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SPECIAL  
REPORT

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**Earn Safer, Higher Returns**  
ON YOUR **Investment Capital**  
AS A **Private Lender** FOR **Real Estate**

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## SPECIAL REPORT



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# Earn Safer, Higher Returns ON YOUR **Investment Capital** AS A **Private Lender** FOR Real Estate

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The safety of traditional investments such as stocks, bonds and mutual funds has been called into question following the recent economic downturn. As a result, many investors are looking for a reliable way to earn good returns without taking too much risk. One appealing option that could help you is private lending for the real estate market. When you work with a proven real estate investment professional, you can be sure that you're getting a safe, profitable investment opportunity.

## Expected Return

Private lenders lend money to individuals and organizations in much the same way that banks do, but they are not professional lending institutions. This investment method offers a higher rate of return than the traditional 8 percent you can expect from a conventional retirement account. You could consistently make a 15 to 18 percent return on private real estate lending. Some real estate investors are even able to offer returns of up to 20 percent for the private lenders they work with.

## Investment Security

This method also offers considerably more security than stocks and bonds, which have recently proven to be very unpredictable. As a private lender working with an experienced investor, you can expect to be in first lien holder position, secured by the first mortgage on the property. A good investment company will use your money carefully, borrowing only about 75 percent of the property's after repair value, or ARV.

This ensures that you aren't at a significant risk of losing your money due to bad choices on the part of the investor you choose to work with.

All money should be handled through a professional title company, rather than directly by the investor. That allows you to be certain that everything is managed correctly, that all liens will be properly released and that you'll get your money back when the property finally sells. Since real estate is a physical asset, it's much safer than other investment strategies, which frequently rely on intangibles. After all, even though the real estate market has been up and down, over the past century and a half, it has consistently grown at a rate of about 6 percent per year.

## Control Over Investments

Private lending also gives you more control over your investments than traditional method. When you invest in an IRA, CD or 401K, you don't really control your money. Instead, your employer, a bank or a brokerage firm handles it, reducing your control over the investments. If you choose to invest via private lending, you make the decision each time you lend, not your broker or your bank.

This investment method offers a much faster turnaround than many of the other options. You can expect a return time of two to four months on many loans. Others take a few years to pay you back. In either situation, you get your money back very quickly compared to more traditional investment options.

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Once the loan has been repaid by the borrower, it's up to you to decide whether or not you'd like to reinvest the money in another direct lending situation. You can choose another real estate loan or put your money back into a conventional investment if you prefer. Compare this to CDs or other investment options where your money is tied up for years or even decades. Some short term options actually involve lending money for only a day or so.

Even though you maintain good control over your investments with private lending, you won't feel like you're drowning in paperwork. When you work with a real estate investor, the investor handles most of the paperwork and provides all the forms you need to sign.

You can expect  
the investment  
professionals you work  
with to explain all the  
paperwork for you, so  
you'll be able to  
make a smart  
decision about  
your money.

## Increase in Demand

As lending regulations tighten, it becomes more difficult for professional real estate investors to acquire the money they need



for their businesses. Many real estate investors, especially those new to the business, are having trouble finding the capital required to rehab old properties and sell them at a profit. Even when they have a sound business plan and good prospects, new rules and their lack of investment history can keep them from borrowing.

Because of this situation, the demand for private lending has increased significantly. Within just a few years, real estate investors have begun to rely heavily on private individuals for the capital they require. These companies need money to grow, but can't get it from most banks and lending institutions. They're increasingly turning to private investors who want a fast turnaround and reliable profit percentages for more direct real estate loans.

## Types of Private Lending Situations

Private real estate lending can be beneficial in a range of different situations. Each one offers a slightly different return and loan period. For instance, you could lend money to an investor that wishes to buy a rental property. You'll receive paperwork defining the interest rate and time frame of the loan. Returns for this kind of private lending are usually about 5 to 10 percent over the course of a few years.



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You might also lend to investors who wish to set up a back to back closing for short sales. These investors buy the property from the original owner using the money you loan, then sell it again almost immediately, making a small but comfortable profit. In these cases, you could get a return of several percent in just a few days. The loan could last just 24 hours in some cases.

Other real estate investors wish to refurbish properties with some damage and with prices well under market value. This kind of property is readily available in the aftermath of the 2008 real estate crash. Many can be sold for a profit after only a little bit of work. In these cases, the investor accrues interest over the course of the loan, then pays back the full amount plus the interest as soon as the property sells.

These and many other private lending situations allow you and an investor to make a profit without having to deal with arduous rules and regulations. These loans are low risk, as long as you do your homework beforehand, and can allow you to make money much more safely and rapidly than your current investment options.



## Choosing an Investor

Not every real estate investor is a good choice for private lending. Look for established investors with a pre-existing history of working with private lenders and a strong portfolio of previous properties. Less-experienced real estate investment firms may still provide a good risk, but can be harder to assess due to their lack of previous sales. Ask any investors to which you intend to lend money about their business plan and the purchases they intend to make. Ask the investor to provide any available information about

the success of past investments and the rate of return on those deals. The right choice could provide you with a good return on your money in just a short time.

Look for investors who can discuss their property plans clearly and without confusion. If a potential borrower can't answer your questions, that business may not be the best choice. Be willing to discuss lending with a number of different investors. This allows you to sift through the bad risks and choose one that will help your money grow. If an investor offers terms you don't feel comfortable with, feel free to negotiate different ones. After all, private lending frees both you and your borrowers from the cookie-cutter forms and regulations associated with banks and conventional lending.

## Using Existing Investments

If you already have much of your money invested in more traditional areas, you can still engage in private lending. Lenders who have a pre-existing IRA or 401K plan can choose to direct their own investments. The money from these accounts can be rolled into the real estate market, providing better returns than you're currently making with these managed investments. One benefit of this technique is that the money you earn will go directly into your retirement fund, enabling you to avoid paying taxes on the income.

It's also possible to borrow some money against an existing 401K. Most people can borrow up to about \$50,000 for investment in short term private lending. If you're earning more interest than you must pay out for the loan, this can be an effective way to put your money to work.

If you're not sure your current investments are making the kind of money you need, it may be time to investigate the world of private real estate lending. You could put your money to work, receive a much higher return on your investments and help another business owner get the money required to keep on growing. You'll enjoy control over your investments, greater latitude to set the terms of your investment and surprisingly good returns. Smart investors can safely make a lot more as private lenders in the real estate market.