PRIVATE LENDING
FREQUENTLY ASKED QUESTIONS

1. What is a mortgage?

A mortgage is a debt instrument secured by the collateral of a specified real estate property. A private mortgage is a type of mortgage loan whereby funds can be sourced from another person or business rather than borrowing from a bank or other financial providers.

Mortgage investing, otherwise known as private lending, is a great investment vehicle for those looking to earn high yielding returns with security on real estate. When an individual invests in a mortgage, they are secured by a title registration and, a contract that legally requires the borrower to repay the investment based on a set of specified terms, interest rates and conditions. Mortgage investments are a passive way to get involved in real estate that will allow you to earn great fixed returns while maintaining a strong level of comfort with your investment decision.

2. Why private mortgages?

Private mortgages have been in existence for decades but have become a very sought-after investment vehicle over the past several years. As rigid bank lending requirements have restricted the ability for real estate investors to obtain institutional mortgage financing, private mortgage financing has become a great alternative solution for borrowers. By utilizing private financing, borrowers can take advantage of many benefits including limited restrictions on property type, quick closings on purchases, fully open mortgages and the ability to leverage more equity in their real estate, along with improving the overall ease and convenience of borrowing. Many experienced and active real estate investors as well as self-employed individuals often utilize this method of financing for personal needs of borrowing. Ultimately, private mortgages enable mutually beneficial scenario that provide borrowers the ability to leverage their real estate in order to access capital in a convenient way. This also provides the investors' the ability to lend their funds into mortgage investments that are secured real estate while providing a passive income stream.

3. What types of mortgage investing opportunities are available at Pro Funds Mortgages?

At Pro Funds Mortgages, we offer two different types of mortgage investment offerings:

i. Individual lending is a mortgage investment wherein an individual borrower is looking for first (1st) or second (2nd) mortgage financing. These mortgages are usually for existing properties that include residential, duplexes, triplexes or condominiums, along with commercial or industrial spaces. The mortgage may be used to consolidate debt, purchase property, fund a renovation project and/or property improvements, etc.

ii. Project lending is a mortgage investment that consists of construction and land development projects.

4. What is a syndicated mortgage?

A syndicated or group mortgage is when two or more investors collectively lend their capital to fund one specific mortgage. Each investor will be registered on title of the property being pledged as security and will hold a proportionate interest of the total mortgage equal to the amount of their investment. This structure is often used when the size of the mortgage amount requested is larger than the amount that one individual may be able to fund alone.

5. What are the benefits of a syndicated mortgage?

Syndicated mortgages are an excellent way to diversify your portfolio,as you can spread your funds across several projects! Syndicated mortgages also allow for individuals to invest directly into larger scale opportunities with greater returns that they otherwise might not be capable of funding alone.

6. Is a qualification process required to invest?

As of July 1, 2018, syndicated mortgage transactions will be categorized as either "qualified" or "non-qualified", based on the property details being pledged for security and the structure of the debt obligation. A qualified mortgage would typically consist of an existing residential property of four units and less that features a maximum of one unit being commercial. A non-qualified mortgage would include land development, construction, industrial, commercial, or residential properties that exceed four units. The qualification process will only be applicable to non-qualified syndicated mortgages.

7. What does the suitability assessment entail?

A suitability assessment will be required to determine if an investor qualifies as a Designated Class Investor on non-qualified syndicated mortgages. A person or entity will be deemed a Designated Class Investor if they meet at least one (1) of the following criterion:

1. A person or entity, other than an individual, who has net assets (being business interest, residence, rental/vacation/commercial properties, and collectibles) of at least $5 million as reflected in its most recently-prepared financial statements and who provides written confirmation of this to the brokerage; **OR,**
2. An individual who, alone or together with his or her spouse, has net assets of at least $5 million and who provides written confirmation of this to the brokerage; **OR,**
3. An individual who, alone or together with his or her spouse, beneficially owns financial assets (being cash, mutual funds, registered funds such as RRSPs/LIRAs/TFSAs/LIFs/RIFs/RESPs, equities, fixed income/GICs, private investments, pension assets, and insurance contracts) that have an aggregate realizable value that, before taxes but net of any related liabilities, exceeds $1 million and who provides written confirmation of this to the brokerage; **OR,**
4. An individual whose net income before taxes in each of the two most recent years exceeded $200,000 or whose net income before taxes in each of those years combined with that of his or her spouse in each of those years exceeded $300,000, who has a reasonable expectation of exceeding the same net income or combined net income, as the case may be, in the current year and who provides written confirmation of this to the brokerage.

8. What happens if I qualify as a Designated Class Investor?

If you meet any of the Designated Class Investor criteria outlined above, you will be eligible to participate in non-qualified syndicated mortgage transactions with no limitations. You will also be eligible to participate in qualified syndicated mortgage transactions with no limitations.

9. What happens if I do not qualify as a Designated Class Investor?

If you do not meet the Designated Class Investor criteria as outlined above, you will be eligible to invest in non-qualified syndicated mortgage transactions for up to a maximum of $60,000 within a 12-month period of commencement of the regulation change, being July 1, 2018. You would still be able to invest in qualified syndicated mortgage investments with no limitations.

10. What is the minimum investment for mortgage investing?

Our products offer a minimum investment of $50,000.00. There are cases however, where lower minimum investments would be acceptable as well as cases where higher minimum investments would be required. Please speak with a Pro Funds representative if you have inquiries regarding a specific mortgage investment.

11. What kind of returns can I expect?

Returns for individual lending range between 7%-16% annually and returns for project lending range between 12%-16% annually.

12. What is the timeframe of a mortgage investment?

Our mortgage investments feature terms between one to three years with an allowable extension that ranges between six to twelve months to allow for contingency. During an extension period, the rate of interest is subject to the loan and will continue to accrue interest which will be paid on a monthly basis.

13. Can I use equity in my home to invest?

Yes, absolutely! If you have equity in your home, you may consider leveraging this to earn passive income. Our article, “Be the Bank” is a featured article on our website that provides real scenarios where previous clients have earned positive monthly cash flow in light of paying their mortgage payments. Our mortgage underwriter specialists would also be happy to speak to you about your unique scenario.

14. Can I use my registered funds to invest?

The majority of our mortgage offerings are eligible for investments using registered funds. If you have RRSPs, TFSAs, LIRAs, RRIFs or RDSPs that you would like to use towards mortgage lending, you will have to move your funds to an administered plan trustee that will allow the self-direction of your funds into mortgage investments. At Pro Funds Mortgages, we do request that our clients transfer their funds over to Community Trust, a trustee that specializes in this process. Pro Funds Mortgages can provide you with the information necessary to begin this set-up. It is important to note that prequalifying requirements must be met before you begin your transfer, and a maximum combination of two registered plan accounts per mortgage investment. As well, the process of transferring these funds usually takes between two to six weeks. You can only commit to a mortgage investment once your funds are transferred and available with Community Trust.

15. How can I find out about mortgage investment opportunities?

The best way to stay informed on all opportunities would be to sign up to our **Private Network** on our website. Through this investor network, contacts are sent exclusive e-mails on our latest investment offerings. You can also register to our **Members Portal**, which serves as an ongoing source for you to check in at your convenience to see what mortgage investments are available at any given time. All you have to do is visit **www.profunds.ca/member**, create an account, and you will have access to our Portal of active mortgage investment opportunities. When a mortgage investment is of interest to you, you can complete a request form and receive a due diligence package on the offering of your choice. This way you do not have to worry about missing out on any mortgage opportunities! New offerings are added to this portal on a daily basis!

16. What happens when I find an investment I would like to proceed with?

When you find an investment offering you are interested in, please notify a Pro Funds representative and we will provide you with all details and specifics on the investment. If after reviewing all the relevant due diligence materials you decide to proceed with an investment, you will complete an online Reservation Form to confirm your participation. Once your reservation has been accepted and suitability assessment completed (if required), Pro Funds will send you a mortgage investment document package specific to you and the mortgage investment you are participating in. These documents will outline the terms of the mortgage along with the property(s) being pledged as security. Once your investment paperwork is complete, the lawyer selected to represent the group of investors in the transaction, will provide you with the legal documentation that must be signed prior to closing the mortgage.

17. How do I prepare funds for my investment?

The lawyer representing the lender(s) will accept all investment monies for the mortgage in a trust account. When agreeing to a mortgage investment, you will be given deposit instructions pertaining to the specific lawyer representing you. Funds are typically accepted by certified cheque, bank draft or wire transfer. If you are investing with registered funds, your funds will be released directly from the trust company to the lawyer. Once all funds are in the lawyer’s trust account, the lawyer will advance the funds to the borrower and this will mark the date of closing. Please note that although we do make our best efforts to close on specified closing dates, the dates may be subjected to delays based on the lawyer’s due diligence and timing. Also, consider that if you decide to use registered funds, it will usually take an additional two to four weeks longer for the plan to release the funds as opposed to a cash investment.

18. How is the lawyer selected for the investment?

If you are the sole investor in a mortgage investment, you have the option to select your own legal representation for the mortgage. If the mortgage investment is syndicated, then one lawyer will be chosen by Pro Funds Mortgages to represent the entire group of lenders. Pro Funds Mortgages works with several lawyers who are very experienced and knowledgeable in real estate law and private mortgage closings.

19. How and when do I earn my interest income?

In most mortgage investments, you will receive your first interest payment 30 days after the closing date. After this point, you will receive regular monthly interest payments for the duration of the mortgage term. These payments will be provided to the lender in the form of postdated cheques on closing from the borrower or, if the mortgage is administered, interest payments will be auto deposited into your bank account of your choice each month. If you are investing with registered funds, your interest payments will go directly into your registered funds account.

20. How are these investments taxed?

All interest and lender fees earned through a mortgage transaction are considered investment income. Annually, our mortgage administrator, Valour Mortgage Services, will prepare a T5 statement (Statement of Investment Income) for all investors that have invested with cash funds. Investments using registered funds will not be issued a T5 statement. It is recommended that you speak to an accountant on how to best structure your investments.

21. Who pays the legal fees & other associated costs?

It is the borrower's responsibility to pay for all the lenders' legal fees associated with closing the mortgage. The lenders' lawyer will conduct their own due diligence to ensure all conditions are fulfilled to ultimately protect the investor's security before closing the mortgage. When the mortgage is discharged and paid back, the borrower is responsible for paying the discharge fee and is also responsible for paying mortgage broker fees and administration fees (as applicable). If you as an investor want to obtain independent legal advice on whether or not to invest in a mortgage, this would be your responsibility.

22. Are there any costs for me as a lender/investor?

There are no direct costs payable by you the lender in order to invest in a mortgage. If you are using registered funds to invest there will be associated fees from the trust company to open an account and transfer your funds into a mortgage investment. Any fees associated with signing paperwork (i.e.: faxes, scans, transportation) and preparation of funds will be at the cost of the lender.

23. What due diligence is conducted?

Pro Funds Mortgages will make take all best efforts to deliver all information provided by the borrower to the potential lenders. The protocol for an individual mortgage versus a project mortgage will differ. For an individual mortgage, the request is reviewed by a Pro Funds Mortgages underwriter. This entails an assessment of credit applications, confirmation of income (if available), and property details (appraisals, income and expenses, leases, insurance, taxes, photos, etc.). This information will be provided to all interested investors for review. If further information is requested by a lender, Pro Funds Mortgages will attempt to arrange for all the details requested. Pro Funds Mortgages will be diligent in assessing each request, but ultimately you are the lender and you will need to make sure you are 100% comfortable with the mortgage investment before proceeding.

The due diligence process for project mortgages is based on the specific project and its viability, rather than personal credit and income. These mortgages are analyzed by experienced third-party experts, including appraisers, environmentalists, engineers, planners, developers, builders, and lawyers. Pro Funds Mortgages has aligned with Valour Capital, a company that undertakes an extensive due diligence review to determine project viability and structures strategic financing solutions. Their due diligence process for every project mortgage, encompasses property and project review and assessment, developer reviewer, market analysis, project costing and validation, financial projections and profitability, independent "As Is" and "On Complete Appraisals," legal review, acquisition or partnership suitability, finance model structuring, and project exit.

Once the due diligence process has been completed and a real estate proposal has been approved, Valour Capital will work up an investor information package known as a Mortgage Investment Offering (MIO). The MIO is a comprehensive investment package created specifically for our investor clients. This report will cover the full outline of a project so that investors can make an informed decision on their investment. ***Once again, you are the lender and you must be 100% comfortable with the mortgage investment before proceeding.***

24. Will the mortgage close and mature on time?

Since there are many third parties involved in mortgage lending, especially with a large group of investors, it is common to experience closing delays. We ask that when investors commit to a mortgage, they must first realize that all parties are working to ensure secure investment placements and a smooth transaction; however, they should also understand that mortgage investing requires a certain degree of flexibility. Although mortgage investments feature fixed terms, there is the possibility that the mortgage maybe paid out prior to, or even slightly after, the anticipated maturity date. You should not invest any funds into mortgages that are required for alternative purposes at a future date that immediately succeeds the maturity of an investment. We ask for your understanding and appreciation as mortgages are complex transactions both financially and legally and as a result takes time to facilitate.

25. What are the risks?

The direction of our funds is a key component to return and success. Pro Funds Mortgages is able to mitigate risky investments by directing funds to more reliable sources. We do not typically work with borrowers in distressed circumstances or those who have challenged credit. It is because our direction of mortgage placements is geared to investor specific deals (i.e. investment property, renovation funds) that we have experienced such low default ratios. Please do keep in mind however, that mortgage investments are not guaranteed by the government and there are no guarantees that you will not lose your investment.

A second factor that mitigates risk in these types of investments is that you as the lender would be registered on the property being pledged as security. This means that you have a registered charge on the real estate. The borrower cannot do anything with this asset without consent from you, the mortgagee. You are not lending to a company that is issuing shares, and you do not own the property, your funds are a mortgage investment that are secured on the real estate. This is beneficial because recovery of your investment will take priority over all unsecured debts, monies owed by the corporation, construction liens, and even personal tax arrears. When you invest in a mortgage, it is very important to understand what your loan to value ratio is. The loan to value ratio represents the percentage of debt on the property you are investing in, compared to the value of that property. All things considered equal, the lower the loan to value ratio is, the less risky a mortgage investment is.

Finally, location, property type, borrower credibility and exit strategies are other important factors that will be analyzed as a component of our due diligence process. Paying attention to these factors plays a large role in mitigating risk.

26. How is Pro Funds Mortgages regulated?

We are governed by the Financial Services Commission of Ontario (FSCO). Our FSCO Licence number is #12051.

Pro Funds Mortgages has been servicing real estate investors for over 20 years in residential, commercial and private lending.
If you have any further questions about the private lending process, please contact our team and we would be happy to assist.

Pro Funds Mortgages (Lic. #12051)
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