Arizona Property Advisors, LLC

PRIVATE MORTGAGE INVESTING

ARIZONA PROPERTY ADVISORS LLC

www.buyazcashflow.com

480-228-3336

Table of Contents

The Basics of Private Mortgages

What is a Private Mortgage?

Private mortgages provide investors substantial returns at interest rates that are compounded several times annually. Still, they remain one of the most stable investment vehicles available. How is it possible for one investment vehicle to offer an investor high returns and stability without being too good to be true?

Home buyers traditionally seek a bank or mortgage company to finance the purchase of their new home. However, in this new era of sub-prime free lending, banks and mortgage companies are refusing more borrowers than ever. These home buyers are coming in droves to private lenders to find the private mortgage they need to buy a home.

It is completely legitimate for an individual to offer a private mortgage for a home purchase, giving a buyer a non-bank option for financing. All the lender needs is enough money to lend to a borrower looking to purchase and/or rehab a home.

Private mortgages (also called hard money loans, trust notes, private notes, etc.) are, in our opinion, much safer than paper investments because they are secured by real property. In this way, if the mortgage is ever in default, the private mortgage lender sells the property in a quick sale to get their money out of the investment. The property is backed by title insurance and hazard insurance as additional levels of protection, and the loan is additionally secured by the borrower's personal guarantee. These multiple levels of protection cannot be found in any other investing instrument.

Why Would Someone Borrow From a Private Individual?

Banks are in the business of making money. They want to make long-term loans, and don't want to deal in short-term or rehab lending.

Ultimately, what a bank is looking for is a constant flow of money that lasts for years. This type of loan means the bank will have a regular income stream with little additional effort involved. It also means there are tons of hidden real estate gems for Equity Finance to choose from.

As banks and mortgage companies turn down potential loans in ever increasing numbers, we are able to pick up some great deals on investment real estate and still make highly secure investments (as we'll demonstrate in a bit).

Banks are also extremely slow to process loans. They have many channels and a lot of red tape to pass through before completing a loan application. Often, sellers are in a hurry to sell the property and prefer not to wait for processing of a bank mortgage. They would rather offer Equity Finance a good deal on the property and get money in their hands immediately than wait for a lumbering bank to process their loan application.

There are other reasons why a borrower might prefer the speed of working with us over the slow process of applying for bank financing. Sometimes, they just need some short-term financing. They may need to pay off some creditors to get their monthly expenditures under control. They might need to free up equity for family needs such as unexpected hospital bills.

On the other hand, they might have an opportunity of their own to invest in another property and need quick cash so they can move fast on the deal. Regardless, there are many reasons why a borrower might look to private lenders to provide financing.

Typical Rates of Return

Every mortgage is unique. The situation, property condition, and property location factor into the structure of the mortgage and affect the rate of return. This being said we must, unfortunately, turn down many deals because they will never produce strong enough returns for our investors.

However, those that do qualify for our turnkey system provide an excellent return for an investor.

Some of the other factors that play into the return an investor can get from a private mortgage are:

- The term of the note.
- The quality of the borrower's credit.
- Loan-to-Value ratio.
- The purpose of the loan.
- Exit strategy of the borrower.
- Direct lending or lending through a mortgage pool.

After years of experience our team has learned to identify ways to improve rate of return by adjusting to terms of the note, collecting prepaid interest, having the investor's money repaid prior to the consumption of that prepaid interest, and a plethora of other strategies that escape the notice of many private mortgage companies.

The above factors make some deals better than others, but private mortgages offer considerably higher returns than traditional mortgages, and they outperform the stock market over the long term.

Conservatively speaking, private mortgages return anywhere from 9% to 14%. However, most private mortgages give investors an average return in the 12% to 15% range.

The Advantages of Private Mortgage Lending

Advantages of Private Mortgages as an Investment Vehicle

We invest in private mortgages for one reason: the advantages of private mortgages far outweigh paper investments. There are numerous reasons private mortgages are superior to other investment vehicles and here are a few of the many reasons we are excited about helping clients get started in private mortgages.

- Less fluctuation than stock market
- Compound several times a year
- Greater control over when and how much you invest
- Easier to understand than other investing vehicles
- More predictable than the stock market
- Real estate is a tangible asset, unlike paper investing

The primary reason that we are so high on private mortgages is that, unlike paper investing, private mortgages are backed by a tangible asset that will always have value. If an investor owns stock in a company and that company folds, the investor is out of luck. Granted, they might own preferred stock, in which case they'll get their money before common stock holders. That is they'll get their money if there's any money left after liquidating the company assets and paying off debts.

If a borrower defaults on a private mortgage, on the other hand the property is sold in a quick sale. We work with borrowers who purchase properties at at least 65% of the quick sale value of the property. That way, should it be necessary, we can be sure to liquidate the property quickly and get a return into their investors' hands. The investor can then roll that money into another private mortgage quickly and start earning returns again.

Stability of Private Mortgages

According to the Federal Housing and Finance Agency, the largest quarterly drop of housing prices from 1991 to Q3 of 2009 was -2.44%. Remove the years of the recent housing crisis and real estate's largest quarterly loss was -0.15%. In that time, only 10 quarters saw any drop in purchase prices.

In summary, the selling price of a residential property is unlikely to go down and, if the price does drop, it won't drop far and it won't stay down for long. The properties backing private mortgages can be sold quickly and at a price that's higher than previous selling prices. This stability is great protection for and investor's nest egg.

The stability of property value isn't the only reason private mortgages backed by property are such a stable investment. There are other reasons investments backed by property are bound to give the investor a solid return.

Demand for housing is increasing at an astounding rate. Yet the supply of housing available is not keeping up with this growing demand. Every new child that is born will need housing. Every additional high school graduate will find their own home and start their own family. This pressure on the housing industry means that there will always be a demand for new homes.

In short, if the improvements on a piece of real estate are kept in good condition, the value of that real estate will continue to go up. Now, it's true that there are factors that can cause real estate value to go down. A home in need of repair, for instance, will have a lower value than that same home in good condition.

Situations like these are great opportunities for investors. We have a variety of quality contractors on call to refurbish distressed houses. We make the necessary improvements to bring the value of the property up to our requirements before finding renters and offering a private mortgage to our clients.

The property value returns to where it was before falling into disrepair and quickly jumps above that value. A renting family gets a home that's had a wonderful facelift, and an investor gets a sound investment backed by a valuable property.

Everyone wins.

Keeping Risk Under Control

The fact that private mortgages are an incredibly stable investment doesn't completely negate all risk. Any investment carries some risk. Borrowers sometimes default on loans due to loss of employment, the value of the property cannot be assured, a title may be defective, and private mortgages are not insured by any government agency.

We are constantly looking for ways to minimize the already minimal
risk of private mortgages. Each mortgage is unique, which is why private lending through Arizona Property Advisors,LLC is a much safer bet than trying to do it yourself.

Our team of highly trained professionals analyses each property in great detail to find the risks and then determines how they can be minimized or removed altogether.

On the other hand, there are some standard risks that are common with private mortgages and the Equity Finance Team has a system of due diligence that makes every private mortgage as secure as possible.

First, we make sure the property meets our list of qualifying criteria. Private mortgages are secured by the property itself. We have to be able to sell that property at a profit regardless of how well the borrower handles the loan, and we have to be able to do so quickly. So, we first engage a team of assessors to investigate the property. This team is not only looking for the minor repairs that identify a sleeper property, but are also looking for structural conditions that might be a deal breaker. In the end, we only consider a property if we know we can turn it around quickly and get our clients a profit.

Once we've ensured that the property is a great deal, we investigate the borrower for red flags. A private mortgage lender is, in reality, a private banker, and, as such, we investigate borrowers with the same scrutiny a large national bank would. We pull a credit report and analyze their income level, the level of debt they currently have, and more. However, because EquityBuild Finance's docket of mortgage requests is much smaller than a national bank we can get far more detailed in our investigation than a large bank does. Borrowers cease to be a number and become an opportunity for Equity Finance Team to introduce a highly qualified borrower to an investor who wants to make a substantial return.

The third way Equity Finance Team minimizes risk is to create airtight paperwork. Since your money is secured by the property, we first need to ensure that the title is clear. So, we run a title search on the property. Some private lenders will try to cut costs by forgoing the title search and crossing their fingers in hopes that the title is clear. Title search fees can be stiff and reduce the amount of money an investor is able to offer on a private mortgage. But, rather than cut corners, we simply link the service fees to the mortgage. Investor costs are minimized while still minimizing risk.

In addition to ensuring the title is clear, we also want to protect against the possibility that the property might be damaged or destroyed. The individual selling the property, of course, has home owner's insurance on the property, but that will be cancelled as soon as the property is sold. So, we set up a hazard insurance policy protecting the property against natural and other disasters.

Finally, we require that the borrower sign a personal guarantee. This, along with the extensive investigation into the borrower's credit and ability to handle the mortgage payments gives us one final level of security against our investors losing money.

This multi-layer approach means that Equity Finance Team is able to help a qualified buyer purchase a great home and give a private investor a considerable return for their investment. Everyone wins.

Getting Started in Private Mortgages

Two Main Lending Strategies

There are two methods of getting started in private mortgages; direct lending and mortgage pools.

Mortgage pools are like the mutual funds of private mortgages. Each investor's money is pooled with the other investors participating in the pool and the money is used for private lending.

Over the years there have been some notable benefits to investing in a mortgage pool. Because a mortgage pool is pooling the money of all investors, the pool manager is able to reduce risk by diversifying over many different properties.

Of course, the trade-off to mortgage pool investing is reduced returns. The mortgage pool manager draws their pay directly from pool profits. This substantially lowers profits and cuts deep into investor's pockets. However, many investors have leaned toward the mortgage pool option over the direct lending option because it was easier and incurred less risk.

The Equity Finance strategy of investment overcomes the former downside of direct private mortgage lending, giving direct private mortgages the advantages of mortgage pools without the historical challenges typically associated with direct private mortgages.

Direct lending is typically reserved for seasoned real estate professionals due to the level of expertise that is needed to identify undervalued properties and go through the appropriate steps to protect the investment and assure a top return on investment. In return, however, they are able to gain direct access to the collateral provided int he direct lending model.

The direct lender typically has an appraisal done on the property, analyzes the value of the property and the upgrades it will need, works the numbers to determine a break-even point, and then calculates what kind of offer on the property will be feasible to earn a good return on investment. Once that's done they find a qualified buyer to purchase the property and draw up paperwork that protects them against the possibility of the buyer defaulting on the mortgage.

It's actually, in our opinion, very satisfying work. However, it does take a great deal of expertise, but EquityBuild Finance has made direct private mortgage lending a real possibility even for the average investor. You don't need any expertise in the real estate market to take advantage of the combination of good returns and stability that private mortgages offer.

We do all the ground work for you. All you need to do to take part in direct private lending is invest the money.

As a direct investor, you'll be able to take advantage of higher returns than you would get if you invested in a mortgage pool without any of the expert knowledge required.

There is always risk in investing, but we offer a system that is easy to use (since we do the work for you) and has a multi-tier approach to minimizing the small amount of risk involved in private mortgage investing.

Lending From Your IRA

If you're excited about the opportunity of investing in private mortgages but concerned that you're going to miss out a chance to invest, I've got good news for you.

Investors can use IRA money to invest in private mortgages. OurEquity Finance Team has an IRA custodian who handles IRA investment. The money is invested directly into properties from the investor's IRA. The process is too complex to cover in a few short paragraphs, but, if done right, the profits on the private mortgage are rolled back into the IRA tax-free. If the IRA in question is a Roth IRA, the money is also tax-free when withdrawn at retirement.

Lending from an IRA can be an outstanding way to get higher returns than the IRA is able to achieve while still having all the tax benefits of an IRA.

Because of the complexity of investing IRA money in private mortgages, interested investors should contact Equity Finance Team to discuss this option.

Benefits of Working With us.

Working with our Equity Finance Team is just another of the many ways to minimize your risk in private mortgage investing. We've got decades of experience in real estate investment. We've completed deals on thousands of properties and have analyzed thousands more.

We've been working for years to come up with a system that allows the average investor to invest in solid and secure private mortgages without the need for years of personal education in the real estate investment field. Now, we're able to offer our turnkey operation to you.

With Equity Finance Team's turnkey system, it really is that easy. Call us today to find out how you can get started in private mortgage investing.

Call 480 228 3336

"The secret of getting ahead is getting started." – Mark Twain –