Syndicated Mortgages, The New Craze!

Syndicated mortgages have become a very popular topic to many in the mortgage industry recently. So many companies are introducing these investment offerings to investors. Being in the mortgage business for over 17 years now and specifically catering to the private lending side of the business, I can attest that this is not a new investment vehicle.

Firstly, what is a syndicated mortgage? A syndicated mortgage is when two or more people invest their funds into a mortgage for one 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 an excellent way to diversify your portfolio. They allow for individuals to invest directly into larger scale opportunities with greater returns that they otherwise would not be capable of funding alone. Because of this, investors can invest in multiple projects instead of allocating all of their available funds into one mortgage. In mortgage lending/investing, your funds are also secured on a tangible asset. This means that in a potential case of default, there is a recourse strategy and a way to realize on your investment by selling the property. Many people have invested in stocks and companies that offer shares in a project and hope that it is a success in order to receive a return, not to mention repayment of their principal. Mortgage lending offers this security on real estate which is amazing! It gives investors the ability to have an investment in real estate that is extremely passive without the worry of tenants, rent collections, and tribunal.

As mentioned, syndicates and private lending have been around for decades, however the majority of people are not well versed on this type of investment vehicle. Make sure that when you decide to work with a company that offers these types of investments, that you are not receiving below market rates on a mortgage investment. Some companies in the industry are raising millions of dollars for one mortgage investment and in order to raise these types of funds, they are implementing a channel of referral agents who are paid substantially. The problem with incentivizing referral agents with large returns occurs when it reduces the return the company is able to offer the investor, thus falling below the market rate. Another thing to be mindful of, are lender bonuses that are contingent on the success of a project. Many companies that are selling syndicated mortgages are offering annual interest returns (for example 8%), plus a lender bonus at the end of the term (for example 4%). Majority of the time these rates are marketed as a combined return (in this example 12% annually).

You should be aware that these lender bonuses are not always guaranteed, so 8% annually may in fact be your final return. Please note that these offerings with other companies may be very solid investments however, the returns may be less favourable.

If you are investing in private mortgages, the going rate for first mortgages depending on the loan to value, is typically 6-10% annually. If you are lending to a second mortgage the going rates are typically 10-14% annually. These are the going rates and have been for decades. If you are lending to a development project, the returns should be higher as the risk is higher in a build. The return for this type of investment should be a minimum of 12% annually as a second mortgage. Please keep in mind, if you are investing in raw land and the approval for the proposed development is not at the very least draft plan approved, your risk has escalated significantly. Your return should therefore be significantly higher as it is a very timely process in order to obtain approvals. There also is the possibility that an approval may not even happen and if this is the case, you will want to know going into this investment what the value of the raw land is worth if it is to be used to recoup your investment and along with other syndicated investors.

At Pro Funds Mortgages we do offer a combination of first and second mortgage investments as well as development mortgage investments. Our team of experts are very conservative when placing funds. Our deal flow is significant and our direction is geared to investment type properties and investor type borrowers. When we raise funds in a syndicate we do not rely on a vast referral channel, we focus on dealing directly with our investors. We therefore are able pay our investors one of the highest yielding returns in the business. Our first mortgages are seeing 7-12% annual returns, our seconds are seeing 10-16% annual returns and our development investments are seeing 16% + annually, plus our returns are fixed. Our lender bonuses (lender fees) are NOT based on a certain threshold of profit to be earned. Our mortgages are thoroughly screened and your best interests are always in mind.

Please note that there are many great companies to work with and syndicates can be very lucrative, but in order to make a good investment decision you first must be informed! For further information on syndicated mortgages or this process please visit www.profunds.ca or contact our office located in Burlington at 1.888.330.3866 and one of our experts will be happy to provide further details.

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