How to Become a Private Money Lender and Earn 7%-10% Secured by Real Property

How to Earn 7-10% Profit Secured by Real Estate

Everyone would like to earn a 7% to 10% profit on each and every one of their investments, right? However, investing in stocks and bonds with their associated market fluctuations simply provides no guarantees. You might select the right stock and make more, but you always run the risk of selecting the wrong stock and losing everything!

However, there is a way to invest your funds and earn 7% to 10% secured by real estate. With this amazing process, you will undoubtedly profit and your invested money is always secured by real estate.

Most people place their money for retirement into mutual funds, which are low yielding but a reasonably safe bank investment. Others invest in accounts such as savings, certificates of deposit, IRA, KEOGH, 401Ks, or similar savings plans. These investments usually pay 2% to 4% in profit.

Why would anyone choose a variety of low yield investment solutions when they can earn 7% to 10% secured by real estate time and again? If you have the choice between earning 2% in profits or 10% in profits, which choice makes more sense to you?

Everyone who ventures into the investment area that yields great returns must realize that every single dollar of their investment is at risk! Sure, you may happen upon great stocks or invest in the next Microsoft or Google during their initial offering, but how often are you fortunate enough to be able to choose the next Microsoft or Google? Too often, the investment that looked so good last month or even last week has taken a downturn and is now worthless or virtually worthless.

That's Why People Invest in Real Estate!

People who have invested in real estate know that real property, if properly cared for and maintained, always earns a return on investment. There isn't any more land being magically created, population continues to grow, and people must have places to reside and places to conduct commercial business. The places where people live and work constitute real properties.

It is not unusual for a real estate investor to purchase a residential property, lease it to a qualified, well-referred lessee who pays them every month for using the property and, a few years later, the real estate investor sells the property for much more than their original purchase price. It is also not unusual for a real estate investor to purchase a property that needs major cosmetic repairs, way below market value, repair that home and resell it to a new lucky homeowner. In fact, even considering inflation, real estate profits have been much higher over the period of investment than any other investments, except the luckiest of stock market investments!

But, who wants to deal with the hassles of tenants, property maintenance and repair, paperwork involved with property ownership and the other work that goes along with becoming a landlord or real estate investor yourself? You probably do not want to take on THAT headache! Not dealing with the headache of real estate management is the reason given by many people who continue to remain in the low yield investments. They just don't want the hassles of actively owning real estate.

Of course, those who have chosen to invest wisely in real estate have become moguls and own more and more properties, larger and larger buildings and, over time, make fortunes. Now, that part sounds pretty good, doesn't it?

You can invest in real property without the headaches of active property management by choosing to use passive real estate investments where you earn the profits without the headaches of managing the property.

How Passive Real Estate Investing Works

A passive real estate investment is one in which you place your investment into a real property, usually residential but sometimes commercial, which will be renovated and then either rented or resold for a greater price than originally paid at the purchase. But, you do not have to lift a finger, except to invest your money; that's the passive part!

The active investor performs the renovations, locates renters or, if the property is designated for resale, the property manager locates and works with the buyers, as well as handles everything about maintenance of the property. Of course, the property does generate a profit for the active investor as well, sometimes a more substantial profit, but your profit of 7-10% secured by the real estate simply rolls in without any hands on work. Of course the terms of how your 7-10% is earned will be clearly defined in the legal documentation supporting the investment agreement.

Your investment capital is safe and secure because you own all or, if you enter into what is known as a 'tenants-in-common' relationship with other investors to buy a larger property (you'll learn more about this later), part of a residential or commercial property's first mortgage. The fact that you own the first mortgage ensures that, should the property be destroyed in a fire or disaster, the insurance covers the capital loss because it pays the first mortgage holder first.

The Mathematic Facts

In order to see the big picture and completely understand how passive real estate investments can benefit you, you'll want to see the numbers and understand the mathematics, which clearly show this to be a sound investment plan.

Using an investment amount of $10,000 just to make things easy to calculate, here are the mathematic facts:

> For every $10,000 you invest in an IRA at, let's say, 2.5% interest compounded annually, at the end of 20 years, you'll have approximately $16,400. So, during that long investment of 20 years, you'll not even double your money.
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> You can calculate this yourself by simply multiplying the investment amount by 1.025. The reason 1.025 is the multiplier is that the '1' represents your original principal and the '0.025' represents the interest, compounded once per year. The math becomes more complex if the compounding rate were more frequent. But even if the interest were compounded every day of the 20 years, you still will not have more than $16,500 for every $10,000 initially invested!
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> There are free, easy to use online calculators available to automatically calculate compound interest, so you do not have to accept this blindly on trust. Go check it out for yourself.

> For every $10,000 of passive real estate investments you make – and, we'll use the conservative figure of only 7% profit – you will have about $38,700 at the end of the 20-year period. If the investment earns 10%, you'll have about $67,275. That is in excess of six times the amount you invested!

This means that the passive real estate investor can easily earn 15 times more profit than by using "traditional" investments such as IRAs, savings accounts and similar vehicles. In addition, depending on your personal income tax situation, you may get some really large tax benefits. To learn exactly what these may be, you'll want to consult with your financial planner or tax advisor.

What if the Real Estate Market Crashes?

Everyone worries about investments until they see them paying off. That's only human nature. So, you may be thinking about what might happen if the real estate market were to deflate.

Let's look at this concern if only because it has happened in the distant past. Those people with funds invested in the stock market and other investments of that type lost every dime in the Great Depression. Banks closed because they could not pay their depositors. Yes, today there is insurance for the first $250,000 of each depositors' money, but who are we kidding? If things really, truly crashed to that point, the government couldn’t possibly pay all those depositors right away -- if ever. Realistically, you might expect to get some portion of each dollar returned to you after a lengthy processing period. So again, in a true economic disaster, those with money in the bank suffer huge losses.

In this extremely unlikely worst-case scenario, someone that holds real estate investment at least continues to own the title to a real property. That real property continues to retain value. It doesn't disappear as 'soft money' in banks and stocks might in a financial crisis. Soft money would simply turn into worthless paper. If this were to occur, as the economy recovered, as it always does, real estate would be one of the fastest areas to recover because people always require places to reside and conduct business.

Every time in the past that the economy has taken a down turn, it has always been those with real estate investments that survived the crunch better than others. It is also very, very rare that real estate investments go into a downward spiral. When any reduction in the rate of increase in real estate values has occurred, the rest of the economy has suffered much, much more.

Why don't Banks invest if this is so great?

Banks Do invest in passive real estate investments. If someone needs a place to call home, they locate a residential property and ask a bank or other lending institution to give them money – investment principal – which they will repay over a period of time, plus they will pay the bank interest – profit – in addition to the original sum requested to purchase the home.

The financial institution doesn't do any work on the house or manage the property in any way; the bank just takes in their profits in the form of interest. The financial institution does, however, hold the first mortgage to the real estate. The financial institution also is named as the entity to be paid first by insurance if there is a loss due to fire or disaster.

In other words, the lending institutions are doing the same thing that passive real estate investors do! However, because financial institutions borrow funds, earn funds from other functions and services they perform, the money is considered to be 'soft money'. In other words, it is not necessarily cash or liquefied assets.

Passive real estate investments are 'hard money' because the person investing in the passive real estate actually removes money from a stock fund, mutual fund, savings account, checking account, or other asset and uses the very real money to make their investment into the passive real estate market.

Why should banks and other financial institutions get all the benefits of passive real estate investments? Why shouldn't you earn some of the profits available from these safe, secure investments?

The Legal Documents

Clearly, you want to be sure your investments are legally documented in such as way that you are protected, right? Of course, you do. Passive real estate investments are no different.

For decades, people have sought mortgages from lenders, usually banks or high-powered lenders to pay for a home. The mortgage is just a legal document stating that the person will pay the lender back the principal plus interest. Mortgages still exist today.

Another legal vehicle has come into use for real estate financing that is known as a "trust deed". This is the legalese term for the papers that create the most common form of contract for passive real estate investing. It streamlines the legal process if they do not receive the agreed-upon payments and interest – profits – on time. The trust deed includes a power of sale clause that allows the property to be liquidated quickly should payments stop. Unlike private mortgages, the contractual agreement used in the past for passive real estate investments, there are no worries about your capital being tied up for years in court if there were ever a default.

Fractionalization

By now, the benefits of passive real estate investments should be clear. But you may be thinking that you do not have enough liquid assets to purchase an entire residential property or larger property. That doesn't prevent you from earning profits in passive real estate!

The solution is simply that two or more passive investors place their funds into a property under what is called 'tenants-in-common'. No, that doesn't mean they have to live there! It just means each tenant in common owns a fractional share of the property. The concepts are all exactly the same. It's just a matter of pooling investment funds to create a larger fund for investing. It has become a very popular investment vehicle for people entering passive real estate.

Any number of passive real estate investors can be included in tenants-in-common investments and every one of them holds an investment asset that is safe and secure. Each one of the investors enjoys the 7 to 10% return on their investment and each enjoys the same protection and benefits from passive real estate.

An alternative is a fractionalized note and trust deed, where each private investor is a lender that is named as a beneficiary on the note and on the trust deed.

In Closing

There are many investments you can make, each of which has certain benefits. Passive real estate investments have many benefits; perhaps the largest is that you earn profits without any work whatsoever except signing your 'John Hancock' on the legal paperwork and providing the agreed-upon funds.

It really is about as close to getting something for nothing as possible. Unlike stocks and bonds, these investments are not difficult to understand. Unlike high yield investment of other kinds, there is virtually no risk involved.

Whether your goal is to provide a better life for yourself and your family, retire wealthy, retire early, or if you simply want to sit back and watch your money grow and grow, you'll find passive real estate investing is a simple, easy, safe and secure way to really earn 7 to 10% profit totally secured by real estate.

Passive real estate investments will earn profit for those smart people who use this method of earning for as long as people need places to live. As long as there are people on this planet, homes and real property will remain an asset that doesn't vanish and can't become 'worthless paper' as can some other investments.

Of course, do not enter into any type of investment without studying the details of contracts, learning of any possible tax benefits or liabilities, and checking with your unbiased, professional financial advisor. Keep in mind, however, that you need an unbiased advisor; your bank will probably tell you not to invest in passive real estate. After all, they want your money in a low-profit investment such as a certificate of deposit or an IRA so they can turn your money into 'soft money' and use it to make their own passive real estate investments!

For more information on partnering with us as private lender click here , fill out the short information form and we will get back with you.