Private Lending

For Beginners

A better, safer way to put more money in your life!

Michael Bonn

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A QUICK INTRO

I'm thrilled you've decided to embark on the exciting and lucrative journey of private lending.

I believe private lending is one of the best ways to put your money to work and keep it working long after you've retired. It offers better rates than banks and other traditional investment methods, and is secured by a real asset (i.e. a house).

In this book, I offer expert knowledge that's intended to grow your money safely and quickly. But, before we all jump in, a couple of notes:

First, as you read, keep in mind I focus on short-term private lending secured by income producing properties. These are similar to properties you might see on HGTV and other home improvement programs. However, the strategies in this book can apply to other types of assets.

Second, I will show you how to work with various professionals, like real estate attorneys, title companies, and appraisers. The cost of working with these professionals should NEVER come out of your pocket. Your borrower should (and will) pay for them. It's simply the cost of doing business in this industry.

Third, private lending offers more flexibility than most other investment strategies. You get to choose how much risk you want to take, where you want to invest, how much you want to invest, and who you want to invest with. You'll quickly discover you hold more power and control than ever before.

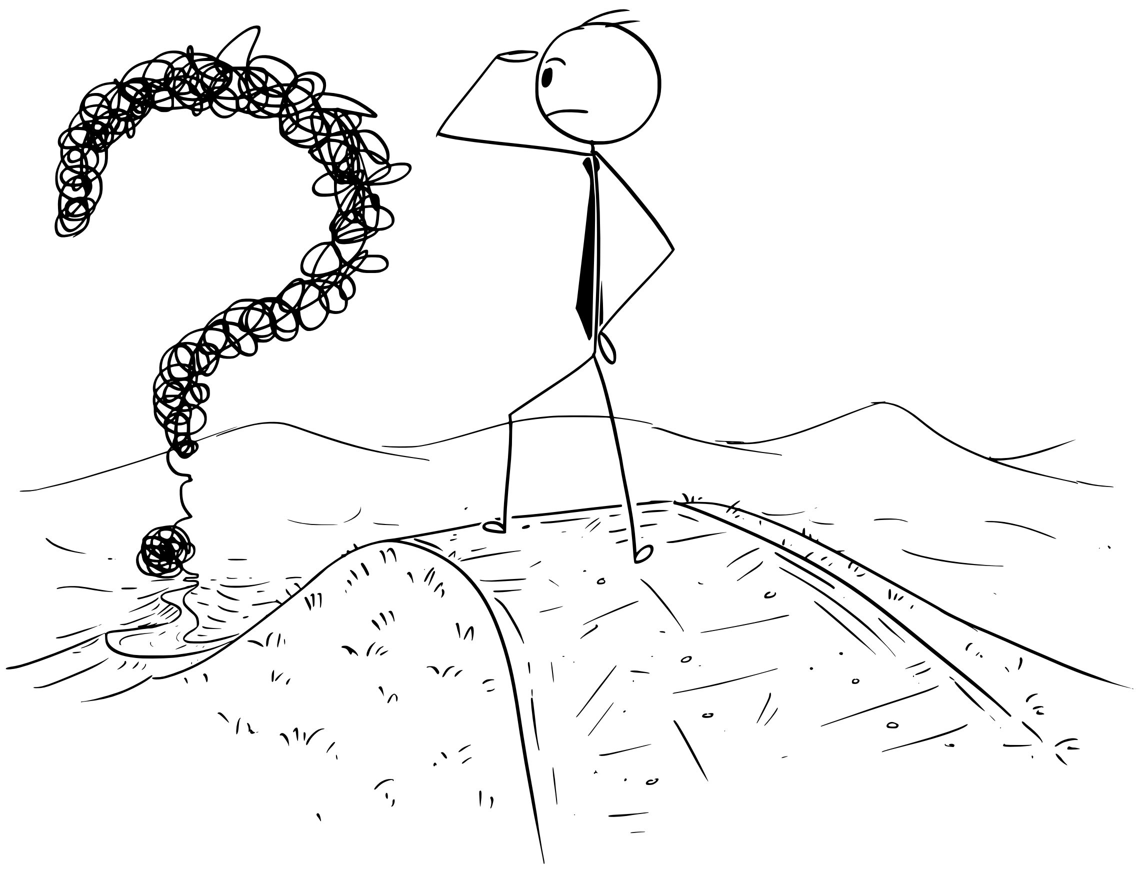
I know you've worked hard for the money you've made. Now let's make your money work hard for you.

Let's get going!

Michael Bonn

WHY PRIVATE LENDING?

Before we jump into showing you what private lending is, we want to show you why it's such a great investment strategy.



MORE MONEY!
If you're looking for more money in your life, then private lending is perfect. It helps you make the kind of money you need to live the life you want (not the life you can currently afford).

BETTER SECURITY
In private lending, you get to choose your risk vs return. You get to decide where you put your money and how much interest you charge. Better yet, your investments are secured by real assets.

LESS STRESS
Traditional investment methods tend to trigger stress. The stock market puts you on a rocky roller coaster that could derail at any moment (ahhhhh!). And CD's and bonds pay low rates, so financial growth takes forever. As you near retirement, neither of these paths are ideal. You need safety and growth to live comfortably (and stress-free).

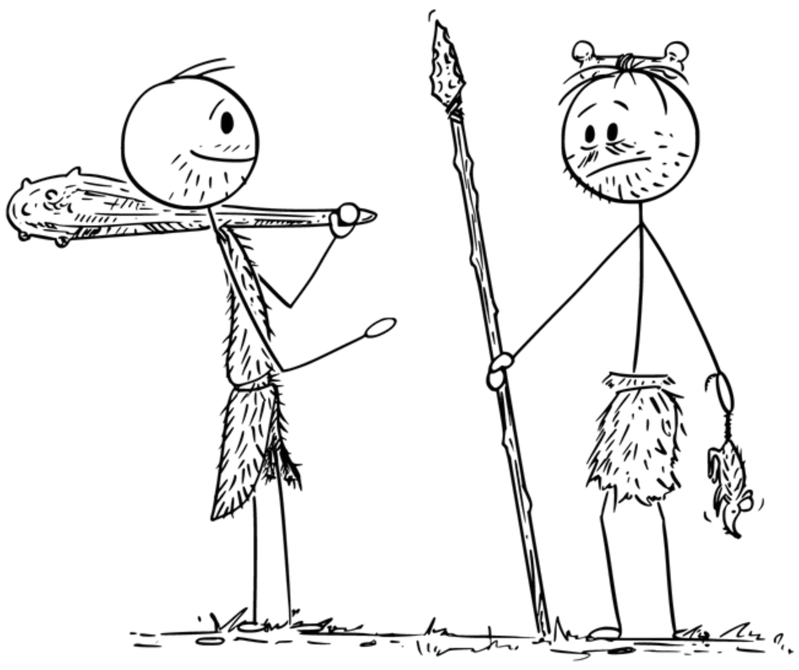
HELP YOURSELF AND OTHERS
One of the best parts about private lending is you're helping more than yourself. You're helping small businesses and building stronger communities. Talk about a win-win-WIN!

Private notes are truly one of the best investment strategies around. So let's get going and dig in deeper.

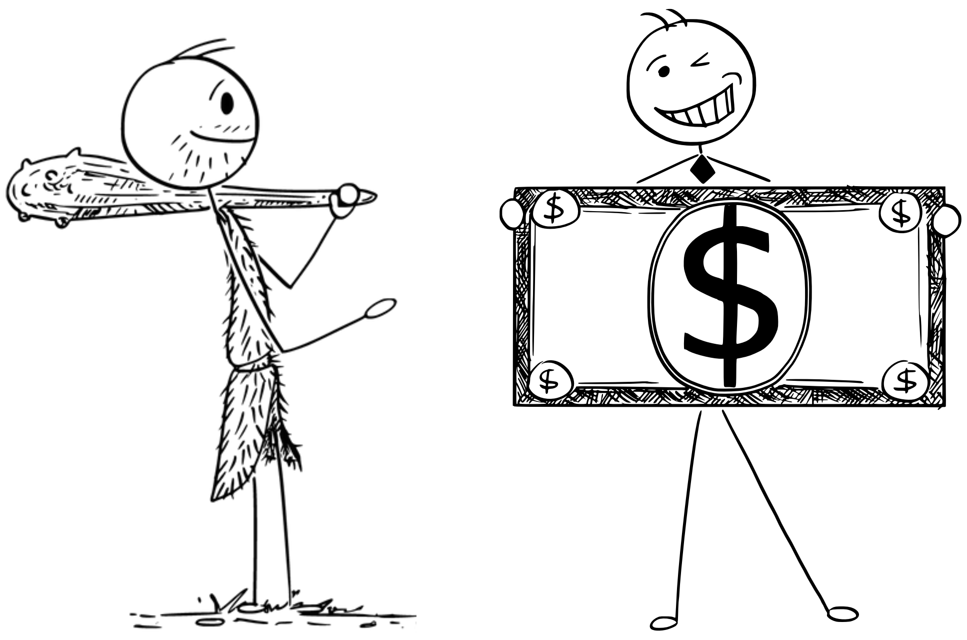
Ready to go?

IT'S ANCIENT

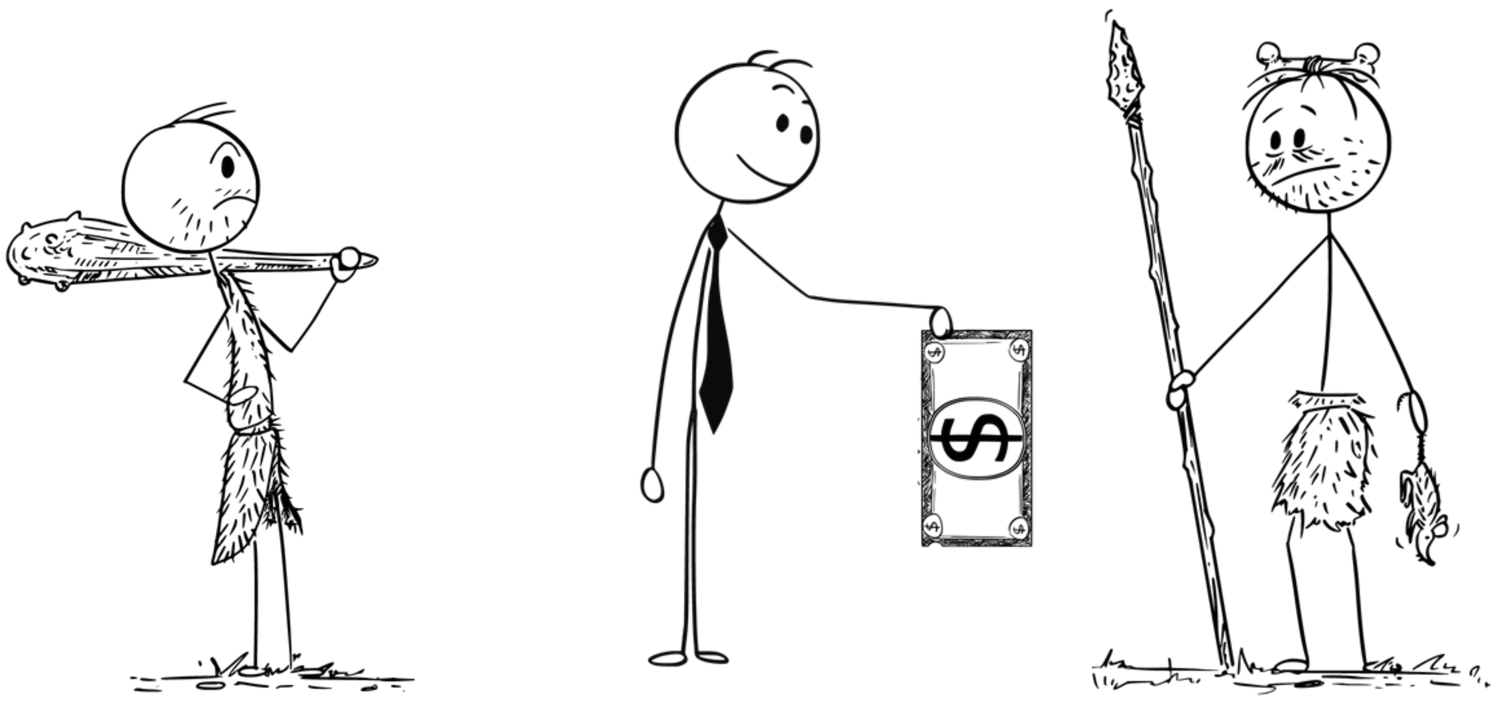
Private lending might be the oldest investment method around. People just like you have been lending money on a private basis for thousands of years, long before anyone even knew what a bank was.



Then bankers came along and talked people into lending them money at next to nothing (i.e. CD's and savings accounts).



Bankers then turned around and used that same money to loan to others, and they charged three to five times the amount they paid for it. In other words, money that once went into your ancestor's pockets now went into the banker's.



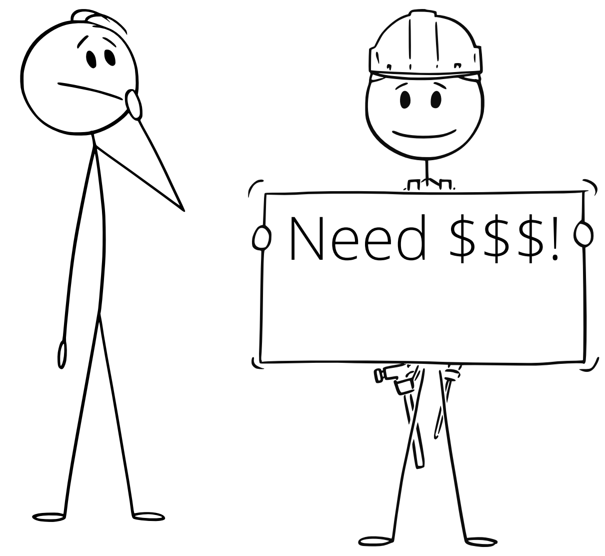
Now, there's nothing wrong with bankers or what they do. But, why let them use your money at such a low rate? Why not go back to the old ways? Because, the old ways paid you more.

A lot more!

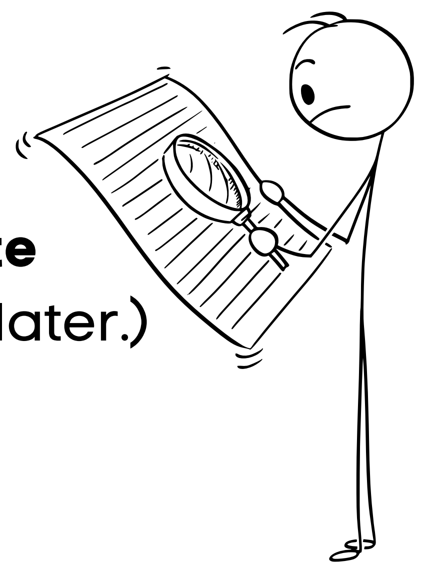
HOW DOES IT WORK?

How exactly does private lending work? Let's break it down into seven simple steps.

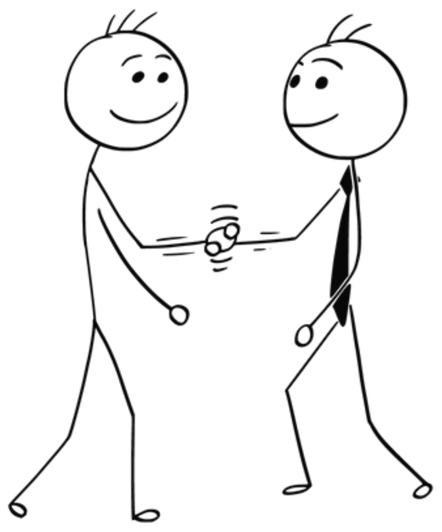
Step 1: A real estate investor approaches you for a loan on a property (usually a fixer upper).



Step 2: Evaluate the borrower and the property to decide if both are worth the risk.

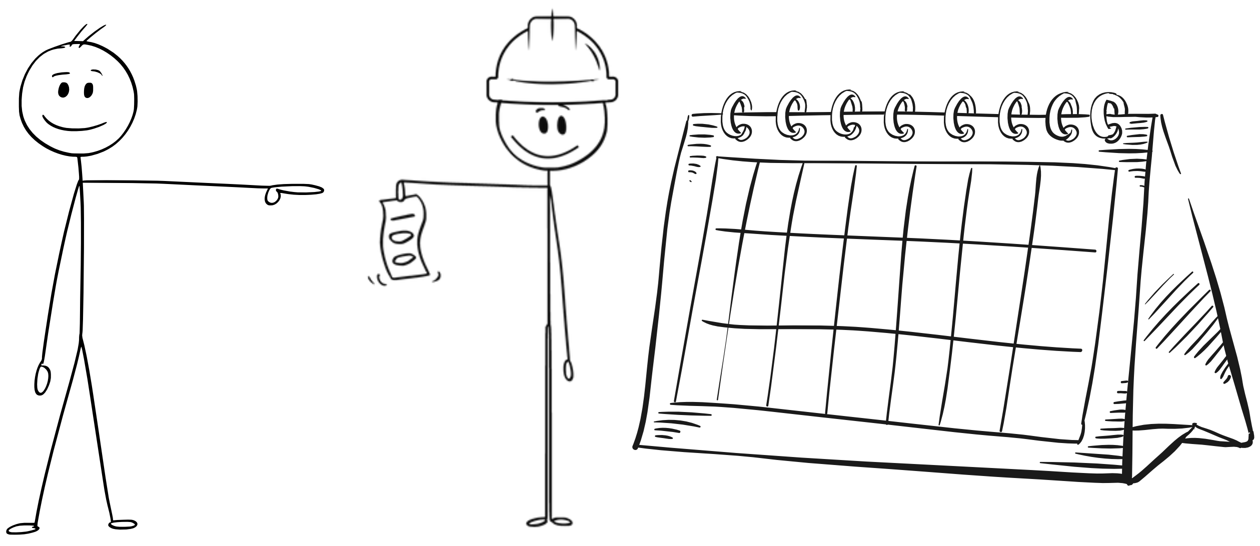


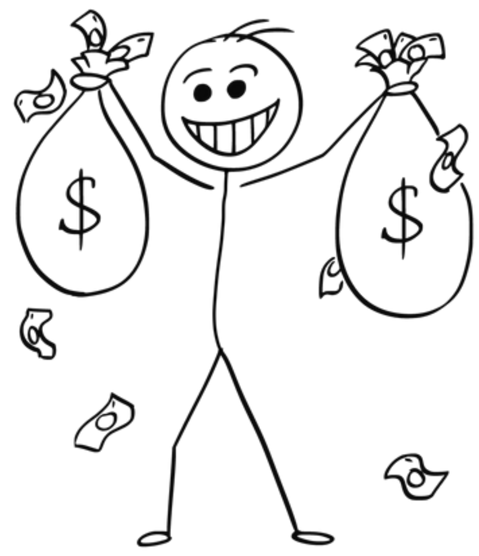
Step 3: Prepare a legal document called a "**private note**" to secure your loan. (More on private notes later.)



Step 4: Close your real estate deal through a licensed title company.

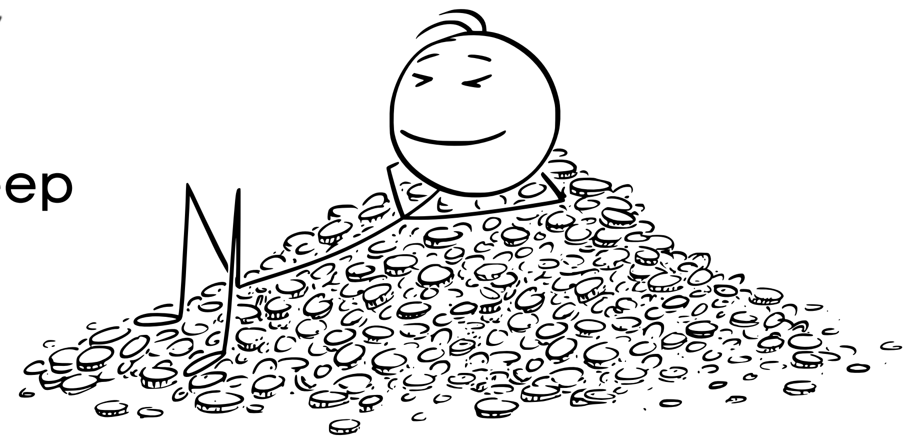
Step 5: Collect monthly interest payments from the borrower.





Step 6: Receive a full payoff (plus interest) once the deal is complete.

Step 7: Repeat the process and keep making easy, safe money.



And that's it!

Okay, there's a bit more to private lending, but that's the basic gist.

Now, let's take a closer look at what secures your money and will bring you peace of mind with private lending.

A CLOSER LOOK AT WHY

Private lending offers heaps of benefits. Here are the top three reasons why we like to recommend it to our investors.

BETTER RETURNS!

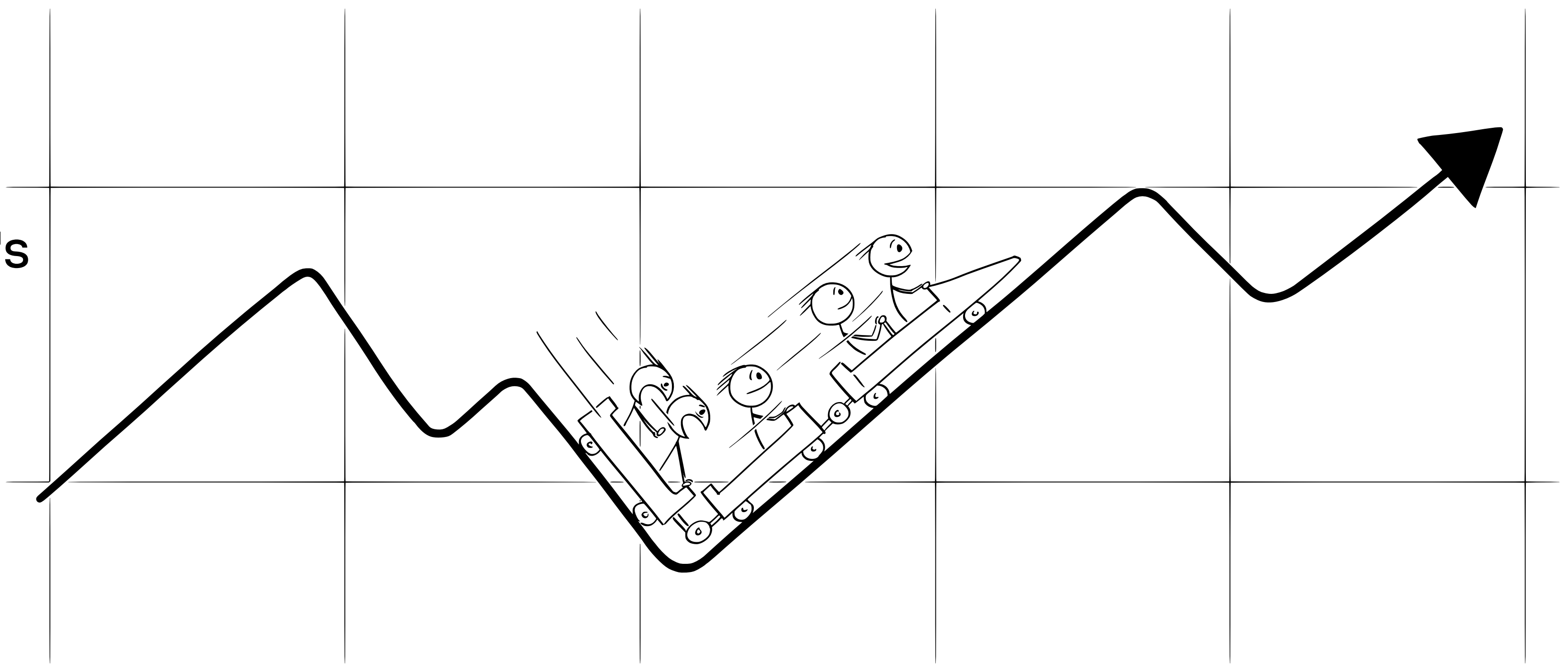
One of the first questions out of people's mouths is, "What kind of interest rates does private lending offer?"

The answer to that question is, "0% to 100%." But, the average is 2% to 14%. It all depends on the agreement between you and your borrower...and the amount of risk you wish to take on.

The key is to focus on loans with good borrowers who have solid, income-producing properties.

These kinds of borrowers are in demand and typically have options because 1) they have a good track record of paying bills, and 2) they have assets to protect.

As of 2022, rates to good borrowers on good homes hovered between 3% to 8%. That's a steady, safe income you can't get with the rocky stock market or low-bearing interest accounts, like bonds and CD's.

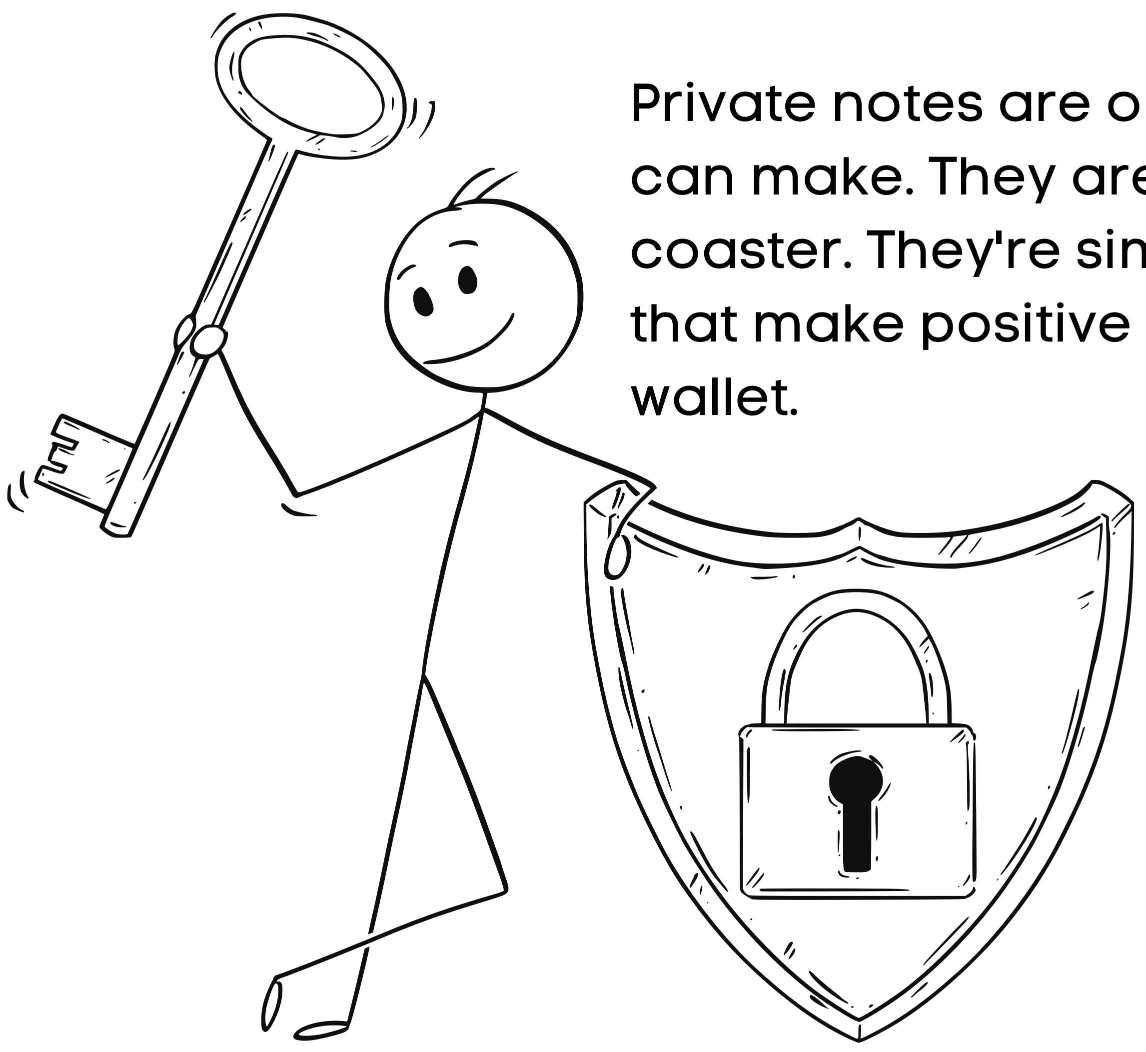


Of course, you can push for higher interest rates (9%-14%). But, beware, greed will typically get you in trouble and include more risk. And it might involve a lot of hard work to keep payments coming in (because your borrower won't be as dependable paying their bills).

After 20+ years of experience in the private lending business, we know higher interest loans will cost you in the long run. You'll definitely work for those higher rates and, in the end, deal with a lot more risk. The 3% to 8% rate is the sweet spot. These returns are the kind you need in your life now and in the future.

Whether you're a 35-year-old looking to build your future, or a retiree looking to plump up your accounts, private lending is sure to yield greater results than traditional methods.

BETTER SECURITY & SAFETY!



Private notes are one of the most secure investments you can make. They aren't part of the stock market roller coaster. They're simple, secured loans on local properties that make positive impacts on your community...and your wallet.

Here are 3 easy steps to take to keep your investments safe:

1. Lend to good people on good properties.
2. Properly secure your money.
3. Know what and where your money is secured.

Private notes are also secured by a real asset. For example, a house.

You're given security (a **lien** on the property) until the mortgage is paid off in full. A lien is your claim on the property. If you're in first lien position, then that means you get paid FIRST, before anyone else that the borrower might owe money to (i.e. contractors, creditors, the water company, etc.).

If the borrower happens to fail at repaying you (**defaults**), then you have the right to repossess the property and sell it to recover the money you're owed.

Once again, let's dig in deeper:

First off, not all loans are secured.

There are both secured and unsecured ways to lend money. Either way, there should be an agreement you sign that outlines the terms of the loan.

Unsecured loans come with no security beyond the ability to pay and the honesty of the borrower. For example, a credit card or a personal loan is an unsecured loan. If something happens to the borrower, you have nothing to protect your money.

A secured loan is when you have something protecting your money other than just the person borrowing it.

Secured loans can be secured with a car, equipment, furnishings, etc. In the case of a real estate loan, you have a physical asset that you can see and touch:

A house.

Bonds can be considered secured notes, too, but they do not secure just your loan. They secure all bond holders. That might mean no real assets are protecting the bonds.

Now, lending money to real estate investors (flippers, rental owners, etc.) should always start with proper documents like a private note and a security agreement.

Private notes, in our opinion, should always close with a third-party agent, like an attorney or title company with a **title policy**.

A title policy will insure you're in the lien position you expect to be in (preferably first). A title company will also make sure your lien is properly recorded with the correct county. (More on this in the next chapters.)

So now your funds are secure. The next question is how do you keep them safe?

Safe can be a subjective term and seen differently by everyone. When we say "safe," we mean lowering the risk you face with your private loan.

Let's take a look at what a good, safe loan looks like.

- **The more equity in a property, the safer the loan.**

The first focus is making sure the asset (house) is valued higher than the amount you lend. Most traditional lenders allow loans with little to no equity (the difference between the home value and amount owed).

We don't believe in this lending method.

Why?

Well, let's look at a couple examples:

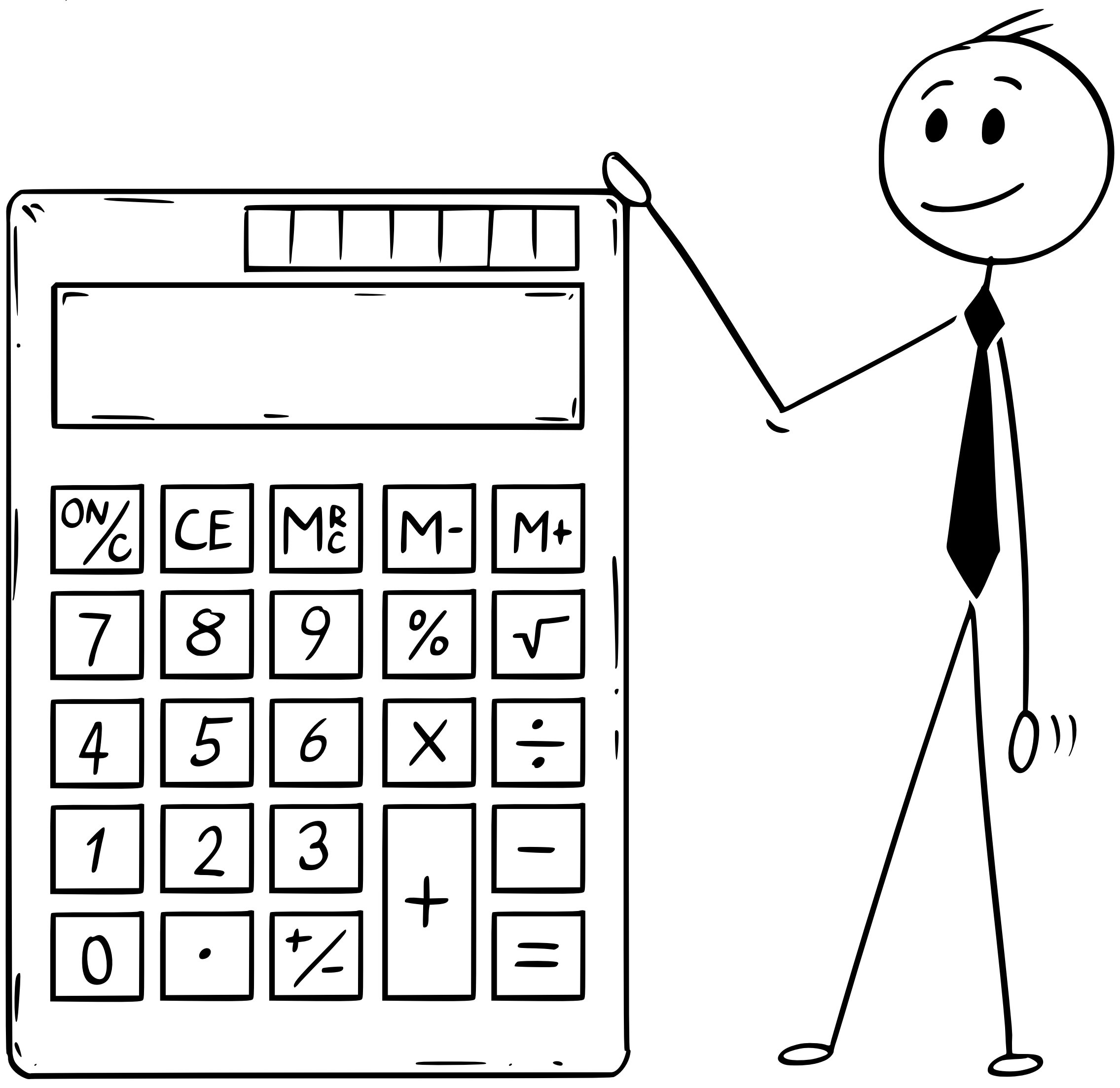
Traditional or conforming loan (i.e. FHA loan):

Loan amount = $95k
Value = $100k

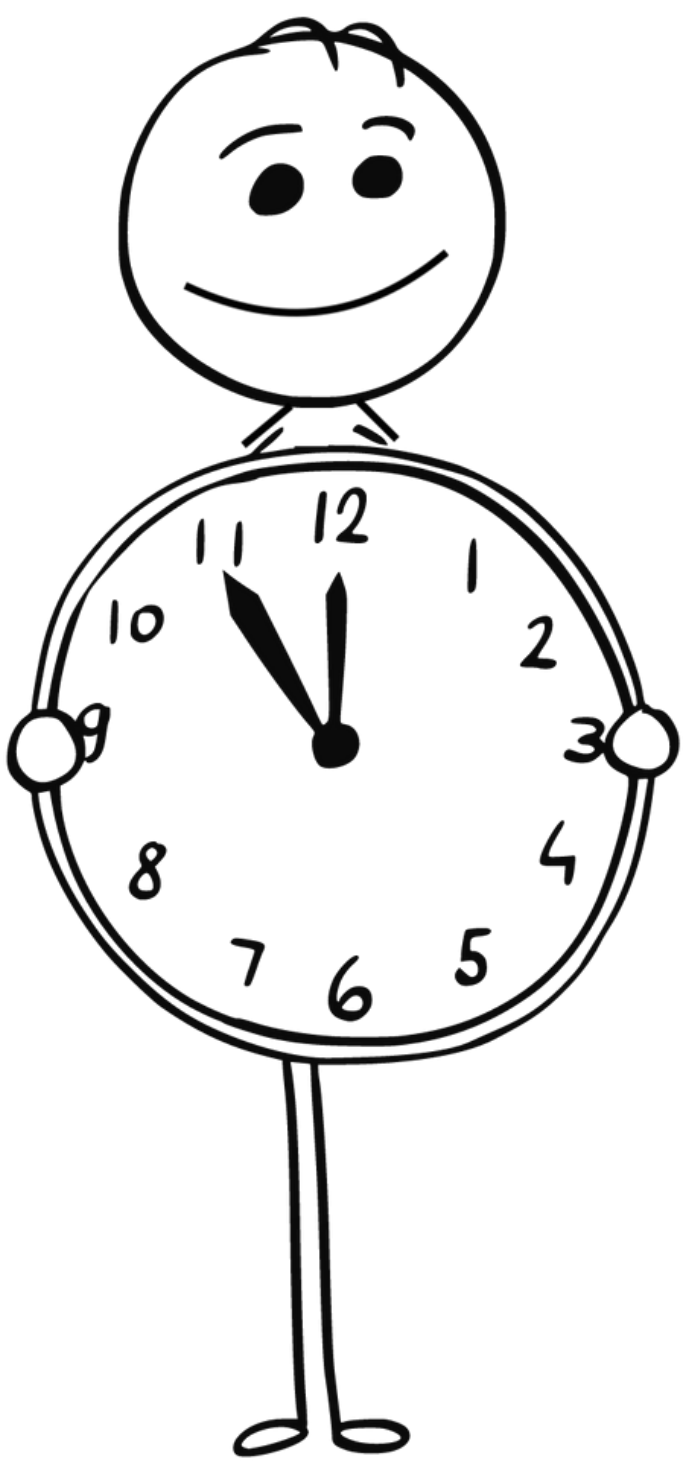
This means the loan is only protected by an extra $5k (equity). If there's a slight market downturn, the lender might not be 100% protected anymore. On top of that, they might charge 3% interest and be committed for 30 years (crazy!).

Private loan:

Loan amount = $65k
Value = $100k



This means the loan is protected by an extra $35k in equity. (That's a lot more than $5K!) It also means that if there's a slight market downturn, you have a cushion to protect your loan.



- Agree to shorter terms.

Most traditional lenders look to lock up a loan for 15 to 30 years.

Yikes!

The loans we're talking about in this book keep the length of a loan to five years or less. We recommend two to three-years maximum; but the norm is closer to three to 12 months.

Not only do shorter terms give you a chance to reevaluate the asset and your borrower, but it allows you to maintain control.

- **Always involve outside help with your closing documents, including your private note.**

At the very least, hire an attorney, title company, and valuation person (appraiser, realtor, etc.). From start to finish, they will keep you and your money safe.

Remember, the costs of hiring these team members are not your responsibility. They should be the borrower's. (We'll talk more about your team members later in this book.)

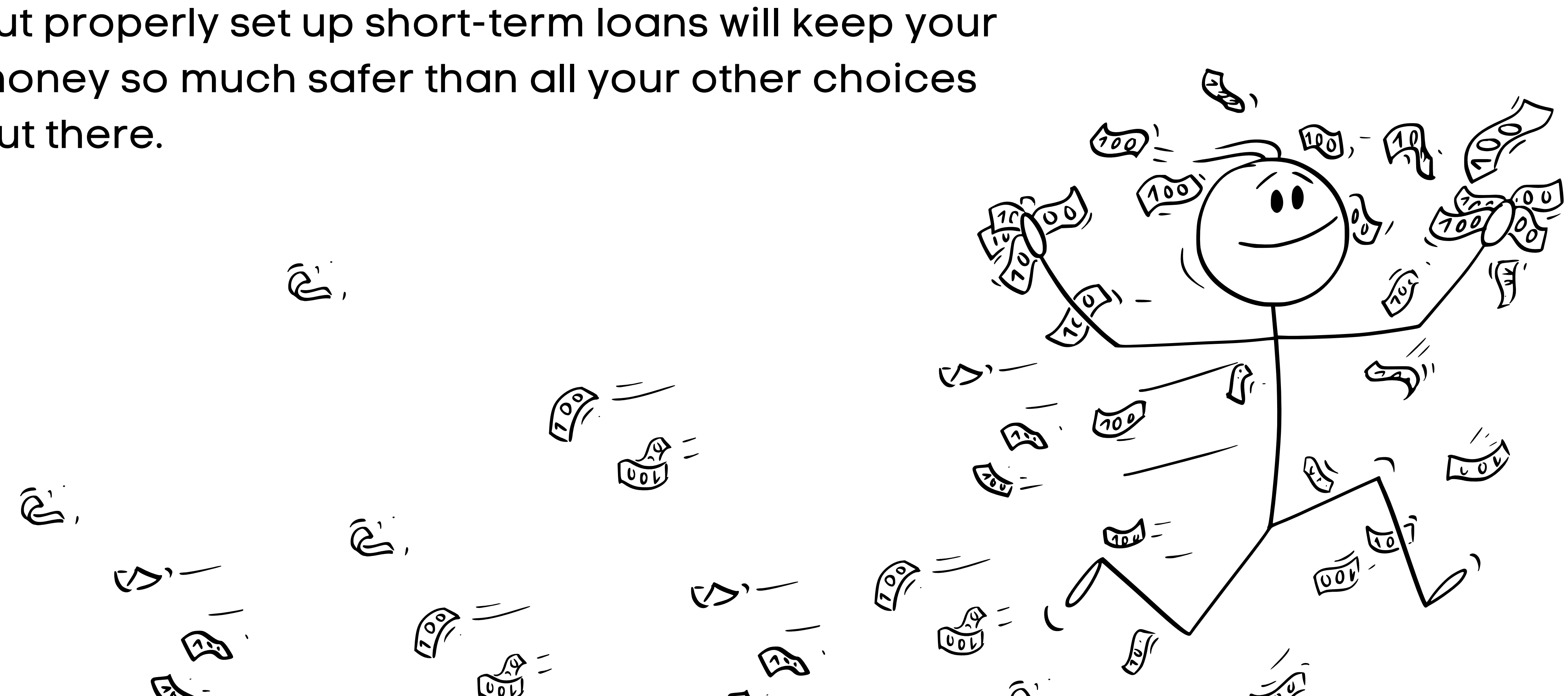
- **Work with experienced borrowers**.

Experienced borrowers are the ones who have been through the real estate cycles and treat it like a true business.

- **Always make sure the rents on a property are equal to or greater than 1.25x your payment.**

This is a hard and fast rule established by the banking community to allow the borrower enough funds to make a payment and cover other costs. Of course, it would be in everyone’s interest to have rental payments even higher, but this is the minimum.

There is no such thing as a 100% safe investment. But properly set up short-term loans will keep your money so much safer than all your other choices out there.



BETTER COMMUNITY!

One of the best things about investing in private notes is that you get to invest in your local community.

You get to make a positive impact on the people living in your city, the properties in your neighborhood, and the economy in your direct area. That's definitely something to celebrate and take pride in!

Better yet, your investment is tangible. Unlike the stock market and other investment strategies, you can literally drive by your investment and see how your money is making a difference.

Check out shows like "Good Bones" and "Fixer Upper" on HGTV if you'd like to see how investing in properties makes an impact on the entire community.

Or you can take a look at this real-life sample one of lenders funded. You can see for yourself the transformative impact they made on their community (and continue to make to this day).

WHAT IS A PRIVATE NOTE?

A popular term you'll hear over and over when you enter the private lending world is "private note."

But what is a private note?

Basically, it's an IOU.

More specifically, a private note is a legal agreement between you and your borrower that's secured against a property with a lien called a mortgage or deed of trust. (You'll need to check your state to see if they require mortgage or deed of trust documentation. For example, Colorado requires a deed of trust, but Ohio requires a mortgage.)

A private note is a legal agreement between you and your borrower, and it outlines things like:

- Loan amount
- Interest rate
- Term (the length of time you'll let your borrower use your money)
- Maturity date (the date you expect the borrower to pay you back)

If you're thinking, "What if they can't pay me back?", don't worry. As stated, your private note is secured by the property via a deed of trust or mortgage. So, as long as you do your homework and make sure a property is a worthwhile investment, then your money should be safe and sound.

Now, how do you actually create a private note?

The easiest way is to work with a company like The Cash Flow Company. In addition to creating a secure private note on your behalf, we help with all the other steps to private lending. Those include:

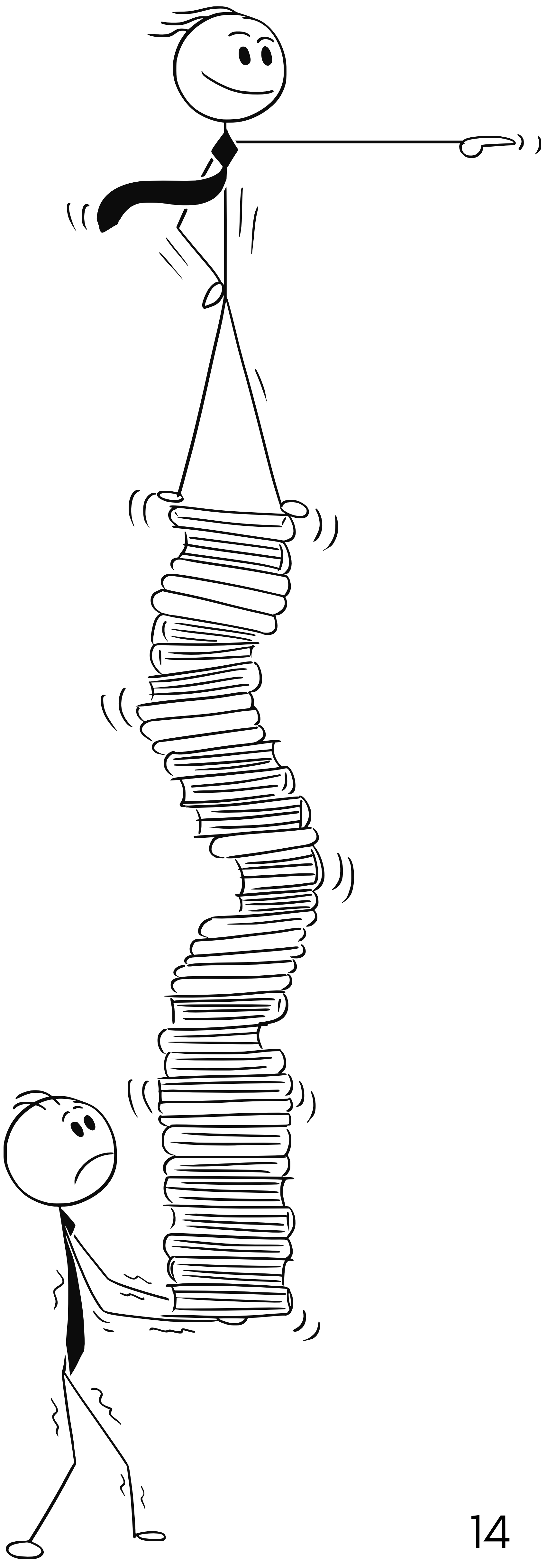
- Finding borrowers who need funding for a real estate investment.
- Interviewing borrowers to determine how much they can be trusted with your money.
- Analyzing properties to make sure they're worth the investment.
- Preparing all loan documents, including the private note and deed of trust/mortgage.

- Closing through a licensed title company.
- Handling escrow draws.
- Overseeing the life of the loan, including all payments, extensions, and modifications.
- And all the other steps necessary to secure your investment and help you generate positive cash flow.

Of course, if you'd rather handle the entire process by yourself, we encourage you to do so. That's why we wrote this book.

If you choose the DIY path, then we highly recommend hiring a real estate attorney to create your private note. You'll also need to build a solid team to support your journey (but more on that later).

Now, let's look at some other common terms you'll want to know if you enter the private lending world.



THE BASICS

There are some general terms every private lender should understand before they begin their investment journey. Here are some of those terms:

Loan: A loan is the lending of money between one or more individuals or organizations to other individuals or organizations. The recipient incurs a debt and is usually liable to pay interest on that debt until it is repaid in full.

Paid in full: A borrower pays back the lender the principal amount of a loan, plus any additional interest and incurred costs.

Valuation: The current worth of a property.

Mortgage/Deed of Trust: A legal document that secures a property and legally puts it in your borrower's name (trustee) and your name (lender).

Title Company: A vital third party that ensures a property is legally transferred and your loan is well-protected.

Title Policy (aka, title insurance): Insures you're in the lien position you expect to be in (preferably first). It also protects the lender from claims filed against a title, like other liens, back taxes, conflicting wills, flawed records, incorrect ownership, and falsified documents.

Lien: When you secure a loan on a property, you will be given a lien position. This is essentially your place in line to be paid back. So, you always want to be in first lien position.

Loan Amount: The total amount the borrower is seeking for their project. This might encompass the property purchase price, renovation costs, and/or closing fees.

Payment Date: This is when the monthly/quarterly payments from the borrower are due to the lender.

Interest Rate: Your annual return on a loan. Your loan agreement should specify how often interest is to be paid (typically monthly).

Term: The length of the loan. The timeline of a private loan can range from a month to many years. It all depends on your comfort level and what you're looking for (short-term vs long-term).

Maturity Date: The expiration date of a loan. This is the date your borrower is expected to pay you back in full.

Modification: A legal change or correction made to loan documents after a property has closed through a title company.

Extension: A new agreed upon maturity date between you and your borrower. This happens when a borrower can't pay the loan back by the maturity date due to unforeseen reasons. These might include delays with renovation, the inability to sell a property, a hiccup with refinancing into a traditional loan, etc. When you grant an extension, you should charge your borrower with a hefty fee to account for the inconvenience.

Equity: The difference between the value of a property and the loan amount. For example, a property worth $150,000 has a loan for $100,000. Therefor the equity equals $50,000.

Escrow: Funds held back at closing for renovation. These funds are released as the project progresses and PROOF of work gets completed.

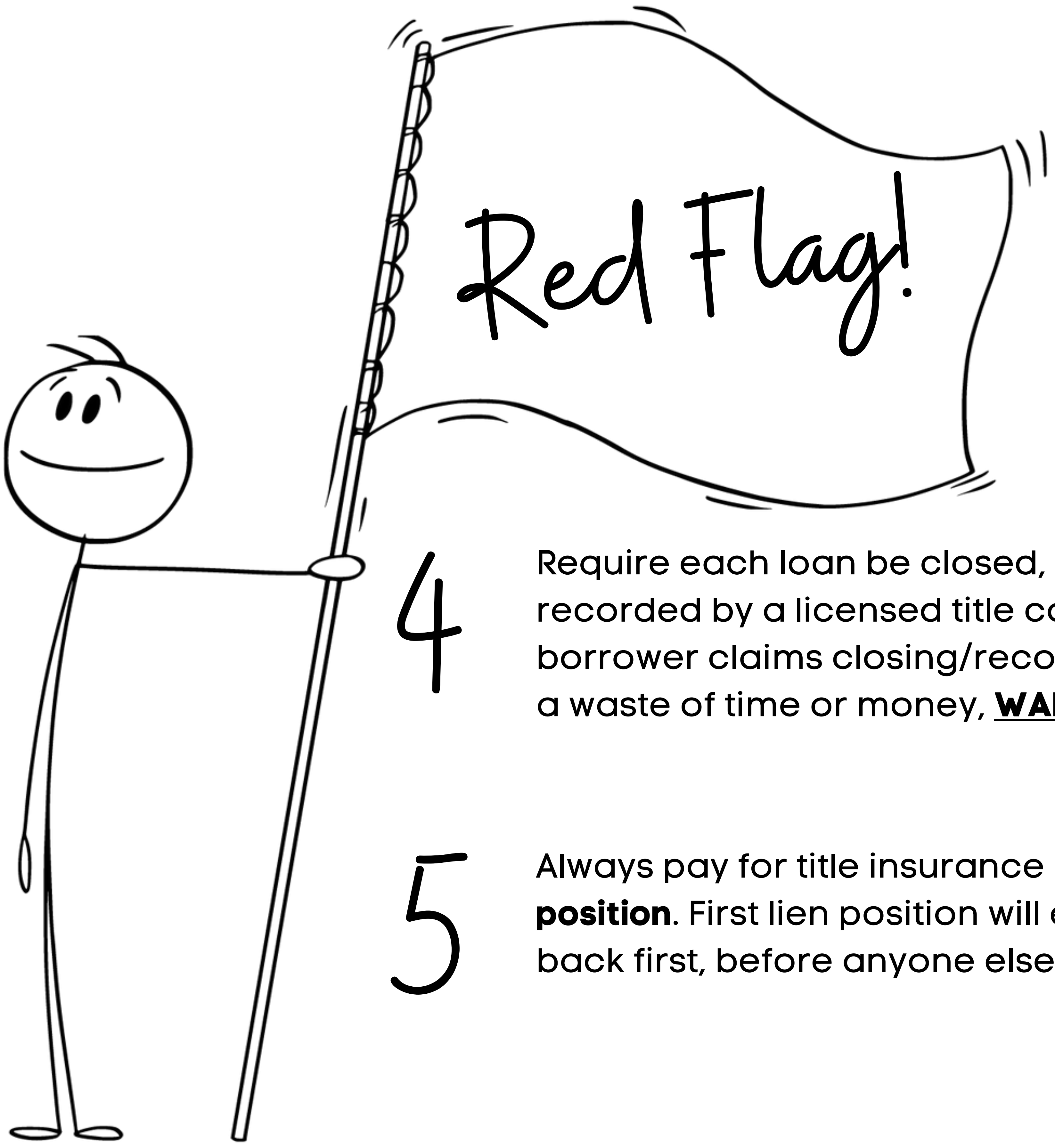
HOW TO DO THIS RIGHT!

Private lending is a savvy, safe way to invest your money. But like all investments, there are red flags to be aware of. Here are the top 10:

1. Always verify wire instructions **<u>verbally</u>** with your title company to avoid fraudulent activity. Do this each time you send or receive a wire. Otherwise you risk a hacker getting their greedy hands on your wire instructions and changing the numbers so money goes to their bank account, not the intended party (title, you, etc.).

2. Always insist on using a third party to create your closing documents (i.e. real estate attorney, note company, etc.). Do **<u>NOT</u>** let the borrower write them for you.

3. Hire an appraiser or local realtor to valuate each property to avoid exaggerated values. Do not trust the appraisal the borrower provides. It doesn't mean they're trying to lie to you or hide something. They simply might not know the value of the property.



4. Require each loan be closed, insured, and recorded by a licensed title company. If a borrower claims closing/recording through title is a waste of time or money, **<u>WALK AWAY!</u>**

5. Always pay for title insurance and **request first lien position**. First lien position will ensure you get paid back first, before anyone else.

6

Determine how committed your borrower is to their promises by asking them to put things in writing. That's what a loan agreement is for—to spell out every term of the loan.

7

Walk away if a borrower offers outrageous rates. If it's over 12%, it's probably a scam. Borrowers don't want to pay inflated rates. In fact, they want to pay and negotiate the lowest rate they can get.

8

Always **escrow** funds for fix ups. That means you hold the renovation funds back at closing and release them later, as work is completed on the property. This will prevent a borrower from running off with your money and leaving you with an unfinished fixer upper.

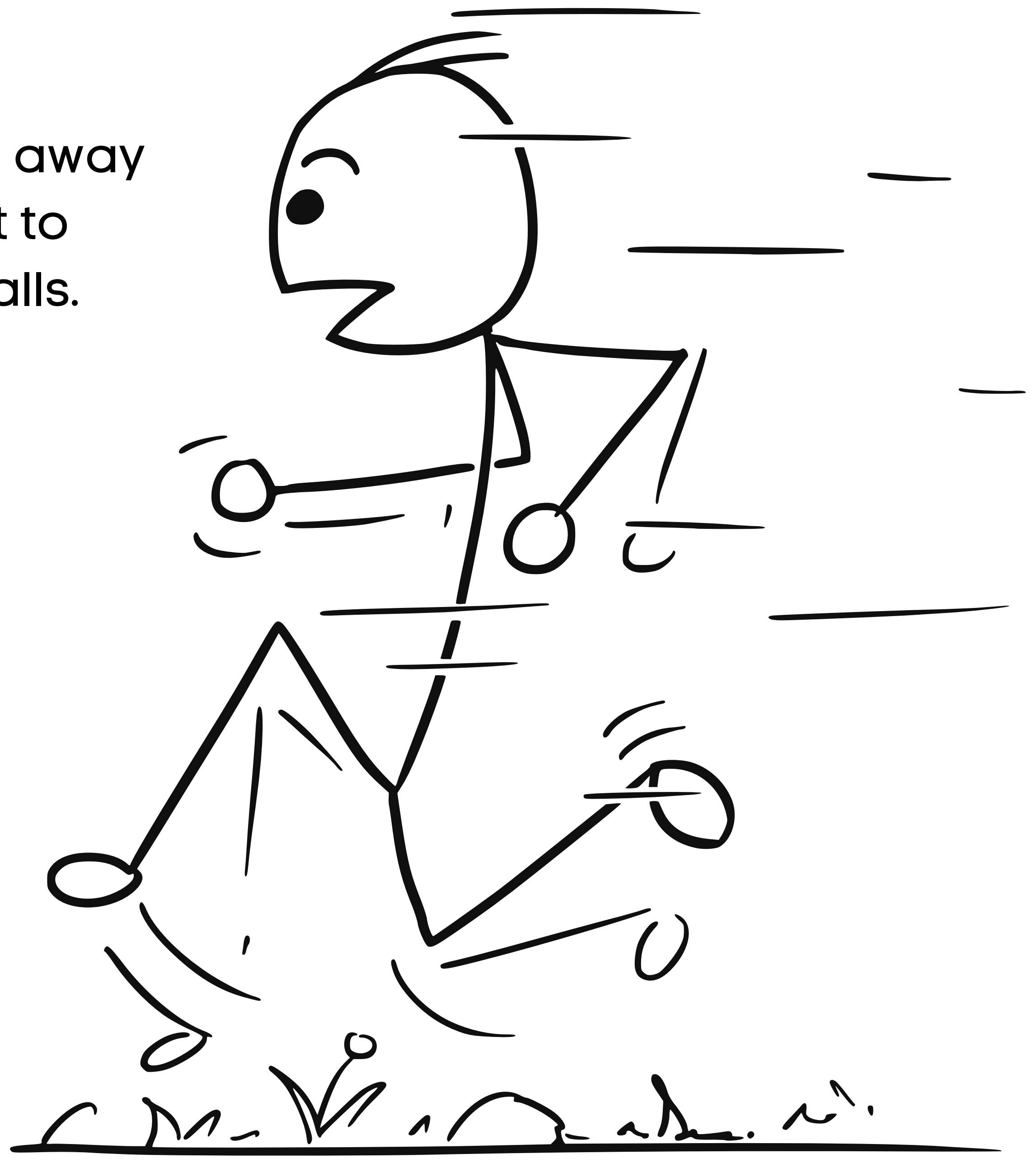
9

Ask for a borrower's "story." Learn about the good, the bad, and the ugly. This will prove if a borrower is trustworthy. If their story changes each time you talk to them, walk away. Don't be talked into a bad deal or relationship. Get all of your agreements in writing and fact check as much as you can.

10

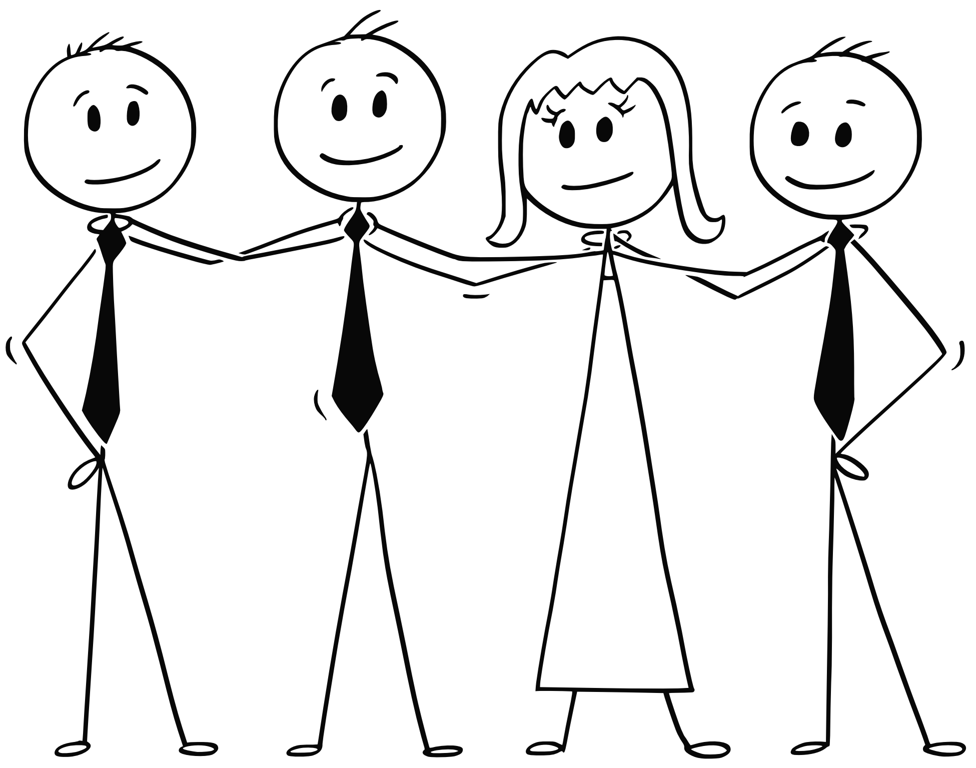
When someone needs to close a deal SUPER-fast, run, don't walk. This "emergency" to fund NOW will likely become a pattern and those loans will become a headache for you for years to come.

Do not let any of these red flags scare you away from private lending. They're simply meant to protect and educate you on common pitfalls.



YOUR TEAM

Private lending is not a solo venture.



It requires the best team you can find to help you create the best private loan for you, your family, and your future.

Before we introduce your team members, we want to remind you that the cost of hiring this team is placed on the borrower, not you.

And, remember, this cost is normal for borrowers. They're used to paying for these services. So, if anyone tries to talk you out of using one or all of these teammates, consider it another red flag. Walk away and find a different borrower.

Below are the team members we recommend to properly close a loan.

Real estate attorney: They make sure your paperwork is legal, properly worded, and protects you from start to finish.

Title company: Provides title insurance to insure you are in the proper lien position (preferably first lien position).

Closing agent: A third party that handles the paperwork, filings, and money transfers. This is typically a representative from your title company, but it can also be an attorney or someone from an escrow company.

Valuation services: A realtor or appraiser who provides an as-is value for the property.

Insurance company: Provides protection from fire or other loss on the property.

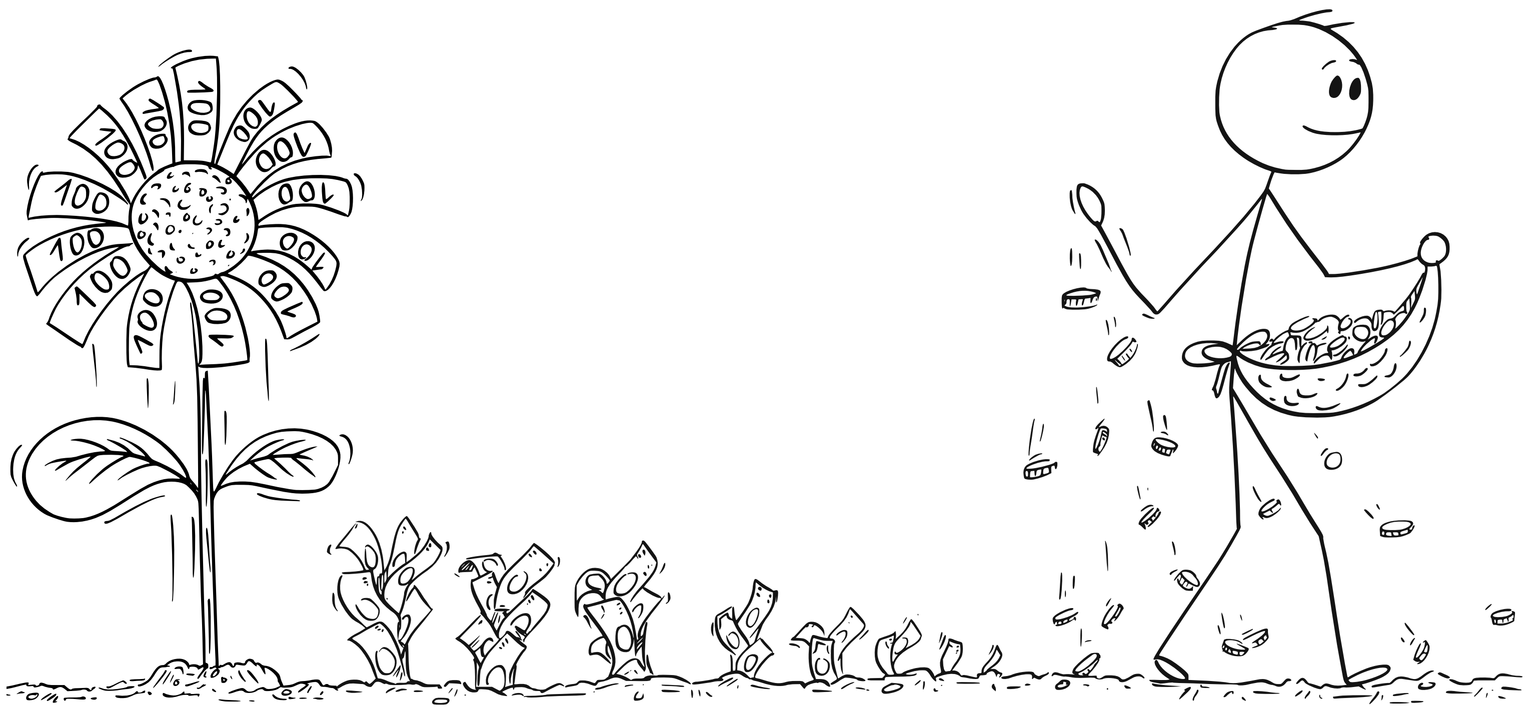
In addition to these team members, you might also want to hire the following to assist you. And, once again, if you decide to hire either, there is no additional cost to you. Those costs go straight to your borrower (and your borrower should be okay with those costs).

Servicing company: Collects payments and verifies taxes and insurance are paid in a timely fashion.

Note company: Helps to find, underwrite, and close each loan. Essentially, they take care of everything for you, so all you have to do is wire your funds to a title company and then collect interest payments. For example, The Cash Flow Company provides this service to many private lenders.

Building a solid, dependable team will add to your peace of mind and comfort with private lending.

THE POWER OF IRA ACCOUNTS



Private lending fits nicely into your self-directed IRA and other retirement accounts.

Just like you can invest your self-directed IRA in stocks, bonds, and mutual funds, you can put these funds in private lending.

Instead of subjecting your retirement to the roller coaster of the markets, you can put it to work with local real estate investors (i.e. flippers and rental owners).

There are many investment options available when you choose an IRA investment company that allows you to use your money in flexible ways.

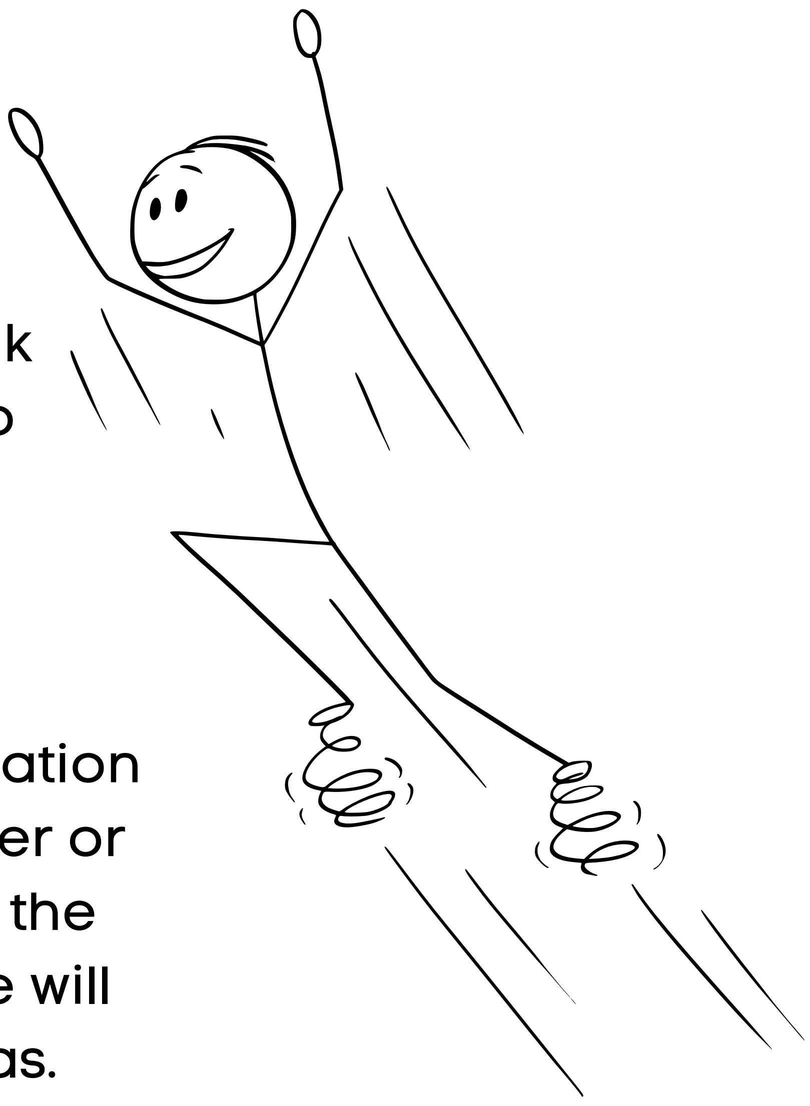
Some of the larger self-directed IRA companies that have great information and resources are:

1. The Entrust Group
2. Equity Trust
3. Pensco
4. New Direction IRA
5. IRA Services Trust Company
6. Midland Trust
7. Mainstar Trust
8. Vantage IRA's

There are a lot of great self-directed companies out there so check online to see who fits your needs and style.

WIN-WIN

Private lending delivers the best of both worlds. Not only does it put more money in your pocket, but as we mentioned earlier, it improves communities.



By lending money to fix and flippers and rental owners, you're helping to change the areas of town nobody wants to live in (or even drive through). Think about the area of town you avoid or would refuse to live.

Why?

It's probably because crime rates are higher, education is lower, and the economy is clearly suffering. Sooner or later, this area of town (or entire town) might fall off the map and cease to exist. Because, inevitably, people will abandon it and move to safer, cleaner, stabler areas.

You know what (or, rather, who) has the power to change this?

You.

You and your borrower, and the TLC you can put into these rundown parts of town.

A big part of a flipper's job is to take houses that are falling apart and breathe fresh life into them. That life gradually radiates through the entire community until suddenly everything is shiny and new again. Seemingly overnight, crime rates drop, education improves, and families that once refused to live in a bad part of town move in.

But the only way this transformation can happen is if flippers and rental owners can roll up their sleeves and get to work. And the only way they can get to work is if they can buy fixer uppers. And the only way they can buy fixer uppers is through non-traditional methods, like private lending.

So, private lending isn't just about making good, safe money. It's about changing communities and improving lives.

Think you're ready to give private lending a shot?

BOTTOM LINE

Private lending is an excellent investment strategy.

Whether you want to tackle the process all by yourself, or you want someone to lead the way (like The Cash Flow Company), we strongly believe private lending is one of the safest and most lucrative ways to make money.

The profits you can make in private lending can help you in all kinds of ways. You can:

- Build and multiply your retirement funds.
- Generate enough cash flow to quit your 9-5 job.
- Travel to all those places on your bucket list.
- Buy and live in your dream home in your dream location (Maui, anyone?).
- Create a soft and fluffy cushion that'll make life's unexpected curveballs hurt a lot less.
- Live with complete peace of mind knowing money is flowing into your account every month.

Bottom line, private lending allows you to make the kind of money you need to live the life you want.

Ready to try it out?

ABOUT OUR TEAM

Hello!

I am Michael Bonn, the owner of The Cash Flow Company. For over 20 years, I have been involved in non-traditional and private real estate lending in Colorado and several U.S. states.

My company and team have been fortunate enough to oversee and close hundreds of millions of dollars in secured real estate notes. In my experience, I can tell you there's no better win-win strategy to earn an above market interest rate than private real estate notes.

Our whole business is about helping people make the kind of money they need to live the life they want. And we want to help you!

Michael Bonn