

PRIVATE MORTGAGE INVESTING

AS well as investing in a Syndicated Mortgage investors have the option to invest in Private Lending through first, second, or third mortgages using cash or registered funds.

Why Private Mortgages?

For a borrower this helps them solve their problem as a short-term solution. There are many reasons that a person requires private money. Some typical reasons are:

- Debt restructuring
- Poor credit or high Debt service ratios
- Construction loan before a refinance
- Bridge loan between a sale and purchase
- Investment purchase for a flip or a flip to self

For the Lender there are several advantages in this type of investment and why you might consider this as an addition to your portfolio.

- Your investment is secured on hard assets
- These can be completed with relative ease and provide more flexibility
- Provides great returns with regular positive cash flow
- There is a growing demand for private lenders
- You determine your own risk tolerance
- Less volatile than the markets
- Short duration
- Can use registered funds for investing

There are variations on how much your ROI will be and how you get paid. Typical rates on a first mortgage might be 6-9% annual plus a lenders fee. Second mortgages might be 9-13% plus a lenders fee annually and third at 13-18%. Loan amount can be from \$10,000 and up for a duration of 2 years or less.

Develop Your Lending Criteria

Decide what your rules for lending will be and follow them.

- What type of property will you lend on? Residential, commercial, vacation?
- What locations of the property will you lend and not lend on?
- What condition must the property be in?
- What is your min & max loan amount?
- What is the highest LTV ratio you will go to?
- What is your min ROI?
- What is your min & max term length?
- What classification of loan will you consider? Private loan, 1st, 2nd or 3rd mortgages?
- What does the borrower's credit have to be?
- What does the borrower's income have to be?

Deal Structure

The structure of your deal should always meet your comfort level and personal risk tolerance. Many things will be negotiable and some points of consideration will be.

- What is used for collateral? Do you require cross collateralization? The use of other assets to secure the loan.
- The length of term.
- The structure of the interest payments and fees.
- What type of payments will you require and when? Monthly interest only, prepaid interest, partial payment or balloon payment at the end of the term?

- Extra fees. What if there is an NSF payments or the borrower would like to renew at the end of term? Have this established ahead of time.
- Do you need a Guarantor?

Where do I find the Deals?

Start first with your personal network of friends and associates. Different investment groups and the Keyspire community. Mortgage professionals who deal with private lenders and clients looking for financial assistance. Local classifieds are also an option.

Due Diligence

What can you do to mitigate your risk?

Qualify the Property

- Understand the market where the property is located. How easy would it be to sell if you had to force a sale?
- Understand the property valuation via an appraisal.
- A title search will show what liens or loans are registered on the property.
- Who are the registered owners?
- Avoid unmarketable areas & properties.
- Are there any adverse influences about the property or the area?

Qualify the Borrower

- Review the borrowers Credit Report.
- What does their income look like? Confirm their employment.
- What is the borrowers GDS & TDS ratio? What do they owe? Can they pay you back?
- Do they have outstanding Tax debt?
- Do they have a plan?

Qualify the deal

- What will your ROI return on investment be?
- When will your return of investment be?
- Does this meet your goals?
- Does it fit your Lending Criteria?

Summary

The steps to your first deal will look something like this.

- Source your funds. How are you funding this investment?
- Find the lending opportunity.
- Develop the deal and complete your due diligence.
- Complete the paperwork and place the funds.
- Follow regularly. Check that your payments are on time. Check with the first mortgage holder that the payments are made. (You will require written permission for this) Check that the Taxes are paid up and that proper insurance coverage is in place.
- Be organized. Document all of your transactions and have a plan in place for re-investing.

Your team will consist typically of a licensed Mortgage Broker and Lawyer.

Default

As a secured lender you have 3 options. The most important thing will be to act quickly and handle it properly.

- Renegotiate the deal. Understand what the problem is.
- Power of sale. You will have to force a sale of the property.
- Foreclose. Take over the property and be ready to maintain it and pay the bills.