PRO funds Mortgages #12051

Your Real Estate & Mortgage Investment Specialists

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Private Lending FAQ's

1. Why Should I Invest In A Mortgage?

A mortgage is a loan in which real estate or property is used as collateral. When an individual invests in a mortgage, they will be secured by a title registration, and a contract that legally requires the borrower to repay the investment along with a specified interest rate. This provides a level of security for the investor knowing that if there was a default scenario, the investor would have a recourse strategy and the ability to realize on their investment by selling the property. Mortgage investments are a very 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. What Is The Difference Between Investing In A Mortgage Versus A Stock, Bond, Or Exempt Market Dealer?

When investing in stocks, bonds, or equity in a project (through an exempt market dealer) please take note that you are not secured on real estate nor are there contractual guarantees for a fixed return on your investment. Your returns will be based on the success of a specific company or project and therefore they are susceptible to large fluctuations. When investing in a mortgage on the other hand, you are registered on title of the property and are secured on a tangible asset. Another main difference with between investing in mortgages and investing in exempt market dealers is that in an exempt market dealer, you as a lender would need to be an accredited investor in order to invest. To invest in mortgages, there are no eligibility requirements. The following chart summarizes the key differences.

	Investing in Equity (EMD)	Investing in Mortgages
Eligibility Requirements:	Must be an accredited investor	No requirements
Security:	Intangible asset (piece of paper)	Tangible asset (land)
Return:	Variable return that is contingent on success of a project	Fixed contractual return

3. Why Private Mortgages?

Private mortgages have become a very sought after investment vehicle over the past several years. Since Flaherty's mortgage rules were introduced in 2008, the traditional Bank lending criteria has become extremely rigid. As a result, many self-employed individuals and real estate investors have been unable to qualify with the Bank. This is when Pro Funds Mortgages noticed a void in the market and made the decision to alter our business model to focus on and continue to grow our private funding division. Today over 50% of our clients obtain mortgage financing through private lending!

4. 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 opportunity where an individual is looking for a 1st or 2nd mortgage. These mortgages are usually for residential properties, duplexes, triplexes, or condominiums but also include commercial spaces. The mortgage may be used to consolidate debt, purchase an investment property, fund a renovation, etc.

ii. **Project Lending** is a mortgage investment opportunity that caters to construction and development projects. The size of the mortgage amount requested by the borrower is usually in excess of $1,000,000.

5. What Is A Syndicated Mortgage?
A syndicated mortgage is when two or more individuals invest their funds into one mortgage for a borrower or entity. The multiple parties invest their funds together to raise the total mortgage amount and all rank in the same position. Each investor will be registered on title of the property and will hold a proportionate interest of the total mortgage equal to the amount of their investment.

Syndicated mortgages are most commonly used in Project Lending where the total mortgage size is typically in excess of $1,000,000. Syndicated mortgages can be used in Individual Lending as well depending on the scope of the mortgage. This structure is often used when the size of the mortgage amount requested is larger than the amount that one individual would be able to fund alone.

6. What Are The Benefits Of A Syndicated Mortgage?
Syndicated mortgages are an excellent way to diversify your portfolio as you can spread your funds over several projects to mitigate any potential risk. 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.

7. What Is The Minimum Investment For Mortgage Investing?
The typical minimum investment is $50,000.00. There are cases however, where lower minimum investments would be accepted as well as cases where higher minimum investments would be required. Please speak with us if you have inquiries regarding a specific project.

8. What Kind Of Returns Can I Expect?
Anticipated returns for Individual Lending typically range from 7-14% annually, depending on if it is a first or second mortgage. Returns for Project Lending typically range from 10-16% annually.

9. What Is The Length Of A Mortgage Investment?
For Individual Lending the term of the mortgage investment is usually 1-2 years. There will be an allowable extension provision of up to 6 months in all Individual mortgages. If an extension is exercised, the regular rate of interest subject to that loan will continue to be accrue.

For Project Lending, the term of the mortgage investment is usually 1-3 years. There will be an allowable extension provision of up to 12 months in all Project mortgages. If an extension is exercised, the regular rate of interest subject to that loan will continue to be accrue.

10. What Is Mortgage Administration?
Mortgage Administration is when a FSCO (Financial Services Commission of Ontario) approved company will register the mortgage in trust for the lender, or the group of lenders. Mortgage Administration makes the investment process very passive as the administrator collects all interest payments from the borrower, and then distributes payments to the lender through an automatic deposit into the lender's bank account of choice. Mortgage administration is mainly used for syndicated mortgages, and is paid for by the borrower. If the borrower does not choose to have the mortgage administered, you as a lender can elect to have your individual invested portion administered with an associated fee applied. The mortgage administrator for Pro Funds is *Valour Mortgage Services Inc. in Trust.*

11. How Much Should I Invest?
If you would like to get involved in mortgage lending then your first order of business is to establish how much you are comfortable using towards this type of investment vehicle. It is imperative to make sure the funds are liquid in either cash or your registered funds. If you commit to a mortgage, the individual or company borrowing these funds are relying on these funds for a specific closing date. It is also very important to make sure you are not using your life savings for these investments. You can contact Pro Funds Mortgages, and one of our investor relations specialists would be happy to meet with you or have a telephone discussion with you on your specifics.

12. Can I Use Equity In My Home To Invest?
Yes, absolutely! If you have equity in your home, you should consider leveraging this to earn passive income. Please see our "Be the Bank" article on our website for real scenarios where previous clients have earned positive monthly cash flow even after paying their mortgage payments. One of our mortgage underwriter specialists would also be happy to speak to you about your unique scenario.

13. Can I Use My Registered Funds To Invest?
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 before you begin your transfer, that you can only use a maximum combination of 2 registered plan accounts per mortgage investment. As well, the process of transferring these funds usually takes between 2-6 weeks. You can only commit to a mortgage investment once your funds are transferred and available with Community Trust.

14. How Can I Find Out About Mortgage Investment Opportunities?
Once you have established an acceptable range you would be comfortable investing, you can contact Pro Funds and we would be happy to inform you of current 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.

15. 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 member of our team and we will provide you with all details and specifics on the investment. If after reviewing all the relevant materials you decide to proceed, please complete the Investment Reservation form which will accompany the due diligence materials on each specific investment offering. Once your reservation has been accepted, the Pro Funds team would prepare your paper work which would be specifically created for each lender and each mortgage investment. You the lender will then need to sign the documents and provide identification. The documents will then be sent to the legal team representing you under this specific mortgage. The lawyer will proceed with the closing. Please note that we do make our best efforts to close on the dates specified, however, the dates can be delayed based on the lawyers due diligence and timing. Also consider that if you decide to use registered funds, it will usually take an additional 2-3 weeks longer for the plan to release the funds as opposed to a cash investment.

16. 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 also note that the funds may be required in the lawyer's account up to 1 week prior to closing and therefore funds must be readily available once you as a lender have committed to a mortgage investment.

17. 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 in 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 that are very experienced and knowledgeable in mortgage lending.

18. 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 length of the investment. These payments will be provided to the lender in the form of postdated cheques on closing from the borrower. If you are involved in an administered mortgage, we will arrange for a pre authorized deposit to go into the 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. At the end of the term you will receive your principal repayment.

19. How Are These Investments Taxed?
All interest and lender fees earned through a mortgage transaction would be considered investment income. Our administration company will assist in preparing T5 statements for each investor using cash funds which will encompass the prior year's earnings. Depending on your current income stream, you may want to consider how this additional income will affect your taxes. We always suggest investing through TFSA (tax free savings account) first as this is completely tax free! Other options would be to invest with other registered funds (RRSps, etc.) which do remain in a tax shelter, investing under a corporate entity, or investing under a family members name with a lower tax bracket. It would also be beneficial to speak to an accountant on how to best structure these investments based on your unique scenario.

20. Who Pays The Legal Fees & Other Associated Costs?
It is the borrower's responsibility to pay for all of the lenders' legal fees associated with closing the mortgage. The lenders' lawyer will screen the mortgage, ensure all conditions are fulfilled and 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 as well. The borrower is also responsible for paying mortgage broker fees, administration fees and lender fees (as applicable). If you as an investor want to obtain independent legal advice on whether to invest in a mortgage, this would be your responsibility.

21. 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 (faxes, scans, transportation) and preparation of funds will be the cost of the lender.

22. What Due Diligence Is Conducted?
Pro Funds will make our very 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 originator. 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 the interested parties for review. If further information is requested by a lender, Pro Funds will make an effort to arrange for all the details requested. Pro Funds 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 analysed by very seasoned third party experts, appraisers, environmentalists, engineers, planners, developers, builders and lawyers. Pro Funds Mortgages has aligned ourselves with Valour Capital Group, a development company that offers administration services and Mortgage Investment Offerings (MIO's). A MIO is a comprehensive package on a specific mortgage investment offering that consists of all of the third party reports and mortgage details. *Once again, you are the lender and you must be 100% comfortable with the mortgage investment before proceeding.*

23. 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 do ask that when lenders commit to a mortgage, they understand that all parties are working to ensure smooth transactions while providing secure investment placements, but that mortgage investing does require a degree of flexibility. Although mortgage investments feature fixed terms, there is the possibility that the mortgage (may) be paid out prior to, or even slightly after, the anticipated maturity date. Please be advised that 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 take time to facilitate.

24. 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 100% guarantees that you will not lose your investment.

Another 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.

Finally, when you invest in a mortgage it is very important to understand what your loan to value is. The loan to value represents the total amount of the mortgage as a percentage of the appraised value of the property. It is important to lend to an investment below a 90% loan to value to ensure that there is enough equity in the property to pay the investors back if the property is to be sold. This is your security. Location and property type are other important factors that will be analyzed as a component of our due diligence process. These factors play a large role in mitigating risk.

25.How Is Pro Funds Mortgages Regulated?

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

26. Summary: Individual Lending vs. Project Lending

	Individual Lending	Project Lending
Borrower:	Single entity	Builder / developer
Minimum Investment:	$25,000 -$50,000	$50,000 - $100,000
Length of Investment:	1-2 years	1-3 years
Return:	7-14% annually	10-16% annually
Typical Use of Funds:	Minor renovations, improvements, extracting equity for other investments, purchases etc.	All costs associated with development of land
Due Diligence Materials:	Credit bureau, appraisals, net worth, etc.	Project feasibility & analysis, appraisals, budgets, proposals, etc.

Pro Funds has been servicing real estate investors for over 15 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.

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