



**10 SECRETS TO SUCCESSFUL  
PRIVATE LENDING AND JOINT VENTURES:  
HOW TO EARN GREAT RETURNS  
AND LIMIT YOUR RISK!**

Brought to you by

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**EXCLUSIVE REPORT**

Thank you very much for requesting this report. I myself have downloaded hundreds of reports and eBooks on various topics throughout the years and I've always found one commonality among them: they all have a ton of fluff! Whether it's pages and pages of background info or the "rah-rah" motivational speech that goes on forever, they all use these techniques to fill up page after page and to give you perception of value! I am going to try to avoid that here, and give you useful information only.

Because you are reading this, you are either already lending money to investors for their real estate deals or are thinking about it.

That means you are an action-taker and I don't need to spend pages and pages convincing you why private lending can be a powerful, yet easy way to obtain a great return on your hard-earned money, with a controlled amount of risk.

You probably already know how few reliable ways there are to make a good, return on your money that is backed by a hard asset. **(this is important!)**

You've watched your savings sit idle in a money-market account, earning you a fraction of a %.

Or maybe you've struggled with the wild and often irrational swings in the stock market, sending your 401k on a rollercoaster ride that would give even the most experienced ride-junkie motion sickness.

Or maybe you've already tried your hand at real estate investing yourself and found the process to be too labor-intensive and time-consuming to handle on your own. Fact is real estate investing is another job, and if you want to make money you must run it like one.

So that brings you (and I) to private lending, *a process where you lend money to an individual or a company either for short term or long-term use to buy income-producing property.*

If you've participated in this type of lending before, then you probably know how powerful this can be. You get to make money from a profitable real estate deal without any of the headaches typically associated with it: negotiating, rehabbing, tenants, selling, etc.

But, like all good things, this process has rules and there are certain things you need to make sure to look for and do in order to protect yourself and your money.

Hi

My name is Roger Loesel with Ditter & Associates. My goal is to help people get their money working for them instead of working for their money. By diversifying their retirement, investments, or savings into opportunities that are collateralized by a hard asset which is real estate.

I have been a Licensed Realtor in OH since 2009, and have done 100's of deals for my clients and myself. These **10 key criteria or steps** is what my team and I have learned and implemented in my 13 plus years of Central Ohio Real Estate Investing, and is what the companies plug and play procedure play book is written on.

So, in this report, I will share with you the **10 key criteria** to ensure you will prosper with passive real estate investments. I've divided these 10 criteria into 3 main categories:

**Evaluating the Deal and Deal Structure**

**Evaluating the Investor and**

**Evaluating your Private Lending Business.**



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## SECTION I: Evaluating the Deal and Deal Structure

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### *1) Pay attention to your LTV%.*

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When lending money to anyone, your level of risk should be a primary concern. The advantage of secured lending – providing a loan secured by an asset such as real estate or a car, is that you can control your level of risk (or exposure) in relation to the asset's value.

One of the ways in which you can determine and set the level of exposure is the Loan-To-Value Ratio (LTV%).

If you've ever applied for a mortgage from a bank, then you've encountered LTV requirements. If you applied for a loan for a personal residence, then the lender probably offered you a 80% or 90% LTV loan, requiring you put down 20% or 10% towards the purchase.

That way, if the value of the property you were purchasing would drop by 20%, the lender could still hypothetically recoup their entire loan and the only one losing would be you – your equity would be gone.

The formula for calculating LTV% is simple:

$$\text{LTV\%} = \text{Loan Amount} / \text{Purchase Price (Or Value)}$$

So if you are purchasing a home for \$100,000 and the lender allows for an 80% LTV mortgage, you would be borrowing \$80,000.

With regards to private lending on properties that require work, LTV requirements usually work a bit differently. You see, "value" in this case can be looked at 2 different ways:

- a. "As-Is Value" – this is the value of the property in its existing condition
- b. "After-Repair Value (ARV)" – this is the projected value of the property after the proposed repairs are completed

The difference between the loan and the after-repair value will be your cushion against loss. The lower the LTV%, all other things being equal, the less risk to you of losing your investment.

Interestingly enough, and this is what a lot of private lenders don't realize, in some cases you can make more money by actually foreclosing on the property and selling it in the market. Read that again. Now, let's look at an example:

Private Loan Amount:	\$ 75,000
As-Is Value of the Property:	\$ 90,000
LTV% (based on As-Is Value)	~83%
Projected Rehab Budget:	\$ 20,000
Projected After-Repair Value:	\$140,000
LTV % (based on ARV):	~ 53%

What these numbers should tell you is that once the investor finishes work on the property, he will owe you roughly 53% of the appraised value.

Let's say he stops making payments to you for whatever reason and you decide to foreclose. Your number one goal is to recoup your \$75,000 loan to the investor. Do you think you can do that successfully from a property worth \$140,000? Let's see:

- You are owed \$75,000
- 6 months of past due interest at 8% bring the total loan balance to \$78,200
- Legal costs to foreclose on the property add another \$2,000 (for example's sake)
- Now let's assume you want to sell this property quickly, so you list it below market. You sell it for 80% of the appraisal and after commissions and closing costs, you net \$103,000 on the sale
- $\$103,000 - \$78,200 - \$2,000 = \$23,700!$  This is pure profit on top of you recouping your loan, past-due interest and court costs!!

What's the moral of this story/example?? If you keep the LTV% of your loan at a conservative level, especially vs. the ARV, you can actually profit more from what initially seems like the worst-case scenario!

## 2) Get First Lien on Property for investment safety and security

This goes hand in hand with our LTV% discussion. Just like you must have an LTV% limit in place to protect your investment, you also must ensure that your investment is actually secured by the property!



In order to do that, you should get the 1<sup>st</sup> lien on the property in exchange for your loan. This way you will be in first position legally to foreclose on this property, should the borrower fail to make their payments.

Often, lenders in second or third positions get completely wiped out during the foreclosure process and get nothing.

Now this is not to say that you should never accept a second position on a loan. Usually, 2<sup>nd</sup> and 3<sup>rd</sup> mortgages carry with them a significantly higher interest rate!

If you do decide to provide a 2<sup>nd</sup> or 3<sup>rd</sup> mortgage, there are a couple of things you must do:

- First of all, still pay attention to the overall (combined) LTV% between you and the first position loan. In other words, if the ARV of the property is \$100k, and the first loan is for \$50k, you don't want to lend more than \$20k if your LTV% limit normally is 70%. (Read this again carefully).
- Secondly, charge a higher interest rate than the lender in the first position. This is only natural because you encounter more risk with your loan by being in the second position! So, if the first lender charges 7%, you should charge 9-10% for your loan to compensate you for higher risk of being in the second position.

### ***3) Get Promissory Note.***

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A Promissory Note is a legal, recorded contract between a borrower and a lender outlining the terms of a promise by one party (the maker) to pay back a sum of money to the other (the payee).

THIS IS IMPORTANT: Very few people know that homeowners (or property owners) can only be foreclosed on by the person or institution holding the loan paper – not the mortgage or the deed of trust, but the note! **Only the note-holder has the legal standing to ask the court to foreclose and evict.** The promissory note explains how and when the investment is going to perform, or pay out.

Many investors and professionals will tell you that getting a promissory note is optional, but TRUST ME – if you want to fully protect yourself, insist on getting a promissory note along with the mortgage or deed of trust (which one will depend on your state).

SIDE NOTE: It's not my intention to scare you with all this talk of foreclosure. If you follow the advice in this report and do the proper due diligence, the likelihood of you having to foreclose on someone should be fairly low. But it's a topic that I must bring up from time to time. My intention is not to scare you away from private lending but rather to make you so thorough, knowledgeable and successful that you will lend without fear, knowing that you've got all your bases covered!

**This is not intended to be legal advice and, in any way, should anything in this report be taken as such. Always consult a professional for legal advice.**

#### ***4) Become an “Additional Insured” on the Hazard Insurance Policy.***

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When the investor/rehabber buys the property, he will obtain a hazard/liability insurance policy. The first thing you need to do is ensure that such a policy is indeed obtained. This can be verified at closing – before you release the funds for the loan the investor will submit proof of insurance. Make sure that the policy which the investor obtains has you named as an “additional insured”.

#### ***5) Lender’s Title Insurance Policy.***

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What is title insurance and why is it needed in the first place? Title insurance is an indemnity policy that protects the mortgage lender and/or the property owner against problems relating to the property's title prior to the date of the policy. For example:

- If someone forged a signature in a past transfer of the title from one owner to another.
- Unpaid real estate taxes on the property.
- Liens against the property, including foreclosure, that are unresolved.

Unlike home insurance and car insurance, which focus on possible future hazards and charge an annual premium, title insurance is a safeguard against loss from hazards and defects already existing in the past. An owner may (and should) obtain an owner’s title policy at closing, but such a policy only protects the homeowner. Thus, it’s wise for you as a lender to require the borrower to pay for a lender’s title policy. This is essentially standard practice in the mortgage industry.

A Lenders policy is title insurance policy that insures the mortgagee (being the lender in the mortgage document), against loss caused by invalidity or unenforceability of the mortgage lien, which might occur as a result of defective title, or against loss of priority of the mortgage. Also called a "Mortgagee Policy" or "Loan Policy", most primary mortgage lenders will require a Loan Policy when they make a loan. The amount of insurance for the Loan Policy is based on the dollar amount of the loan; by design, the amount of insurance decreases each year as the loan is paid off.

## SECTION II: Evaluating the Investor (Borrower)

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Just as important as ensuring you structure the deal correctly, is evaluating who you structure the deal with. Following are a few of the most important considerations about your borrower and the way in which they approach real estate investing.

### *6) Track Record.*

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I realize that this may be common sense to most, but you always want to evaluate the track record of the person you are lending money to. And when I say track record, I don't mean somebody's resume in their previous job, where they grew their department from 20 to 2000 people. I mean their track record in real estate investing. Furthermore, I am referring to their track record in executing precisely the type of deals that you will be lending them money on.

The concept of a track record encompasses a number of considerations. Think about all the stages that go into executing a real estate deal, for example a flip:

- Acquisition at an attractive price
- Renovation that is speedy, yet on budget and is of high quality
- Successful sale at a price that yields a profit and pays off the existing financing.

The first stage will presumably already be in place when the investor brings you a deal, which they have under contract at an attractive price. But will the investor be capable of quickly rehabbing and disposing of the property once you lend them the money to close on it? Is the investor capable of marketing for great tenants, screening them and managing the property for the next few years? Their track record will point you to the answer and help you make your decision. If they have limited experience, you may be able to negotiate for a piece of the equity in the deal for your increased risk. If they have limited experience, be sure to ask if they have a solid coach or mentor that is helping them along the way.

## **7) Exit Strategy.**

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This goes hand-in-hand with track record in a way. Does the investor have a viable exit strategy for the property? If the plan is to flip the house once it's renovated, do the current market conditions present a strong or at least some demand for that type of property? Does the investor have the ability to drop his asking price in order to attract offers and still pay you off? If the property does not sell within a certain amount of time, does the investor have an alternative exit strategy in order to satisfy his obligation to you within the time frame you agreed on?

**Such an exit strategy may be:**

- a. Fixing and flipping the property (selling in the next several months)
  
- b. Holding the investment long-term for rental income
  
- c. Selling the property with owner-financing with a large down payment to an owner occupant

Be sure to discuss the specific exit strategy with your investor.

## **8) Who does the work?**

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This is something that not enough private lenders consider when evaluating whether to dole out the loan or not. It's important that the investor hire qualified contractors to perform the rehab or be a qualified contractor himself. This is not only important to ensure that the property meets the standards of the prospective buyers and their lending institutions but also in case you have to take the property back from the borrower. Last thing you want to happen is realize after the foreclosure that the work was done poorly and the property is worth less than you anticipated.

Whether you require that the investor use a licensed Class-A contractor on the job or not is up to you. There are many seasoned investors out there who are not licensed contractors but are perfectly capable of overseeing the

job themselves and managing sub-contractors. But it's important that you pay attention to who will be doing the work.

## SECTION III: Evaluating Your Investing goals

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### *9) Diversification.*

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This is one of the most common and common-sense tenets of investing, yet so many private lenders overlook or simply ignore it. Let's say you have saved up \$100k in cash or maybe in your IRA account and an investor approaches you with a project where he'll need \$90k to acquire and rehab a single-family residence in order to then flip it. The property is in a great location, the After-Repair Value seems to more than justify the loan amount and the investor offers you a very attractive rate of return. What do you do? You may be tempted to say yes. After all, you have money that is probably sitting idle and not doing very much for you. You are eager to put that money to work. The investor has a good track record and the deal seems attractive. But I would urge caution. Ninety thousand dollars committed to this deal will put 90% of your capital at risk all at once. And remember, there are a few different risks that you will encounter here:

- a. **Losing your entire investment.** This is very unlikely, especially if you follow the tips and guidelines in this report.
  
- b. **Losing a part of your investment in a given deal.** A more likely scenario, though one you should still be able to avoid if you follow the advice in this report, is losing a portion of your investment. Any number of scenarios can possibly lead to this. Diversifying where you allocate your money, whether it's to multiple investors or to one investor but for multiple deals, will ensure that if such an event occurs, you suffer a minor loss in relation to your funds and portfolio.

c. **Getting your money back late.** In your private lending business, you should have in mind a desired timeline for the loan. How long do you want your money to be tied up a particular deal? Some lenders like shorter timelines (under a year) because they like knowing they will retrieve their funds soon in the future and be able to redeploy them elsewhere as desired. Others like longer timelines (5+ years) which provide them a steady return on their capital and do not require searching for new opportunities to reinvest the capital. Whatever your optimal timeline for getting your money out of a given deal, there is always a risk of getting this money late. Now, you can (and should) put clauses into your promissory note to penalize the investor for late repayment. We talk more about this in the following section.

### 10) *Know your desired timeline and build it into the agreement!*

As I mentioned in the previous section, you should always have a general idea of how long you'd like your money to stay in the deal. Why is this important? Let's look at the pros and cons of each type of private lender:

**Short-Horizon Lender (3-12 months).** The advantage of lending for the short-term is not having your money tied up in a given transaction for too long. If a better opportunity comes along soon or market interest rates rise, you will have an opportunity to deploy your capital into a new deal. But the flipside to the short-term lending is the reinvestment risk – the risk that once you get your money back, you will not have an equally desirable opportunity to invest in. It also takes work to constantly evaluate new lending opportunities after getting your capital back from the current deal.

**Medium and Long-Term Lender (3 – 10 years).** A great deal of private loans are used for short-term financing, allowing a real estate investor to purchase, renovate and flip the property (or refinance it into bank financing). But there is also a whole other segment of this market where private lenders take place of traditional banking institutions and lend money on a property for the long-term, typically to a buy-and-hold investor. This type of private lending can be structured to include equity participation and methods to work as an inflation hedge on your investments.

In today's economy, where many traditional banks have either gone out of business or at the very least severely tightened their lending standards, there exists a strong opportunity for individuals to fill the void that's been created in the lending landscape. Lending for the long-term on the right property presents such individuals with an opportunity to earn a good, long-term rate of return secured by a solid asset.

**The advantages to this are as follows:**

- No need to reinvest the capital all the time. Money stays tied up in a long-term mortgage. Of course, there will be principal that the borrower gradually pays down, but in the first 5-10 years this will not be a significant amount in relation to the overall loan.
- As the borrower continues to make monthly payments, paying off the principal, the current LTV% of the loan and thus your risk will gradually decrease. The current LTV% will go down even quicker in a rising real estate market. You can calculate the current LTV (CLTV%) using this equation:

$$\text{Current Mortgage Balance} / \text{Current Property Market Value}$$

So the faster the loan gets paid down, and the quicker the property value rises, the lower your risk.

## **BONUS – How can you free up funds to invest in real estate**

**Now the secret is out!** You know you can invest in real estate passively, as a private lender without needing to give your time or deal with tenants and toilets!

You are likely wondering where you can free up some funds and get started. Here are some easy ways to do it:

### **1. Retirement Savings**

The best-kept financial secret in America is the self-directed IRA.

The Self-directed IRA is perfect for the investor who is prepared to make their own investments outside the arena of stocks, bonds, CD's and mutual funds. The types of investments that are possible with a self-directed IRA extend to the following:

- Real Estate – Residential single family, multi-family, mobiles on land, commercial property and raw land
- Notes, Deeds of Trust and mortgages – secured with real estate, unsecured, automobiles, etc.
- Oil and Gas – Production, royalties, mineral rights, etc.
- Investing in notes and being a private lender

Both a traditional and Roth IRA can be self-directed. The traditional approach for an IRA will have a custodian control your retirement account with services they sell which are typically stocks, bonds and mutual fund type products. However, with a truly self-directed IRA custodian you are the one in control of your retirement account and you are responsible for making your own investments. A self-directed IRA is easy to establish and roll funds into. Once your account is established, the custodian takes the role of account administrator and will help direct your investment transactions. They will direct the paperwork and documentation as well as provide guidance to help you not make a prohibited transaction

along the way. As the account owner, you will make your investment choices.

Albert Einstein said, "The most powerful force in the universe is compound interest." When Einstein makes statements like that we need to listen.

Let me show you the difference between a 5% return, 10% return and 15% return starting with a \$100,000 balance and investing for 20 years:

\$100,000 with a 5% return for 20 years will grow to \$265,329.77

\$100,000 with a 10% return for 20 years will grow to \$672,749.99

\$100,000 with a 15% return for 20 years will grow to \$1,636,653.74



## **2. Use your home:**

Interest rates are the lowest they have been in over 50 years. If you have equity in your home or own it free and clear you may want to consider getting a home equity line of credit to free up investing capital.

If you borrow \$200,000 against your home at 3.5%, you could then lend it to a real estate investor at a higher rate and enjoy the passive income on the interest rate spread.



### **3. Certificate of deposits:**

CD's use to be a solid investment that was safe and secure. That paradigm has shifted. The new reality is that there are plenty of banks struggling and the returns produced do not keep up with inflation rates. You can now get returns between .35 and 1.7% depending how long you leave your investment at your local banks.

Once you make that deposit, to free up your funds before maturity they stick you with a pre-payment penalty. If you have funds locked into a CD right now and are rightfully frustrated with your returns, you may be able to find a real estate investor who can help pay for the pre-payment penalty and that would free up your funds and allow you to operate as a private lender.



## What's Next?

Now that you know the insider secrets of investing passively in real estate, you are ready to take the next step. Now is the time to collect more information on your potential real estate investors, investment opportunities available and due diligence to make wise investment choices.

The real estate investor you work with has a very unique skill set on finding cheap houses, fixing them up and flipping or renting them.

Please contact me and let's continue to explore the investment opportunities together.

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