has granted, bargained, sold and conveyed, and by these presents does grant, bargain, sell and convey unto Mortgagee property situated in __________ County, __________, more particularly described in Exhibit"A" attached hereto and by this reference made a part hereof;

TOGETHER withall buildings, structures and other improvements now or hereafter located on,above or below the surface of the property herein before described, or any part and parcel thereof; and,

TOGETHER with all and singular the tenements, hereditaments, easements, riparian and littoral rights, and appurtenances thereunto belonging or in anywise appertaining, whether now owned or hereafter acquired by Mortgagor,and including all rights of ingress and egress to and from adjoining property(whether such rights now exist or subsequently arise) together with the reversion or reversions, remainder and remainders, rents, issues and profits thereof; and also all the estate, right, title, interest, claim and demand whatsoever of Mortgagor of, in and to the same and of, in and to every partand parcel thereof; and,

TOGETHER with all machinery, apparatus, equipment, fittings, fixtures, whether actually or constructively attached to said property and including all trade, domestic and ornamental fixtures, and articles of personal property of every kind and nature whatsoever (hereinafter collectively called "Equipment"), now or hereafter located in, upon or under said property or any part thereof and used or usable in connection with any present or future operation of said property and now owned or hereafter acquired by Mortgagor; and,

TOGETHER with all the common elements appurtenant to any parcel, unit or lotwhich is all or part of the Premises; and, ALL the foregoing encumbered by this Mortgage being collectively referred to herein as the "Premises";

TO HAVE AND TO HOLD the Premises hereby granted to the use, benefit and behalf of the Mortgagee, forever.

U.C.C. SECURITY AGREEMENT It is agreed that if any of the property herein mortgaged is of a nature so that a security interest therein can be perfected under the Uniform CommercialCode, this instrument shall constitute a Security Agreement and Mortgagor agrees to join with the Mortgagee in the execution of any financing statementsand to execute any and all other instruments that may be required for the perfection or renewal of such security interest under the Uniform Commercial Code.

EQUITY OF REDEMPTION Conditioned, however, that if Mortgagor shall promptly pay or cause to be paid to Mortgagee, at its address listed in the Note, or at such other place which may hereafter be designated by Mortgagee, its or their successors or assigns,with interest, the principal sum of __________ DOLLARS ($______) with final maturity, if not sooner paid, as stated in said Note unless amended or extended according to the terms of the Note executed by Mortgagor and payable to the order of Mortgagee, then these presents shall cease and be void, otherwise these presents shall remain in full force and effect.

ARTICLE ONE COVENANTS OF MORTGAGOR

Mortgagor covenants and agrees with Mortgagee as follows:

1.01 Secured Indebtedness. This Mortgage is given as security for the Note and also as security for any and all other sums, indebtedness, obligations and liabilities of any and every kind arising, under the Note or this Mortgage, as amended or modified or supplemented from time to time, and any and all renewals, modifications or extensions of any or all of the foregoing (all of which are collectively referred to herein as the "Secured Indebtedness"), the entire Secured Indebtedness being equally secured with and having the same priority as any amounts owed at the date hereof.

1.02 Performance of Note, Mortgage, Etc. Mortgagor shall perform, observe and comply with all provisions hereof and ofthe Note and shall promptly pay, in lawful money of the United States ofAmerica, to Mortgagee the Secured Indebtedness with interest thereon as provided in the Note, this Mortgage and all other documents constituting the Secured Indebtedness.

1.03 Extent Of Payment Other Than Principal And Interest. Mortgagor shall pay, when due and payable, (1) all taxes, assessments, general or special, and other charges levied on, or assessed, placed or made against the Premises, this instrument or the Secured Indebtedness or any interest of the Mortgagee in the Premises or the obligations secured hereby; (2) premiums on policies of fire and other hazard insurance covering the Premises, as required herein; (3) ground rents or other lease rentals; and (4) other sums related to the Premises or the indebtedness secured hereby, if any, payable by Mortgagor.

1.04 Insurance. Mortgagor shall, at its sole cost and expense, keep the

Premises insured against all hazards as is customary and reasonable for properties of similar type and nature located in __________ County, __________.

1.05 Care of Property. Mortgagor shall maintain the Premises in good condition and repair and shall not commit or suffer any material waste to the Premises.

1.06 Prior Mortgage. With regard to the Prior Mortgage, Mortgagor hereby agrees to: (i) Pay promptly, when due, all installments of principal and interest and all other sums and charges made payable by the Prior Mortgage; (ii) Promptly perform and observe all of the terms, covenants and conditions required to be performed and observed by Mortgagor under the Prior Mortgage,within the period provided in said Prior Mortgage; (iii) Promptly notify Mortgagee of any default, or notice claiming any eventof default by Mortgagor in the performance or observance of any term, covenant or condition to be performed or observed by Mortgagor under any such Prior Mortgage. (iv) Mortgagor will not request nor will it accept any voluntary future advances under the Prior Mortgage without Mortgagee's prior written consent,which consent shall not be unreasonably withheld.

ARTICLE TWO DEFAULTS

2.01 Event of Default. The occurrence of any one of the following events which shall not be cured within _____ days after written notice of the occurrence of the event, if the default is monetary, or which shall not be cured within _____ days after written notice from Mortgagee, if the default is non-monetary, shall constitute an "Event of Default": (a) Mortgagor fails to pay the Secured Indebtedness, or any part thereof, orthe taxes, insurance and other charges, as herein before provided, when and as the same shall become due and payable; (b) Any material warranty of Mortgagor herein contained, or contained in the Note, proves untrue or misleading in any material respect; (c) Mortgagor materially fails to keep, observe, perform, carry out and execute the covenants, agreements, obligations and conditions set out in this Mortgage, or in the Note; (d) Foreclosure proceedings (whether judicial or otherwise) are instituted on any mortgage or any lien of any kind secured by any portion of the Premises and affecting the priority of this Mortgage.

2.02 Options Of Mortgagee Upon Event Of Default. Upon the occurrence of any Event of Default, the Mortgagee may immediately do any one or more of the following: (a) Declare the total Secured Indebtedness, including without limitation all payments for taxes, assessments, insurance premiums, liens, costs, expenses and attorney's fees herein specified, without notice to Mortgagor (such noticebeing hereby expressly waived), to be due and collectible at once, byforeclosure or otherwise; (b) Pursue any and all remedies available under the Uniform Commercial Code; it being hereby agreed that ten (10) days' notice as to the time, date and place of any proposed sale shall be reasonable; (c) In the event that Mortgagee elects to accelerate the maturity of the Secured Indebtedness and declares the Secured Indebtedness to be due and payable in full at once as provided for in Paragraph 1.02(a) hereinabove, or as may be provided for in the Note, or any other provision or term of this Mortgage, then Mortgagee shall have the right to pursue all of Mortgagee's rights and remedies for the collection of such Secured Indebtedness, whether such rights and remedies are granted by this

Mortgage, any other agreement,law, equity or otherwise, to include, without limitation, the institution of foreclosure proceedings against the Premises under the terms of this Mortgage and any applicable state or federal law.

ARTICLE THREE MISCELLANEOUS PROVISIONS

3.01 Prior Liens. Mortgagor shall keep the Premises free from all prior liens (except for those consented to by Mortgagee).

3.02 Notice, Demand and Request. Every provision for notice and demand or request shall be deemed fulfilled by written notice and demand or request delivered in accordance with the provisions of the Note relating to notice.

3.03 Meaning of Words. The words "Mortgagor" and "Mortgagee" whenever used herein shall include all individuals, corporations (and if a corporation, its officers, employees or agents), trusts and any and all other persons or entities, and the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, and all those holding under either of them. The pronouns used herein shall include, when appropriate, either gender and both singular and plural. The word "Note" shall also include one or more notes and the grammatical construction of sentences shall conform thereto.

3.04 Severability. If any provision of this Mortgage or any other Loan Document or the application thereof shall, for any reason and to any extent, be invalid or unenforceable, neither the remainder of the instrument in which such provision is contained, nor the application of the provision to other persons, entities or circumstances, nor any other instrument referred to hereinabove shall be affected thereby, but instead shall be enforced to the maximum extent permitted by law.

3.05 Governing Law. The terms and provisions of this Mortgage are to be governed by the laws of the State of __________. No payment of interest or in the nature of interest for any debt secured in part by this Mortgage shall exceed the maximum amount permitted by law. Any payment in excess of the maximum amount shall be applied or disbursed as provided in the Note in regard to such amounts which are paid by the Mortgagor or received by the Mortgagee.

3.06 Descriptive Headings. The descriptive headings used herein are for convenience of reference only, and they are not intended to have any effect whatsoever in determining the rights or obligations of the Mortgagor or Mortgagee and they shall not be used in the interpretation or construction hereof.

3.07 Attorney's Fees. As used in this Mortgage, attorneys' fees shall include, but not be limited to, fees incurred in all matters of collection and enforcement, construction and interpretation, before, during and after suit, trial, proceedings and appeals. Attorneys' fees shall also include hourly charges for paralegals, law clerks and other staff members operating under the supervision of an attorney.

3.08 Exculpation. Notwithstanding anything contained herein to the contrary, the Note which this Mortgage secures is a non-recourse Note and such Note shall be enforced against Mortgagor only to the extent of Mortgagor's interest in the Premises as described herein and to the extent of Mortgagor's interest in any personalty as may be described herein.

IN WITNESS WHEREOF, the Mortgagor has caused this instrument to be duly executed as of the day and year first above written.

Witnesses: __________ __________

STATE OF __________ COUNTY OF __________

[NOTARIZATION]

DEED OF TRUST

____

[Space Above This Line For Recording Data]

DEED OF TRUST

DEFINITIONS:

Words used in multiple sections of this document are defined below and other words are defined in Sections 3, 11, 13, 18, 20 and 21. Certain rules regarding the usage of words used in this document are also provided in Section 16.

(A) **"Security Instrument"** means this document, which is dated , together with all Riders to this document.

(B) **"Borrower"** is ____. Borrower is the trustor under this Security Instrument.

(C) **"Lender"** is ____. Lender is a ____ organized and existing under the laws of ______________________ [state]. Lender's address is ____ ____. Lender is the beneficiary under this Security Instrument.

(D) **"Trustee"** is ____.

(E) **"Note"** means the promissory note signed by Borrower and dated _______________________. The Note states that Borrower owes Lender ____ Dollars (U.S.$____________________) plus interest. Borrower has promised to pay this debt in regular Periodic Payments and to pay the debt in full not later than _______________________.

(F) **"Property"** means the property that is described below under the heading "Transfer of Rights in the Property".

(G) **"Loan"** means the debt evidenced by the Note, plus interest, any prepayment charges and late charges due under the Note, and all sums due under this Security Instrument, plus interest.

(H) **"Riders"** means all Riders to this Security Instrument that are executed by Borrower. The following Riders are to be executed by Borrower [*check as applicable*]: _____Adjustable Rate Rider _____Condominium Rider _____Second Home Rider _____Balloon Rider _____Planned Unit Development Rider _____1-4 Family Rider _____Biweekly Payment Rider _____Other(s) [*specify:*] ____.

(I) **"Applicable Law"** means all controlling applicable federal, state and local statutes, regulations, ordinances and administrative rules and orders (that have the effect of law) as well as all applicable final, non-appealable judicial opinions.

(J) **"Community Association Dues, Fees and Assessments"** means all dues, fees, assessments and other charges that are imposed on Borrower or the Property by a condominium association, homeowners association or similar organization.

(K) **"Electronic Funds Transfer"** means any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument, computer, or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an account. Such term includes, but is not limited to, point-of-sale transfers, automated teller machine transactions, transfers initiated by telephone, wire transfers, and automated clearinghouse transfers.

(L) **"Escrow Items"** means those items that are described in Section 3.

(M) **"Miscellaneous Proceeds"** means any compensation, settlement, award of damages, or proceeds paid by any third party (other than insurance proceeds paid under the coverages described in Section 5) for: (i) damage to, or destruction of, the Property; (ii) condemnation or other taking of all or any part of the Property; (iii) conveyance in lieu of condemnation; or (iv) misrepresentations of, or omissions as to, the value and/or condition of the Property.

(N) **"Mortgage Insurance"** means insurance protecting Lender against the nonpayment of, or default on, the Loan.

(O) **"Periodic Payment"** means the regularly scheduled amount due for (i) principal and interest under the Note, plus (ii) any amounts under Section 3 of this Security Instrument.

(P) **"RESPA"** means the Real Estate Settlement Procedures Act (12 U.S.C. 2601 et seq.) and its implementing regulation at the state level (______________________________ [*citation to applicable state statutes*]), as they might be amended from time to time, or any additional or successor legislation or regulation that governs the same subject matter. As used in this Security Instrument, "RESPA" refers to all requirements and restrictions that are imposed in regard to a "federally related mortgage loan" even if the Loan does not qualify as a "federally related mortgage loan" under RESPA.

(Q) **"Successor in Interest of Borrower"** means any party that has taken title to the Property, whether or not that party has assumed Borrower's obligations under the Note and/or this Security Instrument.

TRANSFER OF RIGHTS IN THE PROPERTY:

This Security Instrument secures to Lender: (i) the repayment of the Loan, and all renewals, extensions and modifications of the Note; and (ii) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower irrevocably grants and conveys to Trustee, in trust, with power of sale, the following described property located in the ________________________________ [*Type of Recording Jurisdiction*] of ________________________________ [*Name of Recording Jurisdiction*] which currently has the address of ____ [*complete mailing address*] ("Property Address"):

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

Borrower and Lender covenant and agree as follows:

1. Payment of Principal, Interest, Escrow Items, Prepayment Charges, and Late Charges. Borrower shall pay when due the principal of, and interest on, the debt evidenced by the Note and any prepayment charges and late charges due under the Note. Borrower shall also pay funds for Escrow Items pursuant to Section 3. Payments due under the Note and this Security Instrument shall be made in U.S. currency. However, if any check or other instrument received by Lender as payment under the Note or this Security Instrument is returned to Lender unpaid, Lender may require that any or all subsequent payments due under the Note and this Security Instrument be made in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check, provided any such check is drawn upon an institution whose deposits are insured by a federal agency, instrumentality, or entity; or (d) Electronic Funds Transfer.

Payments are deemed received by Lender when received at the location designated in the Note or at such other location as may be designated by Lender in accordance with the notice provisions in Section 15. Lender may return any payment or partial payment if the payment or partial payments are insufficient to bring the Loan current. Lender may accept any payment or partial payment insufficient to bring the Loan current, without waiver of any rights hereunder or prejudice to its rights to refuse such payment or partial payments in the future, but Lender is not obligated to apply such payments at the time such payments are accepted. If each Periodic Payment is applied as of its scheduled due date, then Lender need not pay interest on unapplied funds. Lender may hold such unapplied funds until Borrower makes payment to bring the Loan current. If Borrower does not do so within a reasonable period of time, Lender shall either apply such funds or return them to Borrower. If not applied earlier, such funds will be applied to the outstanding principal balance under the Note immediately prior to foreclosure. No offset or claim which Borrower might have now or in the future against Lender shall relieve Borrower from making payments due under the Note and this Security Instrument or performing the covenants and agreements secured by this Security Instrument.

2. Application of Payments or Proceeds. Except as otherwise described in this Section 2, all payments accepted and applied by Lender shall be applied in the following order of priority: (a) interest due under the Note; (b) principal due under the Note; (c) amounts due under Section 3. Such payments shall be applied to each Periodic Payment in the order in which it became due. Any remaining amounts shall be applied first to late charges, second to any other amounts due under this Security Instrument, and then to reduce the principal balance of the Note.

If Lender receives a payment from Borrower for a delinquent Periodic Payment which includes a sufficient amount to pay any late charge due, the payment may be applied to the delinquent payment and the late charge. If more than one Periodic Payment is outstanding, Lender may apply any payment received from Borrower to the repayment of the Periodic Payments if, and to the extent that, each payment can be paid in full. To the extent that any excess exists after the payment is applied to the full payment of one or more

Periodic Payments, such excess may be applied to any late charges due. Voluntary prepayments shall be applied first to any prepayment charges and then as described in the Note.

Any application of payments, insurance proceeds, or Miscellaneous Proceeds to principal due under the Note shall not extend or postpone the due date, or change the amount, of the Periodic Payments.

3. Funds for Escrow Items. Borrower shall pay to Lender on the day Periodic Payments are due under the Note, until the Note is paid in full, a sum (the "Funds") to provide for payment of amounts due for: (a) taxes and assessments and other items which can attain priority over this Security Instrument as a lien or encumbrance on the Property; (b) leasehold payments or ground rents on the Property, if any; (c) premiums for any and all insurance required by Lender under Section 5; and (d) Mortgage Insurance premiums, if any, or any sums payable by Borrower to Lender in lieu of the payment of Mortgage Insurance premiums in accordance with the provisions of Section 10. These items are called "Escrow Items". At origination or at any time during the term of the Loan, Lender may require that Community Association Dues, Fees, and Assessments, if any, be escrowed by Borrower, and such dues, fees and assessments shall be an Escrow Item. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this Section. Borrower shall pay Lender the Funds for Escrow Items unless Lender waives Borrower's obligation to pay the Funds for any or all Escrow Items. Lender may waive Borrower's obligation to pay to Lender Funds for any or all Escrow Items at any time. Any such waiver may only be in writing. In the event of such waiver, Borrower shall pay directly, when and where payable, the amounts due for any Escrow Items for which payment of Funds has been waived by Lender and, if Lender requires, shall furnish to Lender receipts evidencing such payment within such time period as Lender may require. Borrower's obligation to make such payments and to provide receipts shall for all purposes be deemed to be a covenant and agreement contained in this Security Instrument, as the phrase "covenant and agreement", is used in Section 9. If Borrower is obligated to pay Escrow Items directly, pursuant to a waiver, and Borrower fails to pay the amount due for an Escrow Item, Lender may exercise its rights under Section 9 and pay such amount and Borrower shall then be obligated under Section 9 to repay to Lender any such amount. Lender may revoke the waiver as to any or all Escrow Items at any time by a notice given in accordance with Section 15 and, upon such revocation, Borrower shall pay to Lender all Funds, and in such amounts, that are then required under this Section 3.

Lender may, at any time, collect and hold Funds in an amount (a) sufficient to permit Lender to apply the Funds at the time specified under RESPA, and (b) not to exceed the maximum amount a lender can require under RESPA. Lender shall estimate the amount of Funds due on the basis of current data and reasonable estimates of expenditures of future Escrow Items or otherwise in accordance with Applicable Law. The Funds shall be held in an institution whose deposits are insured by a federal agency, instrumentality, or entity (including Lender, if Lender is an institution whose deposits are so insured) or in any Federal Home Loan Bank. Lender shall apply the Funds to pay the Escrow Items no later than the time specified under RESPA. Lender shall not charge Borrower for holding and applying the Funds, annually analyzing the escrow account, or verifying the Escrow Items, unless Lender pays Borrower interest on the Funds and Applicable Law permits Lender to make such a charge. Unless an agreement is made in writing or Applicable Law requires interest to be paid on the Funds, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Borrower and Lender can agree in writing, however, that interest shall be paid on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds as required by RESPA.

If there is a surplus of Funds held in escrow, as defined under RESPA, Lender shall account to Borrower for the excess funds in accordance with RESPA. If there is a shortage of Funds held in escrow, as defined under RESPA, Lender shall notify Borrower as required by RESPA, and Borrower shall pay to Lender the amount necessary to make up the shortage in accordance with RESPA, but in no more than 12 monthly payments. If there is a deficiency of Funds held in escrow, as defined under RESPA, Lender shall notify Borrower as required by RESPA, and Borrower shall pay to Lender the amount necessary to make up the deficiency in accordance with RESPA, but in no more than 12 monthly payments.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender.

4. Charges; Liens. Borrower shall pay all taxes, assessments, charges, fines, and impositions attributable to the Property which can attain priority over this Security Instrument, leasehold payments or ground rents on the Property, if any, and Community Association Dues, Fees, and Assessments, if any. To the extent that these items are Escrow Items, Borrower shall pay them in the manner provided in Section 3.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender, but only so long as Borrower is performing such agreement; (b) contests the lien in good faith by, or defends against enforcement of the lien in, legal proceedings which in Lender's opinion operate to prevent the enforcement of the lien while those proceedings are pending, but only until such proceedings are concluded; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which can attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Within 10 days of the date on which that notice is given, Borrower shall satisfy the lien or take one or more of the actions set forth above in this Section 4.

Lender may require Borrower to pay a one-time charge for a real estate tax verification and/or reporting service used by Lender in connection with this Loan.

5. Property Insurance. Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage," and any other hazards including, but not limited to, earthquakes and floods, for which Lender requires insurance. This insurance shall be maintained in the amounts (including deductible levels) and for the periods that Lender requires. What Lender requires pursuant to the preceding sentences can change during the term of the Loan. The insurance carrier providing the insurance shall be chosen by Borrower subject to Lender's right to disapprove Borrower's choice, which right shall not be exercised unreasonably. Lender may require Borrower to pay, in connection with this Loan, either: (a) a one-time charge for flood zone determination, certification and tracking services; or (b) a one-time charge for flood zone determination and certification services and subsequent charges each time remappings or similar changes occur which reasonably might affect such determination or certification. Borrower shall also be responsible for the payment of any fees imposed by the Federal Emergency Management Agency in connection with the review of any flood zone determination resulting from an objection by Borrower.

If Borrower fails to maintain any of the coverages described above, Lender may obtain insurance coverage, at Lender's option and Borrower's expense. Lender is under no obligation to purchase any particular type or amount of coverage. Therefore, such coverage shall cover Lender, but might or might not protect Borrower, Borrower's equity in the Property, or the contents of the Property, against any risk, hazard or liability and might provide greater or lesser coverage than was previously in effect.

Borrower acknowledges that the cost of the insurance coverage so obtained might significantly exceed the cost of insurance that Borrower could have obtained. Any amounts disbursed by Lender under this Section 5 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

All insurance policies required by Lender and renewals of such policies shall be subject to Lender's right to disapprove such policies, shall include a standard mortgage clause, and shall name Lender as mortgagee and/or as an additional loss payee and Borrower further agrees to generally assign rights to insurance proceeds to the holder of the Note up to the amount of the outstanding loan balance. Lender shall have the right to hold the policies and renewal certificates. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. If Borrower obtains any form of insurance coverage, not otherwise required by Lender, for damage to, or destruction of, the Property, such policy shall include a standard mortgage clause and shall name Lender as mortgagee and/or as an additional loss payee and Borrower further agrees to generally assign rights to insurance proceeds to the holder of the Note up to the amount of the outstanding loan balance. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower. Unless Lender and Borrower otherwise agree in writing, any insurance proceeds, whether or not the underlying insurance was required by Lender, shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened.

During such repair and restoration period, Lender shall have the right to hold such insurance proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such insurance proceeds, Lender shall not be required to pay Borrower any interest or earnings on such proceeds. Fees for public adjusters, or other third parties, retained by Borrower shall not be paid out of the insurance proceeds and shall be the sole obligation of Borrower. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such insurance proceeds shall be applied in the order provided for in Section 2.

If Borrower abandons the Property, Lender may file, negotiate and settle any available insurance claim and related matters. If Borrower does not respond within 30 days to a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may negotiate and settle the claim. The 30-day period will begin when the notice is given. In either event, or if Lender acquires the Property under Section 22 or otherwise, Borrower hereby assigns to Lender (a) Borrower's rights to any insurance proceeds in an amount not to exceed the amounts unpaid under the Note or this Security Instrument, and (b) any other of Borrower's rights (other than the right to any refund of unearned premiums paid by Borrower) under all insurance policies covering the Property, insofar as such rights are applicable to the coverage of the Property. Lender may use the insurance proceeds either to repair or restore the Property or to pay amounts unpaid under the Note or this Security Instrument, whether or not then due.

6. Occupancy. Borrower shall occupy, establish, and use the Property as Borrower's principal residence within 60 days after the execution of this Security Instrument and shall continue to occupy the Property as Borrower's principal residence for at least one year after the date of occupancy, unless Lender otherwise agrees in writing, which consent shall not be unreasonably withheld, or unless extenuating circumstances exist which are beyond Borrower's control.

7. Preservation, Maintenance and Protection of the Property; Inspections. Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate or commit waste on the Property. Whether or not Borrower is residing in the Property, Borrower shall maintain the Property in order to prevent the Property from deteriorating or decreasing in value due to its condition. Unless it is determined pursuant to Section 5 that repair or restoration is not economically feasible, Borrower shall promptly repair the Property if damaged to avoid further deterioration or damage. If insurance or condemnation proceeds are paid in connection with damage to, or the taking of, the Property, Borrower shall be responsible for repairing or restoring the Property only if Lender has released proceeds for such purposes. Lender may disburse proceeds for the repairs and restoration in a single payment or in a series of progress payments as the work is completed. If the insurance or condemnation proceeds are not sufficient to repair or restore the Property, Borrower is not relieved of Borrower's obligation for the completion of such repair or restoration.

Lender or its agent may make reasonable entries upon and inspections of the Property. If it has reasonable cause, Lender may inspect the interior of the improvements on the Property. Lender shall give Borrower notice at the time of or prior to such an interior inspection specifying such reasonable cause.

8. Borrower's Loan Application. Borrower shall be in default if, during the Loan application process, Borrower or any persons or entities acting at the direction of Borrower or with Borrower's knowledge or consent gave materially false, misleading, or inaccurate information or statements to Lender (or failed to provide Lender with material information) in connection with the Loan. Material representations include, but are not limited to, representations concerning Borrower's occupancy of the Property as Borrower's principal residence.

9. Protection of Lender's Interest in the Property and Rights Under this Security Instrument. If (a) Borrower fails to perform the covenants and agreements contained in this Security Instrument, (b) there is a legal proceeding that might significantly affect Lender's interest in the Property and/or rights under this Security Instrument (such as a proceeding in bankruptcy, probate, for condemnation or forfeiture, for enforcement of a lien which may attain priority over this Security Instrument or to enforce laws or regulations), or (c) Borrower has abandoned the Property, then Lender may do and pay for whatever is reasonable or appropriate to protect Lender's interest in the Property and rights under this Security Instrument, including protecting and/or assessing the value of the Property, and securing and/or repairing the Property. Lender's actions can include, but are not limited to: (a) paying any sums secured by a lien which has priority over this Security Instrument; (b) appearing in court; and (c) paying reasonable attorneys' fees to protect its interest in the Property and/or rights under this Security Instrument, including its secured position in a bankruptcy proceeding. Securing the Property includes, but is not limited to, entering the Property to make repairs, change locks, replace or board up doors and windows, drain water from pipes, eliminate building or other code violations or dangerous conditions, and have utilities turned on or off. Although Lender may take action under this Section 9, Lender does not have to do so and is not under any duty or obligation to do so. It is agreed that Lender incurs no liability for not taking any or all actions authorized under this Section 9.

Any amounts disbursed by Lender under this Section 9 shall become additional debt of Borrower secured by this Security Instrument. These amounts shall bear interest at the Note rate from the date of disbursement and shall be payable, with such interest, upon notice from Lender to Borrower requesting payment.

If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

10. Mortgage Insurance. If Lender required Mortgage Insurance as a condition of making the Loan, Borrower shall pay the premiums required to maintain the Mortgage Insurance in effect. If, for any reason, the Mortgage Insurance coverage required by Lender ceases to be available from the mortgage insurer that previously provided such insurance and Borrower was required to make separately designated payments toward the premiums for Mortgage Insurance, Borrower shall pay the premiums required to obtain coverage substantially equivalent to the Mortgage Insurance previously in effect, at a cost substantially equivalent to the cost to Borrower of the Mortgage Insurance previously in effect, from an alternate mortgage insurer selected by Lender. If substantially equivalent Mortgage Insurance coverage is not available, Borrower shall continue to pay to Lender the amount of the separately designated payments that were due when the insurance coverage ceased to be in effect. Lender will accept, use and retain these payments as a non-refundable loss reserve in lieu of Mortgage Insurance. Such loss reserve shall be non-refundable, notwithstanding the fact that the Loan is ultimately paid in full, and Lender shall not be required to pay Borrower any interest or earnings on such loss reserve. Lender can no longer require loss reserve payments if Mortgage Insurance coverage (in the amount and for the period that Lender requires) provided by an insurer selected by Lender again becomes available, is obtained, and Lender requires separately designated payments toward the premiums for Mortgage Insurance. If Lender required Mortgage Insurance as a condition of making the Loan and Borrower was required to make separately designated payments toward the premiums for Mortgage Insurance, Borrower shall pay the premiums required to maintain Mortgage Insurance in effect, or to provide a non-refundable loss reserve, until Lender's requirement for Mortgage Insurance ends in accordance with any written agreement between Borrower and Lender providing for such termination or until termination is required by Applicable

Law. Nothing in this Section 10 affects Borrower's obligation to pay interest at the rate provided in the Note.

Mortgage Insurance reimburses Lender (or any entity that purchases the Note) for certain losses it may incur if Borrower does not repay the Loan as agreed. Borrower is not a party to the Mortgage Insurance.

Mortgage insurers evaluate their total risk on all such insurance in force from time to time, and may enter into agreements with other parties that share or modify their risk, or reduce losses. These agreements are on terms and conditions that are satisfactory to the mortgage insurer and the other party (or parties) to these agreements. These agreements may require the mortgage insurer to make payments using any source of funds that the mortgage insurer may have available (which may include funds obtained from Mortgage Insurance premiums). As a result of these agreements, Lender, any purchaser of the Note, another insurer, any reinsurer, any other entity, or any affiliate of any of the foregoing, may receive (directly or indirectly) amounts that derive from (or might be characterized as) a portion of Borrower's payments for Mortgage Insurance, in exchange for sharing or modifying the mortgage insurer's risk, or reducing losses. If such agreement provides that an affiliate of Lender takes a share of the insurer's risk in exchange for a share of the premiums paid to the insurer, the arrangement is often termed "captive reinsurance." Further:

(a) Any such agreements will not affect the amounts that Borrower has agreed to pay for Mortgage Insurance, or any other terms of the Loan. Such agreements will not increase the amount Borrower will owe for Mortgage Insurance, and they will not entitle Borrower to any refund.

(b) Any such agreements will not affect the rights Borrower has -- if any -- with respect to the Mortgage Insurance under the Homeowners Protection Act of 1998 or any other law. These rights may include the right to receive certain disclosures, to request and obtain cancellation of the Mortgage Insurance, to have the Mortgage Insurance terminated automatically, and/or to receive a refund of any Mortgage Insurance premiums that were unearned at the time of such cancellation or termination.

11. Assignment of Miscellaneous Proceeds; Forfeiture. All Miscellaneous Proceeds are hereby assigned to and shall be paid to Lender. If the Property is damaged, such Miscellaneous Proceeds shall be applied to restoration or repair of the Property, if the restoration or repair is economically feasible and Lender's security is not lessened. During such repair and restoration period, Lender shall have the right to hold such Miscellaneous Proceeds until Lender has had an opportunity to inspect such Property to ensure the work has been completed to Lender's satisfaction, provided that such inspection shall be undertaken promptly. Lender may pay for the repairs and restoration in a single disbursement or in a series of progress payments as the work is completed. Unless an agreement is made in writing or Applicable Law requires interest to be paid on such Miscellaneous Proceeds, Lender shall not be required to pay Borrower any interest or earnings on such Miscellaneous Proceeds. If the restoration or repair is not economically feasible or Lender's security would be lessened, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower. Such Miscellaneous Proceeds shall be applied in the order provided for in Section 2. In the event of a total taking, destruction, or loss in value of the Property, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with the excess, if any, paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the Miscellaneous Proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the partial taking, destruction, or loss in value divided by (b) the fair market value of the Property immediately before the partial taking, destruction, or loss in value. Any balance shall be paid to Borrower.

In the event of a partial taking, destruction, or loss in value of the Property in which the fair market value of the Property immediately before the partial taking, destruction, or loss in value is less than the amount of the sums secured immediately before the partial taking, destruction, or loss in value, unless Borrower and Lender otherwise agree in writing, the Miscellaneous Proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the Opposing Party (as defined in the next sentence) offers to make an award to settle a claim for damages, Borrower fails to respond to Lender within 30 days after the date the notice is given, Lender is authorized to collect and apply the Miscellaneous Proceeds either to restoration or repair of the Property or to the sums secured by this Security Instrument, whether or not then due. "Opposing Party" means the third party that owes Borrower Miscellaneous Proceeds or the party against whom Borrower has a right of action in regard to Miscellaneous Proceeds.

Borrower shall be in default if any action or proceeding, whether civil or criminal, is begun that, in Lender's judgment, could result in forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. Borrower can cure such a default and, if acceleration has occurred, reinstate as provided in Section 19, by causing the action or proceeding to be dismissed with a ruling that, in Lender's judgment, precludes forfeiture of the Property or other material impairment of Lender's interest in the Property or rights under this Security Instrument. The proceeds of any award or claim for damages that are attributable to the impairment of Lender's interest in the Property are hereby assigned and shall be paid to Lender. All Miscellaneous Proceeds that are not applied to restoration or repair of the Property shall be applied in the order provided for in Section 2.

12. Borrower Not Released; Forbearance By Lender Not a Waiver. Extension of the time for payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to Borrower or any Successor in Interest of Borrower shall not operate to release the liability of Borrower or any Successors in Interest of Borrower. Lender shall not be required to commence proceedings against any Successor in Interest of Borrower or to refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or any Successors in Interest of Borrower. Any forbearance by Lender in exercising any right or remedy including, without limitation, Lender's acceptance of payments from third persons, entities or Successors in Interest of Borrower or in amounts less than the amount then due, shall not be a waiver of or preclude the exercise of any right or remedy.

13. Joint and Several Liability; Co-signers; Successors and Assigns Bound. Borrower covenants and agrees that Borrower's obligations and liability shall be joint and several. However, any Borrower who co-signs this Security Instrument but does not execute the Note (a "co-signer"): (a) is co-signing this Security Instrument only to mortgage, grant and convey the co-signer's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower can agree to extend, modify, forbear or make any accommodations with regard to the terms of this Security Instrument or the Note without the co-signer's consent. Subject to the provisions of Section 18, any Successor in Interest of Borrower who assumes Borrower's obligations under this Security Instrument in writing, and is approved by Lender, shall obtain all of Borrower's rights and benefits under this Security Instrument. Borrower shall not be released from Borrower's obligations and liability under this Security Instrument unless Lender agrees to such release in writing. The covenants and agreements of this Security Instrument shall bind (except as provided in Section 20) and benefit the successors and assigns of Lender.

14. Loan Charges. Lender may charge Borrower fees for services performed in connection with Borrower's default, for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument, including, but not limited to, attorneys' fees, property inspection and valuation fees. In regard to any other fees, the absence of express authority in this Security Instrument to charge a specific fee to Borrower shall not be construed as a prohibition on the charging of such fee. Lender may not charge fees that are expressly prohibited by this Security Instrument or by Applicable Law. If the Loan is subject to a law which sets maximum loan charges, and that law is finally interpreted so that the interest or other loan charges collected or to be collected in connection with the Loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from Borrower which exceeded permitted limits will be refunded to Borrower. Lender may choose to make this refund by reducing the principal owed under the Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment without any prepayment charge (whether or not a prepayment charge is provided for under the Note). Borrower's acceptance of any such refund made by direct payment to Borrower will constitute a waiver of any right of action Borrower might have arising out of such overcharge.

15. Notices. All notices given by Borrower or Lender in connection with this Security Instrument must be in writing. Any notice to Borrower in connection with this Security Instrument shall be deemed to have been given to Borrower when mailed by first class mail or when actually delivered to Borrower's notice address if sent by other means. Notice to any one Borrower shall constitute notice to all Borrowers unless Applicable Law expressly requires otherwise. The notice address shall be the Property Address unless Borrower has designated a substitute notice address by notice to Lender. Borrower shall promptly notify Lender of Borrower's change of address. If Lender specifies a procedure for reporting Borrower's change of address, then Borrower shall only report a change of address through that specified procedure. There may be only one designated notice address under this Security Instrument at any one time. Any notice to Lender shall be given by delivering it or by mailing it by first class mail to Lender's address stated herein unless Lender has designated another address by notice to Borrower. Any notice in connection with this Security Instrument shall not be deemed to have been given to Lender until actually received by Lender. If any notice required by this Security Instrument is also required under Applicable Law, the Applicable Law requirement will satisfy the corresponding requirement under this Security Instrument.

16. Governing Law; Severability; Rules of Construction. This Security Instrument shall be governed by federal law and the law of the jurisdiction in which the Property is located. All rights and obligations contained in this Security Instrument are subject to any requirements and limitations of Applicable Law. Applicable Law might explicitly or implicitly allow the parties to agree by contract or it might be silent, but such silence shall not be construed as a prohibition against agreement by contract. In the event that any provision or clause of this Security Instrument or the Note conflicts with Applicable Law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision.

As used in this Security Instrument: (a) words of the masculine gender shall mean and include corresponding neuter words or words of the feminine gender; (b) words in the singular shall mean and include the plural and vice versa; and (c) the word "may" gives sole discretion without any obligation to take any action.

17. Borrower's Copy. Borrower shall be given one copy of the Note and of this Security Instrument.

18. Transfer of the Property or a Beneficial Interest in Borrower. As used in this Section 18, "Interest in the Property" means any legal or beneficial interest in the Property, including, but not limited to, those beneficial interests transferred in a bond for deed, contract for deed, installment sales contract or escrow agreement, the intent of which is the transfer of title by Borrower at a future date to a purchaser.

If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if such exercise is prohibited by Applicable Law.

If Lender exercises this option, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

19. Borrower's Right to Reinstate After Acceleration. If Borrower meets certain conditions, Borrower shall have the right to have enforcement of this Security Instrument discontinued at any time prior to the earliest of: (a) five days before sale of the Property pursuant to any power of sale contained in this Security Instrument; (b) such other period as Applicable Law might specify for the termination of Borrower's right to reinstate; or (c) entry of a judgment enforcing this Security Instrument. Those conditions are that Borrower: (a) pays Lender all sums which then would be due under this Security Instrument and the Note as if no acceleration had occurred; (b) cures any default of any other covenants or agreements; (c) pays all expenses incurred in enforcing this Security Instrument, including, but not limited to, reasonable attorneys' fees, property inspection and valuation fees, and other fees incurred for the purpose of protecting Lender's interest in the Property and rights under this Security Instrument; and (d) takes such action as Lender may reasonably require to assure that Lender's interest in the Property and rights under this Security Instrument, and Borrower's obligation to pay the sums secured by this Security Instrument, shall continue unchanged. Lender may require that Borrower pay such reinstatement sums and expenses in one or more of the following forms, as selected by Lender: (a) cash; (b) money order; (c) certified check, bank check, treasurer's check or cashier's check, provided any such check is drawn upon an institution whose deposits are insured by a federal agency, instrumentality or entity; or (d) Electronic Funds Transfer.

Upon reinstatement by Borrower, this Security Instrument and obligations secured hereby shall remain fully effective as if no acceleration had occurred. However, this right to reinstate shall not apply in the case of acceleration under Section 18.

20. Sale of Note; Change of Loan Servicer; Notice of Grievance. The Note or a partial interest in the Note (together with this Security Instrument) can be sold one or more times without prior notice to Borrower. A sale might result in a change in the entity (known as the "Loan Servicer") that collects Periodic Payments due under the Note and this Security Instrument and performs other mortgage loan servicing obligations under the Note, this Security Instrument, and Applicable Law. There also might be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change which will state the name and address of the new Loan Servicer, the address to which payments should be made and any other information RESPA requires in connection with a notice of transfer of servicing. If the Note is sold and thereafter the Loan is serviced by a Loan Servicer other than the purchaser of the Note, the mortgage loan servicing obligations to Borrower will remain with the Loan Servicer or be transferred to a successor Loan Servicer and are not assumed by the Note purchaser unless otherwise provided by the Note purchaser.

Neither Borrower nor Lender may commence, join, or be joined to any judicial action (as either an individual litigant or the member of a class) that arises from the other party's actions pursuant to this Security Instrument or that alleges that the other party has breached any provision of, or any duty owed by reason of, this Security Instrument, until such Borrower or Lender has notified the other party (with such notice given in compliance with the requirements of Section 15) of such alleged breach and afforded the other party hereto a reasonable period after the giving of such notice to take corrective action. If Applicable Law provides a time period which must elapse before certain action can be taken, that time period will be deemed to be reasonable for purposes of this paragraph. The notice of acceleration and opportunity to cure given to Borrower pursuant to Section 22 and the notice of acceleration given to Borrower pursuant to Section 18 shall be deemed to satisfy the notice and opportunity to take corrective action provisions of this Section 20.

21. Hazardous Substances. As used in this Section 21: (a) "Hazardous Substances" are those substances defined as toxic or hazardous substances, pollutants, or wastes by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials; (b) "Environmental Law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection; (c) "Environmental Cleanup" includes any response action, remedial action, or removal action, as defined in Environmental Law; and (d) an "Environmental Condition" means a condition that can cause, contribute to, or otherwise trigger an Environmental Cleanup.

Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances, or threaten to release any Hazardous Substances, on or in the Property. Borrower shall not do, nor allow anyone else to do, anything affecting the Property (a) that is in violation of any Environmental Law, (b) which creates an Environmental Condition, or (c) which, due to the presence, use, or release of a Hazardous Substance, creates a condition that adversely affects the value of the Property. The preceding two sentences shall not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property (including, but not limited to, hazardous substances in consumer products).

Borrower shall promptly give Lender written notice of (a) any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge, (b) any Environmental Condition, including but not limited to, any spilling, leaking, discharge, release or threat of release of any Hazardous Substance, and (c) any condition caused by the presence, use or release of a Hazardous Substance which adversely affects the value of the Property. If Borrower learns, or is notified by any governmental or regulatory authority, or any private party, that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law. Nothing herein shall create any obligation on Lender for an Environmental Cleanup.

22. Acceleration; Remedies. Lender shall give notice to Borrower prior to acceleration following Borrower's breach of any covenant or agreement in this Security Instrument (but not prior to acceleration under Section 18 unless Applicable Law provides otherwise). The notice shall specify: (a) the default; (b) the action required to cure the default; (c) a date, not less than 30 days from the date the notice is given to Borrower, by which the default must be cured; and (d) that failure to cure the default on or before the date specified in the notice may result in acceleration of the sums secured by this Security Instrument and sale of the Property. The notice shall further inform Borrower of the right to reinstate after acceleration and the right to bring a court action to assert the non-existence of a default or any other defense of Borrower to acceleration and sale. If the default is not cured on or before the date specified in the notice, Lender at its option may require immediate payment in full of all sums secured by this Security Instrument without further demand and may invoke the power of sale and any other remedies permitted by Applicable Law. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this Section 22, including, but not limited to, reasonable attorneys' fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall execute or cause Trustee to execute a written notice of the occurrence of an event of default and of Lender's election to cause the Property to be sold. Trustee shall cause this notice to be recorded in each county in which any part of the Property is located. Lender or Trustee shall mail copies of the notice as prescribed by Applicable Law to Borrower and to the other persons prescribed by Applicable Law. Trustee shall give public notice of sale to the persons and in the manner prescribed by Applicable Law. After the time required by Applicable Law, Trustee, without demand on Borrower, shall sell the Property at public auction to the highest bidder at the time and place and under the terms designated in the notice of sale in one or more parcels and in any order Trustee determines. Trustee may postpone sale of all or any parcel of the Property by public announcement at the time and place of any previously scheduled sale. Lender or its designee may purchase the Property at any sale.

Trustee shall deliver to the purchaser Trustee's deed conveying the Property without any covenant or warranty, expressed or implied. The recitals in the Trustee's deed shall be prima facie evidence of the truth of the statements made therein. Trustee shall apply the proceeds of the sale in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable Trustee's and attorneys' fees; (b) to all sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it.

23. Reconveyance. Upon payment of all sums secured by this Security Instrument, Lender shall request Trustee to reconvey the Property and shall surrender this Security Instrument and all notes evidencing debt secured by this Security Instrument to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled to it. Lender may charge such person or persons a reasonable fee for reconveying the Property, but only if the fee is paid to a third party (such as the Trustee) for services rendered and the charging of the fee is permitted under Applicable Law. If the fee charged does not exceed the fee set by Applicable Law, the fee is conclusively presumed to be reasonable.

24. Substitute Trustee. Lender, at its option, may from time to time appoint a successor trustee to any Trustee appointed hereunder by an instrument executed and acknowledged by Lender and recorded in the office of the Recorder of the county in which the Property is located. The instrument shall contain the name of the original Lender, Trustee and Borrower, the book and page where this Security Instrument is recorded and the name and address of the successor trustee. Without conveyance of the Property, the successor trustee shall succeed to all the title, powers and duties conferred upon the Trustee herein and by Applicable Law. This procedure for substitution of trustee shall govern to the exclusion of all other provisions for substitution.

25. Statement of Obligation Fee. Lender may collect a fee not to exceed the maximum amount permitted by Applicable Law for furnishing the statement of obligation as provided by state law.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Security Instrument and in any Rider executed by Borrower and recorded with it.

BORROWER:

____
[signature above/typed or printed name below]

Social Security Number: ______________________

____
[signature above/typed or printed name below]

Social Security Number: ______________________

BORROWER:

____
[signature above/typed or printed name below]

Social Security Number: ______________________

____
[signature above/typed or printed name below]

Social Security Number: ______________________

WITNESS #1:

____
[signature above/typed or printed name below]

WITNESS#2:

____
[signature above/typed or printed name below]

[Space Below This Line For Acknowledgment]

MODIFICATION OF MORTGAGE

LOAN MODIFICATION AGREEMENT—Single Famil**y—Fannie Mae Uniform Instrument Form 3179 1/01** ***(page 1 of 2)***

____________________ [Space Above This Line For Recording Data] ____________________

LOAN MODIFICATION AGREEMENT

This Loan Modification Agreement ("Agreement"), made this ____ day of ________________, ____, between __________________________________ ("Borrower") ______________________________________("Lender"), **Mortgage Electronic Registration Systems, Inc,** ("Mortgagee") amends and supplements (1) the Mortgage, Deed of Trust, or Security Deed (the "Security Instrument"),dated ______________________________________ ***and granted or assigned to Mortgage Electronic Registration Systems, Inc, as mortgagee of record (solely as nominee for Lender and Lender's successors and assigns, P.O. Box 2026, Flint, Michigan 48501-2026*** and recorded in Book or Liber _____________, at page(s) _______________, of the ____________________ Records of ______________________________________

[Name of Records] [County and State, or other Jurisdiction] and (2) the Note bearing the same date as, and secured by, the Security Instrument, which covers the real and personal property described in the Security Instrument and defined therein as the "Property", located at

____,

[Property Address]

the real property described being set forth as follows:

In consideration of the mutual promises and agreements exchanged, the parties hereto agree as follows (notwithstanding anything to the contrary contained in the Note or Security Instrument):

1. As of __________________________, the amount payable under the Note and the Security Instrument (the "Unpaid Principal Balance") is U.S. $_________________, consisting of the amount(s) loaned to Borrower by Lender and any interest capitalized to date.

2. Borrower promises to pay the Unpaid Principal Balance, plus interest, to the order of Lender. Interest will be charged on the Unpaid Principal Balance at the yearly rate of __________%, from ____________________, ____. Borrower promises to make monthly payments of principal and interest of U.S. $_________________, beginning on the ____ day of ________________, ____, and continuing thereafter on the same day of each succeeding month until principal and interest are paid in full. If on ____________________ (the "Maturity Date"), Borrower still owes amounts under the Note and the Security Instrument, as amended by this Agreement, Borrower will pay these amounts in full on the Maturity Date. Borrower will make such payments at ____ or at such other place as Lender may require.

3. If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender's prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. If Lender exercises this option, Lender shall give Borrower notice of acceleration. The notice The MIN and MERS telephone number may be placed at the bottom of the loan modification agreement or within close proximity of the lender's loan number if recording jurisdictions allow. In any case, the county requirements should always be followed.

Lenders Loan Number:
MIN: **[*insert 18-digit MIN*]** MERS Phone: 1-888-679-6377

Lenders Loan Number:
MIN: **[*insert 18-digit MIN*]** MERS Phone: 1-888-679-6377

MERS language inserted in document, as shown, whether MERS was named as original mortgagee or by assignment. shall provide a period of not less than 30 days from the date the notice is given in accordance with Section 15 within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.
4. Borrower also will comply with all other covenants, agreements, and requirements of the Security Instrument, including without limitation, Borrower's covenants and agreements to make all payments of taxes, insurance premiums, assessments, escrow items, impounds, and all other payments that Borrower is obligated to make under the Security Instrument; however, the following terms and provisions are forever canceled, null and void, as of the date specified in paragraph No. 1 above:

(a) all terms and provisions of the Note and Security Instrument (if any) providing for, implementing, or relating to, any change or adjustment in the rate of interest payable under the Note; and

(b) all terms and provisions of any adjustable rate rider or other instrument or document that is affixed to, wholly or partially incorporated into, or is part of, the Note or Security Instrument and that contains any such terms and provisions as those referred to in (a) above.

5. Nothing in this Agreement shall be understood or construed to be a satisfaction or release in whole or in part of the Note and Security Instrument. Except as otherwise specifically provided in this Agreement, the Note and Security Instrument will remain unchanged, and Borrower and Lender will be bound by, and comply with, all of the terms and provisions thereof, as amended by this Agreement.

…………..………………………………………. (Seal) ……..……………………………………… (Seal)
-Lender - -Borrower

……………………………………………………………….. (Seal) ..…………………………………………… (Seal)

Mortgage Electronic Registration Systems, Inc. -Mortgagee -Borrower
By: ……………………………………………
___________________[Space Below This Line For Acknowledgments] _________________________

Lender will sign as "Lender", and will additionally sign as "Mortgagee" on behalf of MERS.

ASSIGNMENT OF MORTGAGE

ASSIGNMENT OF MORTGAGE

THIS ASSIGNMENT OF MORTGAGE (hereinafter referred to as the "Assignment") is made as of this _______ day of ___________________, 200(x) by ___________________, whose address is ____ (hereinafter referred to as the "Assignor") for the benefit of _________________________________, whose address is ____ (hereinafter referred to as the Assignee)

W I T N E S S E T H :

WHEREAS, Assignor is the holder of that certain Mortgage together with the debt and Note secured thereby, in the original principal sum of ______________________ Dollars ($_________) given by ___________________________________ as "Mortgagor", which Mortgage is recorded on the Public Records of _____________ County, _________________ at O.R. Book _______, Page ________ and which Mortgage encumbers and is a lien upon that certain real property described in Exhibit "A" attached hereto and by this reference made a part hereof (hereinafter referred to as the "Premises"); and,

WHEREAS, Assignor is desirous of assigning said Mortgage, together with the Note and the debt therein described, to Assignee; and

WHEREAS, Assignee is desirous of receiving and holding said Mortgage, together with the Note and the debt therein described, from Assignor.

THEREFORE, for and in consideration of the sum of________________________ Dollars ($___________) paid by Assignee, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by Assignor, Assignor does hereby make the following assignment:

1. Assignment. Assignor has granted, bargained, sold, assigned, conveyed and transferred, and by these presents does grant, bargain, sell, assign, convey and transfer unto Assignee, its heirs, successors and assigns, forever all of its right, title and interest in, to and under said Mortgage described above, together with the debt and Note secured thereby; together with any and all rights, interests and appurtenances thereto belonging; subject only to any right and equity of redemption of said Mortgagor, its successors or assigns in the same.

2. Warranties and Representations. Assignor hereby warrants and represents that it is the present holder of the above described Mortgage and that there are no other holders of said Mortgage or any interest therein nor is there any default by mortgagor therein or in the note and debt secured thereby.

3. Governing Law. This Assignment shall be governed, construed and interpreted by, through and under the laws of the State of ______________________.

4. Headings. Paragraph headings contained herein are for convenience of reference only and are not to be used in the construction or interpretation hereof.

IN WITNESS WHEREOF, Assignor has executed and delivered this Assignment to Assignee on the date hereof.

"Assignor"

________________________ ________________________,

____

STATE OF ________)

COUNTY OF __________)

THE FOREGOING instrument was acknowledged before me this ________day of ________, 20___, by

____
Notary Public

My Commission Expires: ________

SATISFACTION OF MORTGAGE

SATISFACTION OF MORTGAGE

THIS DOCUMENT is signed by ______________________________________ ("Mortgagee"), who is the owner and holder of, and has not transferred, assigned, pledged, or otherwise encumbered any interest in, the following described mortgage ("Mortgage"):

Mortgage dated ____, from ("Mortgagor") to _________________________________ securing that certain promissory note ("Note") in the original principal amount of ____ and ________________ _______/100 DOLLARS ($_____________________________________) which mortgage is recorded in Official Records Book ________, Page ________, Public Records of ______________________________ County, Florida, encumbering certain property situate in ___________________________ County, Florida, as more particularly described in the Mortgage ("Property"); AND

THAT Mortgagee hereby acknowledges full payment and satisfaction of the Note and Mortgage, does hereby surrender the Note and Mortgage as cancelled, releases the Property from the lien of the Mortgage, and directs the Clerk of the Circuit Court in and for _______________________________ County to cancel the same of record.

IN WITNESS WHEREOF, the Mortgagee has executed these presents this _________________________ day of __________________________________, A.D. ______________ (year).

Signed, sealed and delivered in the presence of:

____ ____

____ ____

Acknowledged before me on ____________________________, by ____________________________ _______, who ________ is personally known to me/__________ produced _______________________ _____________ as identification, and who ___________ did/_________ did not take an oath.

____

NOTARY PUBLIC – STATE OF FLORIDA

Name: ________________________________

Commission No.: _______________________

My Commission Expires: _________________

THIS INSTRUMENT PREPARED BY:

NAME ________________________________

ADDR. ___________________________

____

LOAN SERVICING AGREEMENT

• *PLM LENDER SERVICES, INC. LOAN SERVICING AGREEMENT*

Loan No.: ________________

Borrower: ____________________________
Lender: ______________________________

This Loan Servicing Agreement (the "Agreement") is dated ________________________ and is between PLM LENDER SERVICES, INC. located at 46 N. Second Street, Campbell, CA 95008, Phone No. 800-829-1585 and Fax No. 800-829-1595, ("Servicer") licensed by the State of California as a [x] Real Estate Broker or [ ] California Finance Lender, and the lender or lenders whose signatures appear below and in counterparts to this Agreement (together, the "Lender") . If the Loan is owned by multiple Lenders, the Lenders who own more than 50% of the Loan are called the "Majority" in this Agreement. The parties agree as follows:

1. Scope. Lender retains Servicer as Lender's agent to employ commercially reasonable and prudent practices to collect all scheduled payments on the Loan identified above (the "Loan"), including the protection of the security for the Loan. Servicer shall consult with and follow instructions from Lender on non-routine collection matters. If the Loan is owned by multiple Lenders (a "Multi-Lender Loan"), Servicer shall consult with all Lenders but shall only follow instructions from the Majority.

2. Term and Termination. This Agreement shall commence when all necessary documents to service loan are received by "Servicer" or the date set forth below, whichever is later. It shall terminate when any of these events occur: (a) payment in full of the Loan and reconveyance of the deed(s) of trust securing the Loan; (b) 30 days written notice by Servicer to Lender or (c) unless Paragraph 7 is checked, the recordation of a trustee's deed following a foreclosure of the Loan. Prior to the effectiveness of any termination, Servicer shall deliver to Lender all of Lender's funds, an appropriate accounting and all necessary documentation. At termination, Lender shall immediately reimburse Servicer for any outstanding advances made pursuant to paragraph 4.

3. Specific Loan Servicing Functions. Servicer shall: (a) issue payment coupons or monthly statements to the borrower directing Loan repayment to Servicer, (b) issue payoff demands, beneficiary statements and mortgage ratings, (c) demand, receive and collect all Loan payments, deposit them by the next business day into Servicer's trust account and pay them to Lender within 25 days of receipt; (d) issue annual income tax statements to the borrower and Lender; (e) answer borrower inquiries, demands and requests; (f) grant appropriate payment deferrals, but not of the maturity of the Loan unless approved by Lender or the Majority in the case of a Multi-Lender Loan; (g) monitor the continued effectiveness and claims on any property insurance listed in the Loan escrow instructions; (h) request and receive notices of default on senior liens; (i) receive notices of property tax delinquencies, should a tax service be ordered thru escrow or subsequently; (j) to execute and deliver on Lenders' behalf and in Lenders' name any documents necessary or convenient for the exercise of any rights or duties which Lender may have under the Deed of Trust, including but not limited to Substitution of Trustee, Request for Full or Partial Reconveyance, Payoff Demands, Beneficiary Statements, Declarations and Notices of Defaults, bidding authorizations and other instructions to the Trustee (appointed or substituted) of the Deed of Trust; (k) to endorse to Servicer's Trust Account any checks or money orders payable to Lender and to deposit them by the next business day into Servicer's trust account; (l) with the consent of Lender or the Majority, as the case may be, initiate and direct judicial or non-judicial foreclosure of the Loan, as Lender or the Majority deem appropriate, and with such consent, communicate to the trustee or sheriff the amount of any credit bid. Lender also agrees and authorizes Servicer to employ any outside services such as, but not limited to, appraisers, attorneys and foreclosure companies to further evaluate and protect Lenders' interest in Note and Deed of Trust, all subject to reimbursement upon demand or prior collection of funds to pay for said outside services, including any services provided by Servicer which is not under the scope of this agreement (including but not limited to a trustee fee in a foreclosure situation). Servicer shall promptly communicate to Lender any material information about collection of the Loan and the source of non-borrower Loan payments. Servicer may produce a copy of this Agreement as evidence of its authority.

4. Protective Advances. Lender shall make such advances as approved by the Majority or, if Lender is the only owner of the Loan, such advances that are necessary and prudent to protect and to collect Lender's interest in the Loan. If the Loan is a Multi-Lender Loan, and Lender fails to make advances approved by the Majority, other owners of the

Loan are authorized to advance the amount Lender failed to advance and to receive payment in full with interest at 10% per annum before any further payments to Lender and, if this box is checked [ ] the non-defaulting Loan owners shall also have the option, exercisable within 30 days after Lender's default, to purchase Lender's interest in the Loan at _______% of what is owed to Lender, payable within 15 days after the election to purchase is made. Servicer, in its absolute discretion, may advance its own funds to protect the security of Lender's Loan, including advances to cure senior liens, property insurance, foreclosure expenses, repair, advertising, litigation expenses and similar items, but not Loan payments. Servicer shall be reimbursed such advances, with interest at the Loan rate, from the next Loan payment, or within 10 days after a written request to Lender. To secure Servicer's advances, Lender hereby irrevocably assigns to Servicer, to the extent of advances owed to Servicer, the first Loan payments received after an advance is made. Lender will be liable to the remaining investors for all damages incurred as result of the Lender's failure to act or failure to advance funds. Lender will be liable for actual attorneys' fees incurred as result of said failure to act or failure to advance funds.

5. <u>Loan Documents.</u> Servicer shall retain custody as agent for Lender of the original note and deed of trust for the Loan.

6. <u>Compensation.</u> For its services, Servicer shall be paid: a servicing fee equal to **<u>.50%</u>** of principal Loan balance annually, payable monthly or $12.50 per month (HELOC minimum per month is $15.00), whichever is greater for adjustable rate or impounded loans, increase service fee by .125% per annum with a minimum of $25.00 per month); all fees for beneficiary statements and demands; **<u>50</u>**% of late charges; **<u>0</u>**% of all prepayment penalties paid; **<u>50%</u>** of early closure fees; _______ of transaction fees (HELOCS) and 100% of all wiring fees, advancing, overnight charges, NSF fees, reconveyance fees, advancing fees, demand fees, any other fees earned by servicer and all bankruptcy administration fees. Servicer's compensation is subject to change upon 30 days written notice to Lender; Lender may avoid changes by terminating this Agreement in writing within the 30-day period. Servicer is guaranteed to receive a minimum of three (3) months service fees based on original principal balance. Fees subject to change after review of file(s). Should file be withdrawn from servicing by Lender, Lender shall pay Servicer $50.00 cancellation fee. (This may be in addition to the minimum 3 month servicing fee guarantee.)

7. <u>Real Estate Owned.</u> [ ] If this box is checked, Servicer is also Lender's agent to liquidate any real estate acquired by Lender in foreclosure of the Loan (the "Property"). Servicer's pre-foreclosure servicing fee shall continue as if the Loan was unpaid. An additional contract shall be signed at that time outlining terms and fees of retaining PLM to manage the real estate. Servicer shall: (a) arrange appropriate property insurance; (b) manage the Property, including arranging maintenance, tenant relations, repair and security; (c) arrange for the valuation and resale of the Property, including hiring a Realtor® or Broker, at customary commission rates, to list, show and sell the Property; and (d) accept reasonable offers on the Property, at the price and terms approved by Lender (or the Majority on a Multi-Lender Loan) and execute all necessary and appropriate documentation to carry out the sale. Advances by Lender or Servicer are subject to the terms of paragraph 4.

8. Lender further understands and agrees that the security for any Note and Deed of Trust is directly related to the equity in the security real estate as shown in the Lender Disclosure Statement and THAT NO WARRANTIES ARE IMPLIED OR EXPRESSED. Lender understands that the value or saleability of real estate can change at any time and therefore, that equity in the security real estate can increase or decrease. Lender hereby releases Servicer from any liability whatsoever in connection with the determination of the value of the security real estate.

9. Lender further understands and agrees that if this loan has been previously serviced by another servicing agent or by the lender, Servicer shall rely on all info transmitted to Servicer from former servicer of lender. Servicer does not have a duty to Lender to research any information given to "Servicer" as to the correctness of such information.

10. Lender hereby indemnifies Servicer from any and all liability, including attorney's fees and costs incurred in defending a legal action naming Servicer as defendant, which might arise during the course of or subsequent to Servicer's execution of its duties hereunder, including but not limited to being named as defendant based on former servicer's actions unless said liability arises due to Company's own negligence or mistake as determined by a court of competent jurisdiction. Additionally, Lender holds Servicer harmless against any losses caused by fire or other hazard on non-insured properties if said property was uninsured prior to receipt of file from former servicer (on takeover files) or escrow holder (on new closings) and within 60 days of receipt of complete file information to

Servicer. Additionally, Lender holds Servicer harmless against any losses caused by Notices of Defaults and/or Notices of Trustee Sale recorded against the property if said Notice was recorded prior to receipt of complete file information from former Servicer (on takeover files) or escrow holder (on new closings) and within 60 days of receipt of complete file information to Servicer.

11. Lender agrees that should a tax service not be ordered through originating loan broker or requested through Servicer in writing, Lender holds Servicer harmless from any losses incurred by Lender should tax default occur.

12. Lender agrees that Servicer is not responsible for monitoring underlying lien(s) unless specific delinquency notice from underlying lien(s) has been received by Servicer.

13. Arbitration. All disputes between the parties and/or the borrower, and their respective officers, directors, agents, employees and assignees, arising out of this Agreement or relating to the Loan, including, the arranging and servicing of the Loan and any services in connection with Property acquired, shall be determined by binding arbitration under the applicable rules of the American Arbitration Association. Judgment on the arbitrators' award may be entered in any court having jurisdiction. Lender acknowledges that by agreeing to arbitration, Lender is waiving Lender's right to have the dispute litigated in a court or jury trial, with rights of discovery, application of the rules of evidence and appeal.

14. This Agreement shall bind and insure to the benefit of all the heirs, executors, administrators, successors and assigns of the parties.

The undersigned "LENDER" understands that a portion of said servicing fee(s) might be paid to outside parties who may, or may not, provide referral, finder or other services. Such persons may include, but are not limited to, individuals or corporations licensed by the Department of Real Estate or by other governmental or regulatory entities.

Dated: ___________________________

____
Lender

____
Lender

PLEASE MARK YOUR CHOICE OF RECEIPT OF YOUR INVESTMENT INFORMATION:

__________ I WILL GO ON-LINE TO RECEIVE MY INFORMATION. PLM WILL SEND ME INSTRUCTION WHEN SENDING ME THE CLOSING INFORMATION.

__________ I WOULD LIKE TO HAVE A QUARTERLY STATEMENT MAILED TO MY HOME.

__________ MY ANNUAL STATEMENT WILL BE SUFFICIENT.
If none of the above is checked, only an annual statement will be sent. Please feel free to call at any time to request an interim statement when necessary.

Investor Mailing Address: ____
City, State, Zip Code: ____
Phone: ____
Investor Check Payable to: ____________________________Account No._______________
Address: ____
City, State, Zip Code: ____

REQUEST FOR TAXPAYER IDENTIFICATION NUMBER AND CERTIFICATION
Enter your TIN in the appropriate box. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, and you do not

have and are not eligible to get an SSN, your TIN is your IRS individual taxpayer identification number (ITIN). Enter it in the social security number box. If you do not have an ITIN, you must apply for it with the IRS.

SSN:_____________________________ Employer Identification Number: ____________________

Your name exactly as it appears under the number above: ____

____ ____________

Certification:

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification umber (or I am waiting for a number to be issued to me), and

2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and

3. I am a U.S. person (including a U.S. resident alien).

Sign Here: Signature of U.S. Person: ____

LENDER'S TITLE INSURANCE POLICY

LOAN POLICY OF TITLE INSURANCE

Issued By

BLANK TITLE INSURANCE COMPANY

Any notice of claim and any other notice or statement in writing required to be given to the Company under this Policy must be given to the Company at the address shown in Section 17 of the Conditions.

COVERED RISKS

SUBJECT TO THE EXCLUSIONS FROM COVERAGE, THE EXCEPTIONS FROM COVERAGE CONTAINED IN SCHEDULE B, AND THE CONDITIONS, BLANK TITLE INSURANCE COMPANY, a Blank corporation (the "Company") insures as of Date of Policy and, to the extent stated in Covered Risks 11, 13, and 14, after Date of Policy, against loss or damage, not exceeding the Amount of Insurance, sustained or incurred by the Insured by reason of:

1. Title being vested other than as stated in Schedule A.
2. Any defect in or lien or encumbrance on the Title. This Covered Risk includes but is not limited to insurance against loss from
   (a) A defect in the Title caused by
      (i) forgery, fraud, undue influence, duress, incompetency, incapacity, or impersonation;
      (ii) failure of any person or Entity to have authorized a transfer or conveyance;
      (iii) a document affecting Title not properly created, executed, witnessed, sealed, acknowledged, notarized, or delivered;
      (iv) failure to perform those acts necessary to create a document by electronic means authorized by law;
      (v) a document executed under a falsified, expired, or otherwise invalid power of attorney;
      (vi) a document not properly filed, recorded, or indexed in the Public Records including failure to perform those acts by electronic means authorized by law; or
      (vii) a defective judicial or administrative proceeding.
   (b) The lien of real estate taxes or assessments imposed on the Title by a governmental authority due or payable, but unpaid.
   (c) Any encroachment, encumbrance, violation, variation, or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land. The term "encroachment" includes encroachments of existing improvements located on the Land onto adjoining land, and encroachments onto the Land of existing improvements located on adjoining land.
3. Unmarketable Title.

4. No right of access to and from the Land.

5. The violation or enforcement of any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to

   (a) the occupancy, use, or enjoyment of the Land;

   (b) the character, dimensions, or location of any improvement erected on the Land;

   (c) the subdivision of land; or

   (d) environmental protection

   if a notice, describing any part of the Land, is recorded in the Public Records setting forth the violation or intention to enforce, but only to the extent of the violation or enforcement referred to in that notice.

6. An enforcement action based on the exercise of a governmental police power not covered by Covered Risk 5 if a notice of the enforcement action, describing any part of the Land, is recorded in the Public Records, but only to the extent of the enforcement referred to in that notice.

7. The exercise of the rights of eminent domain if a notice of the exercise, describing any part of the Land, is recorded in the Public Records.

8. Any taking by a governmental body that has occurred and is binding on the rights of a purchaser for value without Knowledge.

9. The invalidity or unenforceability of the lien of the Insured Mortgage upon the Title. This Covered Risk includes but is not limited to insurance against loss from any of the following impairing the lien of the Insured Mortgage

   (a) forgery, fraud, undue influence, duress, incompetency, incapacity, or impersonation;

   (b) failure of any person or Entity to have authorized a transfer or conveyance;

   (c) the Insured Mortgage not being properly created, executed, witnessed, sealed, acknowledged, notarized, or delivered;

   (d) failure to perform those acts necessary to create a document by electronic means authorized by law;

   (e) a document executed under a falsified, expired, or otherwise invalid power of attorney;

   (f) a document not properly filed, recorded, or indexed in the Public Records including failure to perform those acts by electronic means authorized by law; or

   (g) a defective judicial or administrative proceeding.

10. The lack of priority of the lien of the Insured Mortgage upon the Title over any other lien or encumbrance.

11. The lack of priority of the lien of the Insured Mortgage upon the Title

    (a) as security for each and every advance of proceeds of the loan secured by the Insured Mortgage over any statutory lien for services, labor, or material arising from construction of an improvement or work related to the Land when the improvement or work is either

        (i) contracted for or commenced on or before Date of Policy; or

        (ii) contracted for, commenced, or continued after Date of Policy if the construction is financed, in whole or in part, by proceeds of the loan secured by the Insured Mortgage that the Insured has advanced or is obligated on Date of Policy to advance; and

(b) over the lien of any assessments for street improvements under construction or completed at Date of Policy.

12. The invalidity or unenforceability of any assignment of the Insured Mortgage, provided the assignment is shown in Schedule A, or the failure of the assignment shown in Schedule A to vest title to the Insured Mortgage in the named Insured assignee free and clear of all liens.

13. The invalidity, unenforceability, lack of priority, or avoidance of the lien of the Insured Mortgage upon the Title

(a) resulting from the avoidance in whole or in part, or from a court order providing an alternative remedy, of any transfer of all or any part of the title to or any interest in the Land occurring prior to the transaction creating the lien of the Insured Mortgage because that prior transfer constituted a fraudulent or preferential transfer under federal bankruptcy, state insolvency, or similar creditors' rights laws; or

(b) because the Insured Mortgage constitutes a preferential transfer under federal bankruptcy, state insolvency, or similar creditors' rights laws by reason of the failure of its recording in the Public Records

(i) to be timely, or

(ii) to impart notice of its existence to a purchaser for value or to a judgment or lien creditor.

14. Any defect in or lien or encumbrance on the Title or other matter included in Covered Risks 1 through 13 that has been created or attached or has been filed or recorded in the Public Records subsequent to Date of Policy and prior to the recording of the Insured Mortgage in the Public Records.

The Company will also pay the costs, attorneys' fees, and expenses incurred in defense of any matter insured against by this Policy, but only to the extent provided in the Conditions.

[Witness clause optional]

BLANK TITLE INSURANCE COMPANY

BY: PRESIDENT

BY: SECRETARY

EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy, and the Company will not pay loss or damage, costs, attorneys' fees, or expenses that arise by reason of:

1. (a) Any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to

(i) the occupancy, use, or enjoyment of the Land;

(ii) the character, dimensions, or location of any improvement erected on the Land;

(iii) the subdivision of land; or

(iv) environmental protection;

or the effect of any violation of these laws, ordinances, or governmental regulations. This Exclusion 1(a) does not modify or limit the coverage provided under Covered Risk 5.

(b) Any governmental police power. This Exclusion 1(b) does not modify or limit the coverage provided under Covered Risk 6.

2. Rights of eminent domain. This Exclusion does not modify or limit the coverage provided under Covered Risk 7 or 8.

3. Defects, liens, encumbrances, adverse claims, or other matters

   (a) created, suffered, assumed, or agreed to by the Insured Claimant;

   (b) not Known to the Company, not recorded in the Public Records at Date of Policy, but Known to the Insured Claimant and not disclosed in writing to the Company by the Insured Claimant prior to the date the Insured Claimant became an Insured under this policy;

   (c) resulting in no loss or damage to the Insured Claimant;

   (d) attaching or created subsequent to Date of Policy (however, this does not modify or limit the coverage provided under Covered Risk 11, 13, or 14); or

   (e) resulting in loss or damage that would not have been sustained if the Insured Claimant had paid value for the Insured Mortgage.

4. Unenforceability of the lien of the Insured Mortgage because of the inability or failure of an Insured to comply with applicable doing-business laws of the state where the Land is situated.

5. Invalidity or unenforceability in whole or in part of the lien of the Insured Mortgage that arises out of the transaction evidenced by the Insured Mortgage and is based upon usury or any consumer credit protection or truth-in-lending law.

6. Any claim, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that the transaction creating the lien of the Insured Mortgage, is

   (a) a fraudulent conveyance or fraudulent transfer, or

   (b) a preferential transfer for any reason not stated in Covered Risk 13(b) of this policy.

7. Any lien on the Title for real estate taxes or assessments imposed by governmental authority and created or attaching between Date of Policy and the date of recording of the Insured Mortgage in the Public Records. This Exclusion does not modify or limit the coverage provided under Covered Risk 11(b).

SCHEDULE A

Name and Address of Title Insurance Company:

[File No.:] Policy No.:

Loan No.:

Address Reference:

Amount of Insurance: $ [Premium: $]

Date of Policy: [at a.m./p.m.]

1. Name of Insured:

2. The estate or interest in the Land that is encumbered by the Insured Mortgage is:

3. Title is vested in:

4. The Insured Mortgage and its assignments, if any, are described as follows:

5. The Land referred to in this policy is described as follows:

[6. This policy incorporates by reference those ALTA endorsements selected below:

4-06	(Condominium)
4.1-06	
5-06	(Planned Unit Development)
5.1-06	
6-06	(Variable Rate)
6.2-06	(Variable Rate--Negative Amortization)
8.1-06	(Environmental Protection Lien) Paragraph b refers to the following state statute(s):
9-06	(Restrictions, Encroachments, Minerals)
13.1-06	(Leasehold Loan)
14-06	(Future Advance-Priority)
14.1-06	(Future Advance-Knowledge)
14.3-06	(Future Advance-Reverse Mortgage)
22-06	(Location) The type of improvement is a _________________, and the street address is as shown above.]

SCHEDULE B

[File No.] Policy No.

EXCEPTIONS FROM COVERAGE

[Except as provided in Schedule B - Part II,] t[or T]his policy does not insure against loss or damage, and the Company will not pay costs, attorneys' fees, or expenses that arise by reason of:

[PART I

PART II

In addition to the matters set forth in Part I of this Schedule, the Title is subject to the following matters, and the Company insures against loss or damage sustained in the event that they are not subordinate to the lien of the Insured Mortgage:]

CONDITIONS

1. DEFINITION OF TERMS

The following terms when used in this policy mean:

(a) “Amount of Insurance”: The amount stated in Schedule A, as may be increased or decreased by endorsement to this policy, increased by Section 8(b) or decreased by Section 10 of these Conditions.

(b) “Date of Policy”: The date designated as “Date of Policy” in Schedule A.

(c) “Entity”: A corporation, partnership, trust, limited liability company, or other similar legal entity.

(d) “Indebtedness”: The obligation secured by the Insured Mortgage including one evidenced by electronic means authorized by law, and if that obligation is the payment of a debt, the Indebtedness is the sum of

(i) the amount of the principal disbursed as of Date of Policy;

(ii) the amount of the principal disbursed subsequent to Date of Policy;

(iii) the construction loan advances made subsequent to Date of Policy for the purpose of financing in whole or in part the construction of an improvement to the Land or related to the Land that the Insured was and continued to be obligated to advance at Date of Policy and at the date of the advance;

(iv) interest on the loan;

(v) the prepayment premiums, exit fees, and other similar fees or penalties allowed by law;

(vi) the expenses of foreclosure and any other costs of enforcement;

(vii) the amounts advanced to assure compliance with laws or to protect the lien or the priority of the lien of the Insured Mortgage before the acquisition of the estate or interest in the Title;

(viii) the amounts to pay taxes and insurance; and

(ix) the reasonable amounts expended to prevent deterioration of improvements;

but the Indebtedness is reduced by the total of all payments and by any amount forgiven by an Insured.

(e) “Insured”: The Insured named in Schedule A.

(i) The term "Insured" also includes

(A) the owner of the Indebtedness and each successor in ownership of the Indebtedness, whether the owner or successor owns the Indebtedness for its own account or as a trustee or other fiduciary, except a successor who is an obligor under the provisions of Section 12(c) of these Conditions;

(B) the person or Entity who has “control” of the “transferable record,” if the Indebtedness is evidenced by a “transferable record,” as these terms are defined by applicable electronic transactions law;

(C) successors to an Insured by dissolution, merger, consolidation, distribution, or reorganization;

(D) successors to an Insured by its conversion to another kind of Entity;

(E) a grantee of an Insured under a deed delivered without payment of actual valuable consideration conveying the Title

(1) if the stock, shares, memberships, or other equity interests of the grantee are wholly-owned by the named Insured,

(2) if the grantee wholly owns the named Insured, or

(3) if the grantee is wholly-owned by an affiliated Entity of the named Insured, provided the affiliated Entity and the named Insured are both wholly-owned by the same person or Entity;

(F) any government agency or instrumentality that is an insurer or guarantor under an insurance contract or guaranty insuring or guaranteeing the Indebtedness secured by the Insured Mortgage, or any part of it, whether named as an Insured or not;

(ii) With regard to (A), (B), (C), (D) , and (E) reserving, however, all rights and defenses as to any successor that the Company would have had against any predecessor Insured, unless the successor acquired the Indebtedness as a purchaser for value without Knowledge of the asserted defect, lien, encumbrance, or other matter insured against by this policy.

(f) "Insured Claimant": An Insured claiming loss or damage.

(g) “Insured Mortgage”: The Mortgage described in paragraph 4 of Schedule A.

(h) "Knowledge" or "Known": Actual knowledge, not constructive knowledge or notice that may be imputed to an Insured by reason of the Public Records or any other records that impart constructive notice of matters affecting the Title.

(i) "Land": The land described in Schedule A, and affixed improvements that by law constitute real property. The term "Land” does not include any property beyond the lines of the area described in Schedule A, nor any right, title, interest, estate, or easement in abutting streets, roads, avenues, alleys, lanes, ways, or waterways, but this does not modify or limit the extent that a right of access to and from the Land is insured by this policy.

(j) "Mortgage": Mortgage, deed of trust, trust deed, or other security instrument, including one evidenced by electronic means authorized by law.

(k) "Public Records": Records established under state statutes at Date of Policy for the purpose of imparting constructive notice of matters relating to real property to purchasers for value and without Knowledge. With respect to Covered Risk 5(d), "Public Records" shall also include environmental protection liens filed in the records of the clerk of the United States District Court for the district where the Land is located.

(l) “Title”: The estate or interest described in Schedule A.

(m) "Unmarketable Title”: Title affected by an alleged or apparent matter that would permit a prospective purchaser or lessee of the Title or lender on the Title or a prospective purchaser of the Insured Mortgage to be released from the obligation to purchase, lease, or lend if there is a contractual condition requiring the delivery of marketable title.

2. CONTINUATION OF INSURANCE

The coverage of this policy shall continue in force as of Date of Policy in favor of an Insured after acquisition of the Title by an Insured or after conveyance by an Insured, but only so long as the Insured retains an estate or interest in the Land, or holds an obligation secured by a purchase money Mortgage given by a purchaser from the Insured, or only so long as the Insured shall have liability by reason of warranties in any transfer or conveyance of the Title. This policy shall not continue in force in favor of any purchaser from the Insured of either (i) an estate or interest in the Land, or (ii) an obligation secured by a purchase money Mortgage given to the Insured.

3. NOTICE OF CLAIM TO BE GIVEN BY INSURED CLAIMANT

The Insured shall notify the Company promptly in writing (i) in case of any litigation as set forth in Section 5(a) of these Conditions, (ii) in case Knowledge shall come to an Insured of any claim of title or interest that is adverse to the Title or the lien of the Insured Mortgage, as insured, and that might cause loss or damage for which the Company may be liable by virtue of this policy, or (iii) if the Title or the lien of the Insured Mortgage, as insured, is rejected as Unmarketable Title. If the Company is prejudiced by the failure of the Insured Claimant to provide prompt notice, the Company's liability to the Insured Claimant under the policy shall be reduced to the extent of the prejudice.

4. PROOF OF LOSS

In the event the Company is unable to determine the amount of loss or damage, the Company may, at its option, require as a condition of payment that the Insured Claimant furnish a signed proof of loss. The proof of loss must describe the defect, lien, encumbrance, or other matter insured against by this policy that constitutes the basis of loss or damage and shall state, to the extent possible, the basis of calculating the amount of the loss or damage.

5. DEFENSE AND PROSECUTION OF ACTIONS

(a) Upon written request by the Insured, and subject to the options contained in Section 7 of these Conditions, the Company, at its own cost and without unreasonable delay, shall provide for the defense of an Insured in litigation in which any third party asserts a claim covered by this policy adverse to the Insured. This obligation is limited to only those stated causes of action alleging matters insured against by this policy. The Company shall have the right to select counsel of its choice (subject to the right of the Insured to object for reasonable cause) to represent the Insured as to those stated causes of action. It shall not be liable for and will not pay the fees of any other counsel. The Company will not pay any fees, costs, or expenses incurred by the Insured in the defense of those causes of action that allege matters not insured against by this policy.

(b) The Company shall have the right, in addition to the options contained in Section 7 of these Conditions, at its own cost, to institute and prosecute any action or proceeding or to do any other act that in its opinion may be necessary or desirable to establish the Title or the lien of the Insured Mortgage, as insured, or to prevent or reduce loss or damage to the Insured. The Company may take any appropriate action under the terms of this policy, whether or not it shall be liable to the Insured. The exercise of these rights shall not be an admission of liability or waiver of any provision of this policy. If the Company exercises its rights under this subsection, it must do so diligently.

(c) Whenever the Company brings an action or asserts a defense as required or permitted by this policy, the Company may pursue the litigation to a final determination by a court of competent jurisdiction, and it expressly reserves the right, in its sole discretion, to appeal any adverse judgment or order.

6. DUTY OF INSURED CLAIMANT TO COOPERATE

(a) In all cases where this policy permits or requires the Company to prosecute or provide for the defense of any action or proceeding and any appeals, the Insured shall secure to the Company the right to so prosecute or provide defense in the action or proceeding, including the right to use, at its option, the name of the Insured for this purpose.

Whenever requested by the Company, the Insured, at the Company's expense, shall give the Company all reasonable aid (i) in securing evidence, obtaining witnesses, prosecuting or defending the action or proceeding, or effecting settlement, and (ii) in any other lawful act that in the opinion of the Company may be necessary or desirable to establish the Title, the lien of the Insured Mortgage, or any other matter as insured. If the Company is prejudiced by the failure of the Insured to furnish the required cooperation, the Company's obligations to the Insured under the policy shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation, with regard to the matter or matters requiring such cooperation.

(b) The Company may reasonably require the Insured Claimant to submit to examination under oath by any authorized representative of the Company and to produce for examination, inspection, and copying, at such reasonable times and places as may be designated by the authorized representative of the Company, all records, in whatever medium maintained, including books, ledgers, checks, memoranda, correspondence, reports, e-mails, disks, tapes, and videos whether bearing a date before or after Date of Policy, that reasonably pertain to the loss or damage. Further, if requested by any authorized representative of the Company, the Insured Claimant shall grant its permission, in writing, for any authorized representative of the Company to examine, inspect, and copy all of these records in the custody or control of a third party that reasonably pertain to the loss or damage. All information designated as confidential by the Insured Claimant provided to the Company pursuant to this Section shall not be disclosed to others unless, in the reasonable judgment of the Company, it is necessary in the administration of the claim. Failure of the Insured Claimant to submit for examination under oath, produce any reasonably requested information, or grant permission to secure reasonably necessary information from third parties as required in this subsection, unless prohibited by law or governmental regulation, shall terminate any liability of the Company under this policy as to that claim.

7. OPTIONS TO PAY OR OTHERWISE SETTLE CLAIMS; TERMINATION OF LIABILITY

In case of a claim under this policy, the Company shall have the following additional options:

(a) To Pay or Tender Payment of the Amount of Insurance or to Purchase the Indebtedness.

(i) To pay or tender payment of the Amount of Insurance under this policy together with any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment or tender of payment and that the Company is obligated to pay; or

(ii) To purchase the Indebtedness for the amount of the Indebtedness on the date of purchase, together with any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of purchase and that the Company is obligated to pay.

When the Company purchases the Indebtedness, the Insured shall transfer, assign, and convey to the Company the Indebtedness and the Insured Mortgage, together with any collateral security.

Upon the exercise by the Company of either of the options provided for in subsections (a)(i) or (ii), all liability and obligations of the Company to the Insured under this policy, other than to make the payment required in those subsections, shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation.

(b) To Pay or Otherwise Settle With Parties Other Than the Insured or With the Insured Claimant.

(i) to pay or otherwise settle with other parties for or in the name of an Insured Claimant any claim insured against under this policy. In addition, the Company will pay any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment and that the Company is obligated to pay; or

(ii) to pay or otherwise settle with the Insured Claimant the loss or damage provided for under this policy, together with any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment and that the Company is obligated to pay.

Upon the exercise by the Company of either of the options provided for in subsections (b)(i) or (ii), the Company's obligations to the Insured under this policy for the claimed loss or damage, other than the payments required to be made, shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation.

8. DETERMINATION AND EXTENT OF LIABILITY

This policy is a contract of indemnity against actual monetary loss or damage sustained or incurred by the Insured Claimant who has suffered loss or damage by reason of matters insured against by this policy.

(a) The extent of liability of the Company for loss or damage under this policy shall not exceed the least of

(i) the Amount of Insurance,

(ii) the Indebtedness,

(iii) the difference between the value of the Title as insured and the value of the Title subject to the risk insured against by this policy, or

(iv) if a government agency or instrumentality is the Insured Claimant, the amount it paid in the acquisition of the Title or the Insured Mortgage in satisfaction of its insurance contract or guaranty.

(b) If the Company pursues its rights under Section 5 of these Conditions and is unsuccessful in establishing the Title or the lien of the Insured Mortgage, as insured,

(i) the Amount of Insurance shall be increased by 10%, and

(ii) the Insured Claimant shall have the right to have the loss or damage determined either as of the date the claim was made by the Insured Claimant or as of the date it is settled and paid.

(c) In the event the Insured has acquired the Title in the manner described in Section 2 of these Conditions or has conveyed the Title, then the extent of liability of the Company shall continue as set forth in Section 8(a) of these Conditions.

(d) In addition to the extent of liability under (a), (b), and (c), the Company will also pay those costs, attorneys' fees, and expenses incurred in accordance with Sections 5 and 7 of these Conditions.

9. LIMITATION OF LIABILITY

(a) If the Company establishes the Title, or removes the alleged defect, lien, or encumbrance, or cures the lack of a right of access to or from the Land, or cures the claim of Unmarketable Title, or establishes the lien of the Insured Mortgage, all as insured, in a reasonably diligent manner by any method, including litigation and the completion of any appeals, it shall have fully performed its obligations with respect to that matter and shall not be liable for any loss or damage caused to the Insured.

(b) In the event of any litigation, including litigation by the Company or with the Company's consent, the Company shall have no liability for loss or damage until there has been a final determination by a court of competent jurisdiction, and disposition of all appeals, adverse to the Title or to the lien of the Insured Mortgage, as insured.

(c) The Company shall not be liable for loss or damage to the Insured for liability voluntarily assumed by the Insured in settling any claim or suit without the prior written consent of the Company.

10. REDUCTION OF INSURANCE; REDUCTION OR TERMINATION OF LIABILITY

(a) All payments under this policy, except payments made for costs, attorneys' fees, and expenses, shall reduce the Amount of Insurance by the amount of the payment. However, any payments made prior to the acquisition of Title as provided in Section 2 of these Conditions shall not reduce the Amount of Insurance afforded under this policy except to the extent that the payments reduce the Indebtedness.

(b) The voluntary satisfaction or release of the Insured Mortgage shall terminate all liability of the Company except as provided in Section 2 of these Conditions.

11. PAYMENT OF LOSS

When liability and the extent of loss or damage have been definitely fixed in accordance with these Conditions, the payment shall be made within 30 days.

12. RIGHTS OF RECOVERY UPON PAYMENT OR SETTLEMENT

(a) The Company's Right to Recover

Whenever the Company shall have settled and paid a claim under this policy, it shall be subrogated and entitled to the rights of the Insured Claimant in the Title or Insured Mortgage and all other rights and remedies in respect to the claim that the Insured Claimant has against any person or property, to the extent of the amount of any loss, costs, attorneys' fees, and expenses paid by the Company. If requested by the Company, the Insured Claimant shall execute documents to evidence the transfer to the Company of these rights and remedies. The Insured Claimant shall permit the Company to sue, compromise, or settle in the name of the Insured Claimant and to use the name of the Insured Claimant in any transaction or litigation involving these rights and remedies.

If a payment on account of a claim does not fully cover the loss of the Insured Claimant, the Company shall defer the exercise of its right to recover until after the Insured Claimant shall have recovered its loss.

(b) The Insured's Rights and Limitations

(i) The owner of the Indebtedness may release or substitute the personal liability of any debtor or guarantor, extend or otherwise modify the terms of payment, release a portion of the Title from the lien of the Insured Mortgage, or release any collateral security for the Indebtedness, if it does not affect the enforceability or priority of the lien of the Insured Mortgage.

(ii) If the Insured exercises a right provided in (b)(i), but has Knowledge of any claim adverse to the Title or the lien of the Insured Mortgage insured against by this policy, the Company shall be required to pay only that part of any losses insured against by this policy that shall exceed the amount, if any, lost to the Company by reason of the impairment by the Insured Claimant of the Company's right of subrogation.

(c) The Company's Rights Against Noninsured Obligors

The Company's right of subrogation includes the Insured's rights against non-insured obligors including the rights of the Insured to indemnities, guaranties, other policies of insurance, or bonds, notwithstanding any terms or conditions contained in those instruments that address subrogation rights.

The Company's right of subrogation shall not be avoided by acquisition of the Insured Mortgage by an obligor (except an obligor described in Section 1(e)(i)(F) of these Conditions) who acquires the Insured Mortgage as a result of an indemnity, guarantee, other policy of insurance, or bond, and the obligor will not be an Insured under this policy.

13. ARBITRATION

Either the Company or the Insured may demand that the claim or controversy shall be submitted to arbitration pursuant to the Title Insurance Arbitration Rules of the American Land Title Association ("Rules"). Except as provided in the Rules, there shall be no joinder or consolidation with claims or controversies of other persons. Arbitrable matters may include, but are not limited to, any controversy or claim between the Company and the Insured arising out of or relating to this policy, any service in connection with its issuance or the breach of a policy provision, or to any other controversy or claim arising out of the transaction giving rise to this policy. All arbitrable matters when the Amount of Insurance is $2,000,000 or less shall be arbitrated at the option of either the Company or the Insured. All arbitrable matters when the Amount of Insurance is in excess of $2,000,000 shall be arbitrated only when agreed to by both the Company and the Insured. Arbitration pursuant to this policy and under the Rules shall be binding upon the parties. Judgment upon the award rendered by the Arbitrator(s) may be entered in any court of competent jurisdiction.

14. LIABILITY LIMITED TO THIS POLICY; POLICY ENTIRE CONTRACT

(a) This policy together with all endorsements, if any, attached to it by the Company is the entire policy and contract between the Insured and the Company. In interpreting any provision of this policy, this policy shall be construed as a whole.

(b) Any claim of loss or damage that arises out of the status of the Title or lien of the Insured Mortgage or by any action asserting such claim shall be restricted to this policy.

(c) Any amendment of or endorsement to this policy must be in writing and authenticated by an authorized person, or expressly incorporated by Schedule A of this policy.

(d) Each endorsement to this policy issued at any time is made a part of this policy and is subject to all of its terms and provisions. Except as the endorsement expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsement, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance.

15. SEVERABILITY

In the event any provision of this policy, in whole or in part, is held invalid or unenforceable under applicable law, the policy shall be deemed not to include that provision or such part held to be invalid, but all other provisions shall remain in full force and effect.

16. CHOICE OF LAW; FORUM

(a) Choice of Law: The Insured acknowledges the Company has underwritten the risks covered by this policy and determined the premium charged therefor in reliance upon the law affecting interests in real property and applicable to the interpretation, rights, remedies, or enforcement of policies of title insurance of the jurisdiction where the Land is located.

Therefore, the court or an arbitrator shall apply the law of the jurisdiction where the Land is located to determine the validity of claims against the Title or the lien of the Insured Mortgage that are adverse to the Insured and to interpret and enforce the terms of this policy. In neither case shall the court or arbitrator apply its conflicts of law principles to determine the applicable law.

(b) Choice of Forum: Any litigation or other proceeding brought by the Insured against the Company must be filed only in a state or federal court within the United States of America or its territories having appropriate jurisdiction.

17. NOTICES, WHERE SENT

Any notice of claim and any other notice or statement in writing required to be given to the Company under this policy must be given to the Company at [fill in].

HAZARD INSURANCE REQUIREMENTS FORM

INTRODUCTION

Insurance protects the GRRHP loan against loss or damage. Lenders must review the borrower's insurance policies to confirm that the coverage is adequate to protect against financial loss due to property damage, employee dishonesty or error, and personal injuries that occur on the property. Lenders intending to sell GRRHP loans in the secondary market must require insurance coverage consistent with the standards of Fannie Mae, Freddie Mac or Ginnie Mae.

Lenders must continue to monitor the insurance policies over the term of the loan so that each GRRHP property is continuously insured with acceptable property and liability insurance policies. The named insured must be the borrower. The following section identifies the types of insurance and the specific provisions that must be included in the policy.

SECTION 1: OVERVIEW OF INSURANCE REQUIREMENTS

Described throughout this chapter are the different types of Agency insurance requirements for the GRRHP program. At a minimum, lenders must establish insurance standards for GRRHP loans that meet or exceed the insurance requirements of Fannie Mae, Freddie Mac or Ginnie Mae. Failure to ensure that proper insurance is maintained on the property may result in denial of the guarantee payment by the Agency.

SECTION 2: TYPES OF INSURANCE

PROPERTY INSURANCE

Property insurance protects the physical asset against loss due to damage. Property insurance includes:

• **Hazard Insurance** to protect the property against fire and weather-related damage, as well as damage from civil commotion, aircraft, or other vehicles. The policy must be endorsed to include all the extended coverage perils. An "all risks" policy is recommended.

CHAPTER 9: INSURANCE REQUIREMENTS

• **Flood Insurance** to protect the property against losses caused by flooding due to natural disasters such as hurricanes. Flood insurance through the National Flood Insurance Program is required for all properties located in a Special Flood Hazard Area (SFHA) as identified by FEMA. For every GRRHP loan, the lender must complete FEMA Form 81-93, Standard Flood

Hazard Determination, and must determine whether any of the improvements on a property are or will be located in a SFHA.

• **Builder's Risk Insurance** to protect the property against loss or damage during construction or reconstruction after an insured loss. Builder's risk insurance is required during all periods of reconstruction and rehabilitation.

• **Boiler and Machinery Coverage** may be required for any property that operates steam boilers, turbines, engines, or other pressure vessels, to cover the cost of boiler replacement and other machinery in the event of an accident.

• **Sinkhole or Earthquake Insurance** is required in areas where there is a risk of damage from this form of natural disaster.

• **Business Income Insurance** is required to cover the loss of income to a property resulting from an event that makes one or more units temporarily unhabitable.

FIDELITY INSURANCE

Fidelity insurance protects the property against loss due to employee dishonesty. The policy must provide coverage on all persons with control over or access to project income or other assets. Fidelity coverage may also be known as Blanket Crime Coverage or Fidelity Bonding.

MORTGAGE'S ERRORS AND OMISSIONS (E&O) INSURANCE

E&O coverage protects the borrower against loss resulting from negligence, errors, or omissions committed by those persons covered under the borrower's fidelity insurance policy. Obtaining E&O insurance does not diminish or limit the borrower's documentary obligations and responsibilities.

LIABILITY INSURANCE

This coverage insures against any personal injury that might occur in or on the property's common areas, common elements, commercial space, and public areas.

WORKER'S COMPENSATION

This insurance coverage, also known as employer's liability coverage provides for replacement of lost wages to workers that suffer job injuries. This coverage is not required by the Agency but may be required by State or local law.

EVIDENCE OF INSURANCE, TERMS, AND COVERAGE

The lender must obtain the original policy or the declaration page, and evidence that one (1) full year's premium has been paid for all required insurance coverage. Either originals or certified copies of current insurance policies must be kept on file by the lender. The term of the insurance policy may not be less than one year. All policies must be on an occurrence basis. The lender must determine what is an acceptable level of coverage based on the needs of the property.

SECTION 3: AUTHORIZED INSURANCE PROVIDERS

Borrowers are responsible for selecting an insurance provider that is reputable and financially sound. The lender must review all relevant available information about insurers including financial statements, Best's Insurance Reports, and information from State insurance authorities.

The borrower is required to disclose any identity of interest relationships with the insurer company or must certify to the lender that none exists.

ACCEPTABLE RATINGS FOR INSURANCE PROVIDERS

A hazard or property insurance provider needs to meet one of the acceptable rating categories established by one of the rating agencies approved by Fannie Mae, Freddie Mac or Ginnie Mae.

INSTRUCTIONS TO IRA CUSTODIAN

Millennium Trust Company

820 Jorie Blvd. Suite 420
Oak Brook, IL 60523
630.368.5600 Telephone
630.472.5969 Fax

www.mtrustcompany.com

MORTGAGE/DEED OF TRUST AUTHORIZATION

A ACCOUNT INFORMATION

Account Owner's Name:

Millennium Account Number:

Description of Mortgage/Deed of Trust (*Include Borrower's Name, Interest Rate, and Maturity Date*):

Dollar Amount to Be Invested: $

B REQUIRED DOCUMENTS

If you wish to authorize the purchase or transfer of a mortgage or deed of trust into your Millennium Trust Company, LLC (Millennium) account, you must provide the following:

1. All documents and applications necessary to purchase the mortgage/deed of trust. The client should complete any investor suitability questions and should sign all documents. Any broker-dealer information should also be completed.
2. The original note (*and assignment in the case of a transfer*) in the name of "Millennium Trust Company, LLC FBO (*Insert Account Owner's Name*), Account # (*Insert Millennium Account Number*)."
3. A copy of the recorded mortgage/deed of trust.
4. An amortization schedule. The payments must be current. Millennium will not accept a mortgage/deed of trust that is in default.
5. A copy of an insurance policy naming "Millennium Trust Company, LLC FBO (*Insert Account Owner's Name*), Account # (*Insert Millennium Account Number*)" as an insured party.
6. If the participant will use an independent third party service company or escrow agent to service the investment, a copy of the Servicing Agreement must be provided to Millennium. The participant must also complete item 8(i) to indicate the agent information.

C CERTIFICATIONS

I, the undersigned Account Owner, certify the following:

1. I have read and understand all of the documents pertaining to the purchase/transfer of this investment. I have approved all of the terms of this investment and determined that all applicable documents have been completed properly.
2. I have determined that the property has sufficient valuation to cover the borrower's obligation.
3. I have verified that there is sufficient property insurance. I have verified that all taxes due to date have been paid and if this is a second mortgage, I have verified that the first mortgage is current. I understand that it is my responsibility to monitor these items.
4. I have examined the borrower's financial statements and other relevant data and am satisfied with the borrower's financial position as it pertains to this investment.
5. I meet any and all suitability requirements of the investment.
6. I understand that Millennium shall be under no obligation to notify me in the event of a default in the repayment of the note or obligation, and that it shall be my sole responsibility to obtain legal or other necessary services in connection herewith.
7. I understand that certain transactions are prohibited for tax-exempt retirement arrangements under Internal Revenue Code Section 4975 and ERISA. I further understand that the determination of whether the transaction directed hereby is a prohibited transaction or "party in interest" transaction depends on the facts and circumstances surrounding the purchase. I warrant and represent that I have consulted with such advisors as I deem necessary and appropriate, and determined, among other things, that this investment does not constitute a prohibited transaction as defined in Internal Revenue Code 4975, and that the offering entity or any affiliate thereof is neither a "disqualified person" (*as defined in Section 4975 of the Internal Revenue Code*) nor a "party in interest" (*as defined in ERISA*).
8. I acknowledge that Millennium has not evaluated or given any advice with respect to this investment. I further acknowledge that any administrative review performed by Millennium on the above investment was solely to determine that the investment is administratively feasible for Millennium under the above referenced account. I understand that this review was not a due diligence review, and that Millennium has not rendered any investment advice, nor has

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Millennium expressed any opinion as to the prudence or viability of the investment. I agree to hold Millennium harmless from any liability which may occur as a result of the execution of this investment.

9. I understand that Millennium reserves the right to elect to resign as custodian of my account in the event of default or foreclosure. I understand that it will be my responsibility to name a successor trustee/custodian and that in the event that I do not name a successor, Millennium may distribute the investment to me as a taxable distribution from my account.
10. I agree that I will immediately notify Millennium in the event any of the foregoing representations are no longer true.
11. I choose to use the following service company or escrow agent to service all aspects of this investment. (*Do not indicate Millennium*). If I have not completed this section, I understand that it is my sole responsibility to service all aspects of this investment.

Name:

Address:

City: State: Zip:

D ACCOUNT OWNER'S SIGNATURE

The undersigned hereby agrees to the above direction requirements and certifications.

Account Owner's Signature: ______________________ Date:

www.REJVP.com

The Comprehensive Guide to Private Lending

Have you ever wished that you could earn more on your investments than traditional bank certificates of deposits and money market funds pay?

Are you tired of the roller coaster ride you're constantly taking on your stock market and mutual fund investments?

Do you wish you could finally have an investment that consistently and dependably paid you a guaranteed high rate of interest on your money each and every month without exposing you to very much risk?

Well, you're in luck! The answer is private lending, and in this comprehensive step-by-step guide, you'll learn exactly how you can get the return you want without a lot of risk and a lot of headache!

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