

Private Lending...Not Only For The Rich!

Investment, this is a word that has become a central part of our everyday vocabulary. Almost everyone has some kind of investments. There are investments in stocks, retirement plans, insurance, commodities and of course real estate.

It seems that almost everyone is interested in Real Estate investment. In the past this same kind of investing was called speculating, and was something, which was done only by the very rich. Until recently, it was thought that Real Estate investment was a risky business, only indulged in by those who could afford to lose money. Today's thoughts about Real Estate investment has greatly changed. Real estate investment has proven to be one of the safest investments one can make, while yielding large returns.

One of the best ways to make your investment money work for you is through mortgage lending. Instead of actually purchasing a property, you become the lender to someone who is unable to secure a full bank mortgage for various reasons. Many people who have become wealthy through real estate, started with mortgage lending. They were average people who with a calculated risk took a leap of confidence into Private Lending. They were soon to discover, as you will, Private Lending can be very financially rewarding.

If you are thinking about becoming a private lender, there are a few things you should consider, before parting with your investment dollars. Private lending is much different from placing your money in an account with a guaranteed rate of interest. You will have to first find a trust worthy Mortgage Broker, who has a history of successful Private Mortgages. It is important to understand that not all Mortgage Brokers are the same, and some will be much more affective with Private Lending recommendations than others. You want to inquire about how many successful Private Mortgages they have arranged, and how many satisfied Private Lenders they have. It would not be out of line to ask for references; after all it is your money.

So let's say you have found an outstanding Mortgage Broker, who has satisfied all your questions with informative answers, are you now ready to hand them a cheque? Not yet. No matter how excited you are to begin collecting those big returns on your money, it is important to know exactly what kind of mortgages your Broker is planning to recommend you invest in. This is an Investor beware moment. Many Brokers have clients who are in dire circumstances and are at risk of losing their home. Often they are experiencing severe credit problems, are in arrears with their mortgage and taxes and need to consolidate their debts. Banks will not lend under these high risk circumstances. Although these mortgages are historically higher yielding, they are also extremely precarious and have a high rate of default. If you are the nerves of steel type, and don't mind living on the edge, then this might be the kind of investment for you.

However, if you like to lay your head on your pillow at night, and enjoy a restful sleep, not worrying about your money, I highly recommend that you steer wide and clear of this type of Private Lending.

In years past Banks had a much different criteria for Mortgage Lending. Times have changed, and no longer do you go to your friendly Banker for a Mortgage. Lending rules have tightened and more often than not it is a faceless person on the other end of a telephone or the internet, who will be deciding if a mortgage will be granted to the applicant. It is because of the changes in the way the Banks gear their lending, people who have invested in income properties are finding it difficult to obtain the mortgages they need to purchase more properties. Enter you the Private Lender. Lending to this kind of client is generally a safer proposition, as the income property investor, usually has clean credit, a good income and other assets, that can be secured against the mortgage. This is the type of Private Lending that allows you to experience solid returns of 8-20 percent, while still granting you a degree of security.

One way to jump into Real Estate Investment is to use your Self-Directed RRSP's. Many people who have invested in RRSP's hoping this will become their retirement nest egg, have come to realize that the interest received is very low, and will not make much of a nest once they retire. A qualified and skilled Real Estate Investment Mortgage Broker, can make the process of using your Self-Directed RRSP rather simple, and can provide you with the complete details of your involvement. The Broker will also help you make an informed decision, of the type of lending that would suit your needs, and the methodology of implementation. They will help you check the potential Borrowers credit, have an appraisal of the property ordered, check on income and why the Borrowers are seeking funds. Most importantly the Real Estate Investment Mortgage Broker will help you decide if you should in fact lend funds to the Borrower in question.

It should be noted; not all RRSP plan holders will allow you to Self-Direct your funds into Mortgages. You should check with you plan holders protocol on mortgage lending. This is something you should be looking into before you invest you money in any RRSP plan.

Making your homes equity work for you is another popular way to get involved in Real Estate Investment. By asking you Real Estate Investment Mortgage Broker to arrange to have your home equity made accessible to you, by re-financing your current mortgage, you will now have liquid funds ready for your investment. Interest rates are right now at an all time low. Why sit on money that could be earning you as much as 9-20 percent interest, which is a substantial profit considering the low interest of the Mortgage. This is an excellent opportunity, especially for seniors, who are living on a fixed income, to add additional monthly revenue giving you peace of mind.

Earlier we spoke of feathering one's nest for retirement, and the difficulty doing so on the interest currently being paid on low risk invested funds. If you were to re-finance your mortgage and take out 100 thousand dollars for investment, your monthly payment at 2.25 percent interest or a 25 year amortization would be \$436.00. Now, if you were to lend the 100 thousand dollars, to a reliable Borrower at 14 percent interest on an interest only the monthly payment would be \$1,167.00. You have now have a tidy profit of \$731.00, per month. You can pay down your own mortgage using the profits for the Borrowers interest payments. As an extra bonus, in the first year you will be paying down the principle of your mortgage a whopping \$3,018.00 in the first year. At the end of one year your funds have typically come back to you, and you can re-invest. Now that's truly making your homes equity work for you.

I have extolled on the positive benefits of Real Estate Investment, but what about the risk? With any kind of investment there are always risks and should be well researched before making an involvement decision. A major risk factor to consider would be if the Borrower were not to pay their mortgage obligation. The Private Lender is typically in second position. This is where your participation in your investment is important. It is advisable for you to ensure that the first mortgage is being paid and up-to-date, so you will have control over the sale process, which will help protect your investment. A good loan-to-value on the property is also something that should be considered, in the event of a mortgage default, as long as the first mortgage is up-to-date, you will be in a good position to charge back costs and any associated fees to the property sale. The best way to manage the risk of Real Estate investment is without fail always do your due diligence on the property and the borrower. Get a realistic valuation from a reputable appraiser or valuator.

Real estate investing can be very rewarding, providing you follow the basic rules, use proper counsel, and do your due diligence. Become a wise investor, and do not let fear of the unknown cripple your vision of a great return.

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Pro Funds Mortgages