PRIVATE LENDING

Private mortgage lending involves a private individual lending their personal monies (cash, IRA monies, etc) to another individual in return for an agreed upon rate of return. This type of lending can offer above average returns and low risk if structured properly, because it is secured against the actual property.

Private mortgages have several benefits to borrowers and investors. Investors holding private mortgages can receive interest rates significantly higher than standard rates offered by banks, while borrowers can have access to funds to complete their real estate transactions without having to go through many of the ‘hassles’ associated with conventional lending.

Basically, a Private Lender should view themselves as a mortgage company, and make sure they screen their potential borrowers and properties diligently to make sure that they are placing their money in a secure investment with a trustworthy borrower.

These mortgages can be structured for short-term: from six months to two years, or long-term: from two to ten years. In general, private mortgages range between 50 and 75 percent loan-to-value (LTV), and the interest rates are between 6 – 12 percent.

The lender should make sure the LTV is not less than 75/25 so there is an equity cushion if the borrower defaults, and private lenders should always perform adequate due diligence on the borrower and the property they are lending on.

Private mortgages can take on many different structures, depending on what the parties are willing to agree to. Most private mortgages take on terms with simple interest (interest only payments), yet it is possible for the lender and borrower to come up with any terms they see fit, including amortized loans and loans with deferred payments. There are even possibilities for equity share upon the sell so that not only does the private lender receive interest on their money, but they also get to reap the rewards of possible appreciation.

Different property types are generally covered by different LTV ratios. For instance, private lenders will often look for a 50 percent LTV on raw or undeveloped land, 65 percent on commercial property and 70-75 percent on single and multifamily properties. Generally, a lower LTV on a property will translate into lower risk.

Buyers who take on a private mortgage can also build equity, if they pay on time, assuming the loan is fully amortized and not an interest-only loan. Borrowers may eventually be able to refinance the mortgage at a lower interest rate through a conventional lending institution.

As always, investors should conduct due diligence procedures before pursuing this investment strategy. Investors should not jump into private mortgage investing without doing research beforehand. There are risks associated with any investment, and investing in mortgages should be carefully considered just as you would carefully analyze an investment in stock or any other investment vehicle.