

## **Why is Lending your IRA Beneficial?**

### **Who do I lend the Money to?**

Someone You KNOW, LIKE and TRUST-Go to your local Real Estate Investor meetings, subgroup meetings, meet ups and attend regularly. This is how you get to know people. Put the word out to everyone that you are a private lender. Make a flyer to give out.

NOT FAMILY-Lending to Family is always dangerous unless you lay out some real ground rules. It can ruin a holiday gathering.

Always lend to an Entity not a person ever! Must be considered Commercial. NEVER OWNER OCCUPIED

Check with the State you are lending in (where the house is located) to make sure you are legal. Consider the length of time for foreclosures in that State.

Stay away from 2<sup>nd</sup> Position, you have no power. Rate doesn't matter if you don't get paid.

### **How Much Money Do I Need?**

Not much. Arbitrage- Use other people's money to add to your own. Pay them 8%, while you charge 12%. You keep the difference. Be prepared to pay it when they are late or not paying.

OPM Other Peoples Money- Many people want to lend but don't know how or have the confidence to do so. You lend their money, pay them interest and you keep the points.

### **What Documents Should I Use?**

Use an Attorney- Terms can vary to fit your desires and the borrowers needs. You tell the attorney what you have decided on and they create the docs. This is not cookie cutter but can be if you wish. You will have a Promissory Note and Deed of Trust, or a Mortgage Note and Mortgage whichever your state uses.

Get Title Insurance- Also, get a title search and title insurance. Read the search, have the attorney explain if you don't understand

Hazard or Builders Risk- If a property is being rehabbed more than 25% of the purchase price or value then you may be required to have builders risk in place. As a lender you want your borrower covered for losses. Make sure they show you the lender(you) as the mortgagee to receive the loss pay out.

Assignment of Rents-In case of foreclosure, any rents for the property would go to the lender.

### **How Do I Conduct Due Diligence?**

On the Borrower: Credit Check, Background Check, Tax Returns, Drivers License, Social Sec Card, Bank Statements (3 months, no balance only), Experience, Lien & Judgement Check, Entity docs- you want to verify they paid taxes and have income, backgrounds give character flaws and some judgements, Bank statement prove they have money and show where it is spent and how long they have had it. Some liens and judgements can go in front of you. Entity documents like the operating agreement, EIN

number and articles along with certificate of good standing show they are current and can sign for the company. If they have not paid taxes in 12 months or more, you are looking for trouble.

On the Property: Appraisal, Inspection, Validate Repair Cost, Drive by-always get a subject to appraisal and have them insert as is as well. Realtors don't always have a grip on true values. Inspections reveal what they are going to miss and sometimes it is a big ticket item. Make sure you compare the list of repairs to what really needs to be done. Don't discount (we are doing some or all of the work ourselves) If you have to take it back, I promise you they are not going to do the work when it is not theirs.

### **Who Services the Loan?**

You can pay a servicer (good luck), You collect and then Pay out- this is easier than it sounds. Have the borrower pay you and you split out the payment. If you have them pay the lender direct be prepared to get calls when it is 1 day late and be ready to track them down.

Set up the late fee to discourage late payments. Charge them through the nose.

### **How Do I handle Rehab Funds?**

Separate Account- Always keep the rehab funds in a separate account for your own protection. Never get caught short on rehab funds.

Released in Arrears-never front money for a rehab as that puts you behind should you have to take it back. Make sure everything you release on is installed, not in boxes or waiting to be installed

Inspections each time- Never trust pictures. You keep them honest by inspecting.

### **How Do I come up With a Pay Off?**

Loan Amount plus unpaid interest-this is really simple. Take the loan amount and add any unpaid interest through the closing date. Be sure to include what the per diem or daily interest payment would be.

If you are charging principle and interest using the Bret Whissel calculator is simple  
<http://bretwhissel.net/amortization/>

### **How Can I do this Again?**

Rinse and Repeat, EVERYTHING

Ask for new bank statements, pull credit again, update taxes if new year, update good standing, same property due diligence as well.