

Praise for **LEND TO LIVE**

“As the oldest and largest national association for the profession of private lending, we receive frequent requests from individuals about where and how to start. We are ecstatic that we can now offer a simple direction: Start your private lending journey with *Lend to Live* in hand.

Authors Alex and Beth approach this nuanced vocation with practical, clear, and complete guidance that seeks neither to overcomplicate nor oversimplify the variables involved.”

—The American Association of Private Lenders

“If *Lend To Live* was published before I started lending money ten years ago, I would have saved over \$50,000 in problematic loan costs... I’m shocked at how simple Alex and Beth made the lending process while still keeping all the important nuances needed to be successful in this business. If you are currently lending money, considering lending money, or even raising capital for your own real estate deals from private lenders, this is a MUST-READ!”

—Bill Allen, Owner/CEO, 7 Figure Flipping

“Alex and Beth have put together a helpful guide on private lending that takes a truly unique approach to the subject. Their thoughtfulness and personal experiences shine light on what can at times be an overwhelming process so even a brand new lender can follow along.”

—Melissa Martorella, Partner, Geraci LLP

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Lend to Live: Earn Hassle-Free Passive Income in Real Estate with Private Money Lending

Alexandria Breshears and Beth Pinkley Johnson

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Chapter 1

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WHO SHOULD READ THIS BOOK

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Flippers, developers, and other active real estate investors are continuously on the hunt for the next deal and know that searching for the capital to fund those deals is a constant activity. Being able to find and court high-net-worth individuals

to fund future projects is critical to maintaining consistent deal flow. To that extent, a borrower's ability to become an expert in private lending—and in doing it safely for all parties involved—can set them apart from other borrowers who are also seeking capital partners.

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Additionally, many seasoned landlords transition into private lending when they are at a chapter in life where they are entering retirement and looking to simplify their lifestyle as well as their estate planning by liquidating their rental portfolio so that the properties do not become a burden to themselves or to their beneficiaries. Private lending provides these types of investors with more time to enjoy their retirement as well as a strong source of passive cash flow without the extra hassles associated with rental property management.

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But what do you do next with only a seemingly small amount of capital to start out with? Private lending can help you passively grow your capital to a sizeable amount so that you can eventually start actively investing. Some grow to like the passive-income approach so much that they abandon previous plans to go into active investing and remain private lenders indefinitely.

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Understanding the core concepts of private lending can help you choose the right fund to invest in. Plus, it's critical to know what key questions to ask a fund manager before choosing to place your capital with them. While we won't dive too deep into how to choose the right fund to invest in, we will explore the pros and cons associated with either doing it yourself or going with a more passive and supported approach like a pooled mortgage fund. Hopefully this book will shed light on which path those of you contemplating private lending as an investment tool should choose, and why it's a better choice for you and your desired lifestyle.

In this book, we'll address the entire process through the lens of a lender, but the concepts and processes outlined will be universally beneficial no matter which side of the transaction you happen to be on. An educated investor with realistic expectations and knowledge of safeguards makes any investment safer!

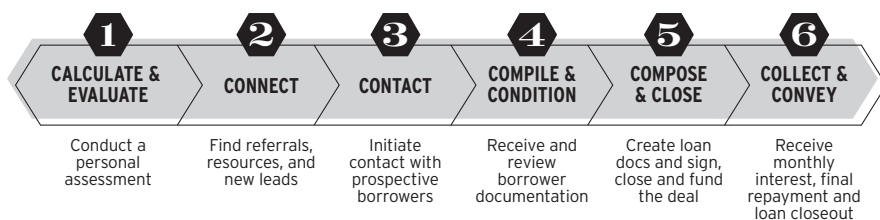
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But never fear! We have developed a systematic approach to help you learn all the necessary steps of the entire loan life cycle. It starts when you begin looking for a new loan to fund and ends when your loan is finally paid off in full. We walk you through the entire process with a repeatable set of steps that can help you do it all over again. We call this system "C.P.R. lending," and it will help you manage each step in the loan life cycle from beginning to end. The C.P.R. lending system breaks out the stages of the loan process, the considerations to make in each stage, and the risks and rewards of each stage to help guide your decision-making.

The C.P.R. Lending™ System

Your Lifeline to Private Lending



PEOPLE. PROPERTY. PAPERWORK.

Every step in the C.P.R. lending process will cover WHO to involve, WHAT to consider related to the property and project, and HOW to collect or create the appropriate paperwork needed to safely pass each step.

RISKS AND REWARDS.

When faced with a multitude of different ways to lend private capital, you will learn how to identify your personal risks and limitations as well as potential rewards associated with lending under certain terms and circumstances at each step of the loan life cycle.

C'ing the Big Picture

The “C” in C.P.R. lending covers each stage of the loan cycle. Each chapter represents its own “C.” We designed the book this way so that you could return to any chapter and reread it when you are in that stage of the loan. This will allow you to quickly and easily reference something in the future. It is kind of like the children’s book series Choose Your Own Adventure, where you (as the reader) decide what happens next and skip around the book based on those choices. Similarly, we’ve designed this book to walk you through the storyline of a private loan, but you can also skip around as you see fit, based on what you want to learn about and do next. Someone has presented you with a loan opportunity, but you don’t know what to do first? Skip to Chapter Five: “Contact.” The title report is back but it is full of special exceptions and you don’t know what to do next? Go directly to Chapter Eleven: “Underwriting Deep Dive—Paperwork.”

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Minding Your P’s and R’s

Within each “C”, which represents a stage in the loan life cycle, we will also cover three P’s. Think of the P’s as fact-finding missions. The three P’s are: Person, Property, and Paperwork. The first two P’s tell you what people and what property and project considerations are involved in that part of the loan cycle. The last P covers what paperwork is involved in that stage of the loan. This includes both the paperwork you need to request as the lender and paperwork you need to generate as the lender.

PERSON	In each step of the C.P.R. lending system, you will learn who the key players are and who is responsible for the key outcomes of that step. While the borrower is always front and center, there are also other individuals who help collect data, process paperwork, and validate certain aspects of the property or paperwork.
PROPERTY	The collateral being used to secure your loan will be the property. Often that property is going to be renovated, so it is also important to understand the project scope and financials.
PAPERWORK	Private lending has different paperwork to either request, review, create, sign, or provide. We’ll let you know what paperwork is required for each step in the C.P.R. lending process.

Lastly, each stage of the loan cycle has specific and unique considerations for Risk and Reward. We will cover how to balance your risk tolerance with your potential reward. These can be very specific to you as an individual, but we will touch on some broad areas of consideration. Everyone has different risk tolerances, so don't think of it as doing something "right" or "wrong" but rather as doing what's best for you and your comfort level. Of course, evaluating the rewards is also a part of the process. Knowing what could go wrong is just half of the equation, but you also need to know what could go right. After all, this book is designed to give you information about private lending and how to do it more safely.

At the end of the day, these will be your personal processes and preferences to define. Since the concept and practice of private lending is so widely varied, we can only give you the general factors to contemplate. You alone will be responsible for determining what you can and cannot live with in regard to lending out your own money and managing those trade-offs accordingly. Hopefully, this will help you recognize your no-go areas before funding a loan so you don't get into a sticky situation after your money is lent out.

Keep It Simple, Stupid!

We are not calling you stupid, but we certainly felt a little dense when we were new private lenders. A few things we found overwhelming when starting out in private lending were the overly engineered processes and complicated jargon used throughout the industry. At our first private lender conference, we remember sitting among a sea of mostly men in suits listening to them talk about capital markets and how many assets they had under management (the amount of capital they used to lend out). Sometimes they would ask us what asset classes we specialized in (in lay terms, it's just property types). Meanwhile, we sat there with shocked looks on our faces like a pair of deer in headlights. It was intimidating, to say the least!

After years of being in the industry, we found it's not as difficult as it was made out to be, but it will take time and experience to learn all the ins and outs. While a certain language needs to be used within the alternative-lending industry as a whole, you don't need to get caught up in it as a truly private, individual lender. Sure, you may need to speak the same language if you are looking to scale your lending into a full-time practice, but that's not what this book is about. It's about getting started and using private lending as a passive income source. And—from what we've noticed over time—borrowers tend to

appreciate the fact that we keep it simple and accessible by speaking in a language everyone can understand.

In this book, we put private lending into easy-to-understand terminology and overly simplified steps. It is very easy to get caught up in the specific language of real estate and lending. While knowing those words can be helpful when communicating with potential borrowers or even other lenders, we wanted to make this process easy to digest and provide real-world stories and examples, which help drive home key concepts.

Additionally, we have organized this book in two parts. First, we will introduce the stages involved in privately funding a loan, which will provide you with a complete look at the loan life cycle from start to finish. This will include the key objective and a high-level overview of the tasks involved in each step. In the second part, we will go deeper into how to evaluate and process a loan request to ensure it meets your basic lending standards. This is also known as underwriting a loan. Here, we will cover what essential documents to review and what key metrics or datapoints to assess, and how these impact the overall risk of the loan.

The intent here is to provide a baseline understanding of the process before diving into the details of how it's done. Think of private lending like learning how to fish. First, you have to learn how the entire process works, including how to bait the hook, how to find a location suitable to catching fish, and how to identify key indicators that fish will be present. Only then will you learn how to cast your line and, hopefully, reel in a big one. The “art” of fishing requires figuring out where to look for a good fishing hole. Similar to underwriting, there are a lot of key factors that come into play, including asking local experts, looking for other fishermen gathered in the same spot, and observing common signs like fish jumping out of the water.

We also have provided bonus materials and resources that you may need to use along the way. You can find these at www.biggerpockets.com/lendingbonus. It is unreasonable to think we can cover every option related to handling a particular task or reviewing a specific document in a single book. Much of your learning will come through personal experience. These downloadable materials will help you when certain circumstances do come your way that were not completely covered in this entry-level introduction to private lending.

Chapter 2

THE BASICS

More than likely you've picked up this book because you've heard, read, or talked about private money lending in some form or fashion, and it piqued your interest to learn more. Maybe you've learned enough to be dangerous, or maybe you just heard someone discuss the general concept of private lending and the only thing you recall is the generous rates of return. Either way, you obviously felt compelled enough to take matters into your own hands, literally, with this book.

Regardless of where you are in your investment journey, we are first going to talk about the overall process so you can get a basic understanding of what private lending means in the context of this book. We begin by laying the foundation for real estate financing and private lending. Once you have those fundamental concepts down, we dive into the actual steps to funding a private money loan. But don't think this is going to be a linear process because it likely won't. For those of you who are sequential learners, this will probably drive you nuts, but bear with us. Take your time to digest these concepts, be comfortable with starting and stopping the process, and accept that you will probably make mistakes along the way. Remember: Private lending can be very collaborative, so reach out and ask questions of other lenders and attorneys familiar with lending in your desired market. Doing so will allow you to learn from the smaller mistakes rather than the big ones. Get the basics, involve the right people, and it will be smooth sailing.

WHAT IS PRIVATE LENDING?

While private lending can take a lot of forms, this book is going to focus on lending to people who are buying preexisting single-family homes and small

multifamily dwellings like duplexes. For simplicity we're going to begin with a common lending scenario of a borrower who needs funding to fix-and-flip a residential property for profit. Once you are comfortable after a few loans, you can then pursue more specialized lending. This simplified look at private lending allows a beginner to understand the investment, learn the asset inside and out, and then make an informed decision.

Many of you may have purchased single-family homes, so the leap into this type of real estate investing and lending won't be as far of a stretch as it would be to start lending on commercial property types such as retail, office space, etc. We do want to point out one key difference between financing a property for your home and financing an investment property. The traditional home-buying process typically requires the borrower to get pre-qualified with a mortgage professional—this helps the buyers know how much they are qualified to purchase. However, in real estate investing, a subject property typically needs to be identified because the loan is underwritten mostly by the asset (the property) and not borrower credit or financials.

Beginning your private lending journey with a type of property you know well, such as residential homes, is the easiest way to transition into real estate investing. Plus, with this style of private lending, you will never be short on potential borrowers or projects to lend on. The opportunities to lend on homes and small multifamily property assets are plentiful.

The “Vanilla” First Loan

The basics of private lending are simple: You have money to lend out to someone who will put that money to work for you. The loan will be secured by real estate. At some agreed-upon future date, the borrower will repay your capital with interest.

For the purposes of this book, and as a recommendation from us on where to start your lending if you have little to no experience in real estate, we will use the following “vanilla” loan example throughout the book for context:

- **Property type:** Detached, single-family house (not a townhome or condominium with shared walls)
- **Property condition:** In need of cosmetic repairs such as new paint, floors, kitchens, and bathrooms (not major renovation needs like structural issues or an addition)
- **Project strategy:** Borrower plans to fix-and-flip (rehab and put property back on the market) or will BRRRR (buy, rehab, rent, refinance, repeat) out of the private loan

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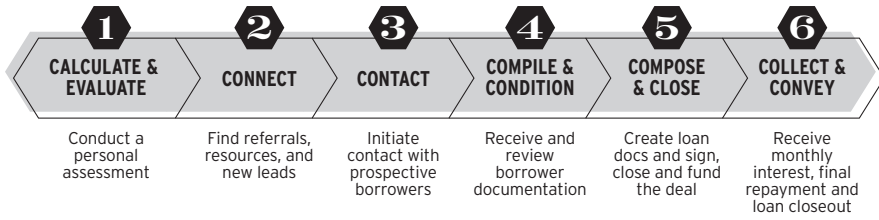
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We are not calling you stupid, but we certainly felt a little dense when we were new private lenders. A few things we found overwhelming when starting out in private lending were the overly engineered processes and complicated jargon used throughout the industry. At our first private lender conference, we remember sitting among a sea of mostly men in suits listening to them talk about capital markets and how many assets they had under management (the amount of capital they used to lend out). Sometimes they would ask us what asset classes we specialized in (in lay terms, it's just property types). Meanwhile, we sat there with shocked looks on our faces like a pair of deer in headlights. It was intimidating, to say the least!

After years of being in the industry, we found it's not as difficult as it was made out to be, but it will take time and experience to learn all the ins and outs. While a certain language needs to be used within the alternative-lending industry as a whole, you don't need to get caught up in it as a truly private, individual lender. Sure, you may need to speak the same language if you are looking to scale your lending into a full-time practice, but that's not what this book is about. It's about getting started and using private lending as a passive income source. And—from what we've noticed over time—borrowers tend to

appreciate the fact that we keep it simple and accessible by speaking in a language everyone can understand.

In this book, we put private lending into easy-to-understand terminology and overly simplified steps. It is very easy to get caught up in the specific language of real estate and lending. While knowing those words can be helpful when communicating with potential borrowers or even other lenders, we wanted to make this process easy to digest and provide real-world stories and examples, which help drive home key concepts.

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The intent here is to provide a baseline understanding of the process before diving into the details of how it's done. Think of private lending like learning how to fish. First, you have to learn how the entire process works, including how to bait the hook, how to find a location suitable to catching fish, and how to identify key indicators that fish will be present. Only then will you learn how to cast your line and, hopefully, reel in a big one. The “art” of fishing requires figuring out where to look for a good fishing hole. Similar to underwriting, there are a lot of key factors that come into play, including asking local experts, looking for other fishermen gathered in the same spot, and observing common signs like fish jumping out of the water.

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More than likely you've picked up this book because you've heard, read, or talked about private money lending in some form or fashion, and it piqued your interest to learn more. Maybe you've learned enough to be dangerous, or maybe you just heard someone discuss the general concept of private lending and the only thing you recall is the generous rates of return. Either way, you obviously felt compelled enough to take matters into your own hands, literally, with this book.

Regardless of where you are in your investment journey, we are first going to talk about the overall process so you can get a basic understanding of what private lending means in the context of this book. We begin by laying the foundation for real estate financing and private lending. Once you have those fundamental concepts down, we dive into the actual steps to funding a private money loan. But don't think this is going to be a linear process because it likely won't. For those of you who are sequential learners, this will probably drive you nuts, but bear with us. Take your time to digest these concepts, be comfortable with starting and stopping the process, and accept that you will probably make mistakes along the way. Remember: Private lending can be very collaborative, so reach out and ask questions of other lenders and attorneys familiar with lending in your desired market. Doing so will allow you to learn from the smaller mistakes rather than the big ones. Get the basics, involve the right people, and it will be smooth sailing.

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Beginning your private lending journey with a type of property you know well, such as residential homes, is the easiest way to transition into real estate investing. Plus, with this style of private lending, you will never be short on potential borrowers or projects to lend on. The opportunities to lend on homes and small multifamily property assets are plentiful.

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In this book, we'll address the entire process through the lens of a lender, but the concepts and processes outlined will be universally beneficial no matter which side of the transaction you happen to be on. An educated investor with realistic expectations and knowledge of safeguards makes any investment safer!

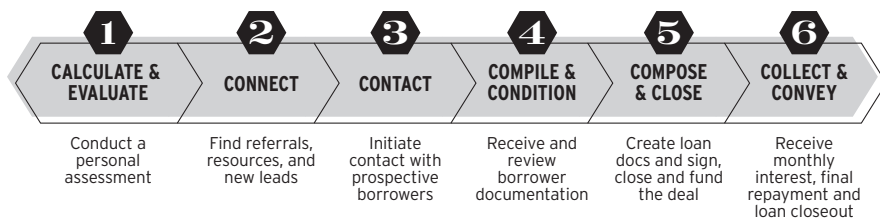
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But never fear! We have developed a systematic approach to help you learn all the necessary steps of the entire loan life cycle. It starts when you begin looking for a new loan to fund and ends when your loan is finally paid off in full. We walk you through the entire process with a repeatable set of steps that can help you do it all over again. We call this system "C.P.R. lending," and it will help you manage each step in the loan life cycle from beginning to end. The C.P.R. lending system breaks out the stages of the loan process, the considerations to make in each stage, and the risks and rewards of each stage to help guide your decision-making.

The C.P.R. Lending™ System

Your Lifeline to Private Lending



PEOPLE. PROPERTY. PAPERWORK.

Every step in the C.P.R. lending process will cover WHO to involve, WHAT to consider related to the property and project, and HOW to collect or create the appropriate paperwork needed to safely pass each step.

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When faced with a multitude of different ways to lend private capital, you will learn how to identify your personal risks and limitations as well as potential rewards associated with lending under certain terms and circumstances at each step of the loan life cycle.

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PERSON	In each step of the C.P.R. lending system, you will learn who the key players are and who is responsible for the key outcomes of that step. While the borrower is always front and center, there are also other individuals who help collect data, process paperwork, and validate certain aspects of the property or paperwork.
PROPERTY	The collateral being used to secure your loan will be the property. Often that property is going to be renovated, so it is also important to understand the project scope and financials.
PAPERWORK	Private lending has different paperwork to either request, review, create, sign, or provide. We’ll let you know what paperwork is required for each step in the C.P.R. lending process.

Lastly, each stage of the loan cycle has specific and unique considerations for Risk and Reward. We will cover how to balance your risk tolerance with your potential reward. These can be very specific to you as an individual, but we will touch on some broad areas of consideration. Everyone has different risk tolerances, so don't think of it as doing something "right" or "wrong" but rather as doing what's best for you and your comfort level. Of course, evaluating the rewards is also a part of the process. Knowing what could go wrong is just half of the equation, but you also need to know what could go right. After all, this book is designed to give you information about private lending and how to do it more safely.

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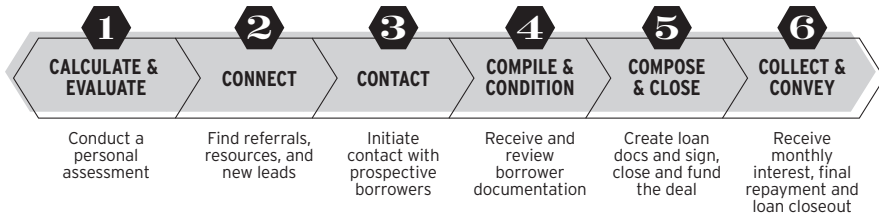
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Lastly, each stage of the loan cycle has specific and unique considerations for Risk and Reward. We will cover how to balance your risk tolerance with your potential reward. These can be very specific to you as an individual, but we will touch on some broad areas of consideration. Everyone has different risk tolerances, so don't think of it as doing something "right" or "wrong" but rather as doing what's best for you and your comfort level. Of course, evaluating the rewards is also a part of the process. Knowing what could go wrong is just half of the equation, but you also need to know what could go right. After all, this book is designed to give you information about private lending and how to do it more safely.

At the end of the day, these will be your personal processes and preferences to define. Since the concept and practice of private lending is so widely varied, we can only give you the general factors to contemplate. You alone will be responsible for determining what you can and cannot live with in regard to lending out your own money and managing those trade-offs accordingly. Hopefully, this will help you recognize your no-go areas before funding a loan so you don't get into a sticky situation after your money is lent out.

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In this book, we'll address the entire process through the lens of a lender, but the concepts and processes outlined will be universally beneficial no matter which side of the transaction you happen to be on. An educated investor with realistic expectations and knowledge of safeguards makes any investment safer!

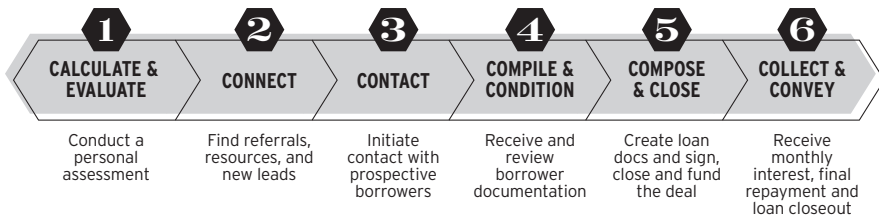
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But never fear! We have developed a systematic approach to help you learn all the necessary steps of the entire loan life cycle. It starts when you begin looking for a new loan to fund and ends when your loan is finally paid off in full. We walk you through the entire process with a repeatable set of steps that can help you do it all over again. We call this system "C.P.R. lending," and it will help you manage each step in the loan life cycle from beginning to end. The C.P.R. lending system breaks out the stages of the loan process, the considerations to make in each stage, and the risks and rewards of each stage to help guide your decision-making.

The C.P.R. Lending™ System

Your Lifeline to Private Lending



PEOPLE. PROPERTY. PAPERWORK.

Every step in the C.P.R. lending process will cover WHO to involve, WHAT to consider related to the property and project, and HOW to collect or create the appropriate paperwork needed to safely pass each step.

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When faced with a multitude of different ways to lend private capital, you will learn how to identify your personal risks and limitations as well as potential rewards associated with lending under certain terms and circumstances at each step of the loan life cycle.

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STEP 6	COLLECT & CONVEY	Receive monthly interest, final repayment, and loan closeout

Minding Your P’s and R’s

Within each “C”, which represents a stage in the loan life cycle, we will also cover three P’s. Think of the P’s as fact-finding missions. The three P’s are: Person, Property, and Paperwork. The first two P’s tell you what people and what property and project considerations are involved in that part of the loan cycle. The last P covers what paperwork is involved in that stage of the loan. This includes both the paperwork you need to request as the lender and paperwork you need to generate as the lender.

PERSON	In each step of the C.P.R. lending system, you will learn who the key players are and who is responsible for the key outcomes of that step. While the borrower is always front and center, there are also other individuals who help collect data, process paperwork, and validate certain aspects of the property or paperwork.
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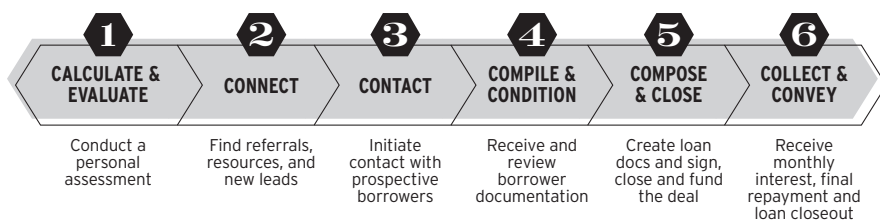
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Within each “C”, which represents a stage in the loan life cycle, we will also cover three P’s. Think of the P’s as fact-finding missions. The three P’s are: Person, Property, and Paperwork. The first two P’s tell you what people and what property and project considerations are involved in that part of the loan cycle. The last P covers what paperwork is involved in that stage of the loan. This includes both the paperwork you need to request as the lender and paperwork you need to generate as the lender.

PERSON	In each step of the C.P.R. lending system, you will learn who the key players are and who is responsible for the key outcomes of that step. While the borrower is always front and center, there are also other individuals who help collect data, process paperwork, and validate certain aspects of the property or paperwork.
PROPERTY	The collateral being used to secure your loan will be the property. Often that property is going to be renovated, so it is also important to understand the project scope and financials.
PAPERWORK	Private lending has different paperwork to either request, review, create, sign, or provide. We’ll let you know what paperwork is required for each step in the C.P.R. lending process.

Lastly, each stage of the loan cycle has specific and unique considerations for Risk and Reward. We will cover how to balance your risk tolerance with your potential reward. These can be very specific to you as an individual, but we will touch on some broad areas of consideration. Everyone has different risk tolerances, so don't think of it as doing something "right" or "wrong" but rather as doing what's best for you and your comfort level. Of course, evaluating the rewards is also a part of the process. Knowing what could go wrong is just half of the equation, but you also need to know what could go right. After all, this book is designed to give you information about private lending and how to do it more safely.

At the end of the day, these will be your personal processes and preferences to define. Since the concept and practice of private lending is so widely varied, we can only give you the general factors to contemplate. You alone will be responsible for determining what you can and cannot live with in regard to lending out your own money and managing those trade-offs accordingly. Hopefully, this will help you recognize your no-go areas before funding a loan so you don't get into a sticky situation after your money is lent out.

Keep It Simple, Stupid!

We are not calling you stupid, but we certainly felt a little dense when we were new private lenders. A few things we found overwhelming when starting out in private lending were the overly engineered processes and complicated jargon used throughout the industry. At our first private lender conference, we remember sitting among a sea of mostly men in suits listening to them talk about capital markets and how many assets they had under management (the amount of capital they used to lend out). Sometimes they would ask us what asset classes we specialized in (in lay terms, it's just property types). Meanwhile, we sat there with shocked looks on our faces like a pair of deer in headlights. It was intimidating, to say the least!

After years of being in the industry, we found it's not as difficult as it was made out to be, but it will take time and experience to learn all the ins and outs. While a certain language needs to be used within the alternative-lending industry as a whole, you don't need to get caught up in it as a truly private, individual lender. Sure, you may need to speak the same language if you are looking to scale your lending into a full-time practice, but that's not what this book is about. It's about getting started and using private lending as a passive income source. And—from what we've noticed over time—borrowers tend to

appreciate the fact that we keep it simple and accessible by speaking in a language everyone can understand.

In this book, we put private lending into easy-to-understand terminology and overly simplified steps. It is very easy to get caught up in the specific language of real estate and lending. While knowing those words can be helpful when communicating with potential borrowers or even other lenders, we wanted to make this process easy to digest and provide real-world stories and examples, which help drive home key concepts.

Additionally, we have organized this book in two parts. First, we will introduce the stages involved in privately funding a loan, which will provide you with a complete look at the loan life cycle from start to finish. This will include the key objective and a high-level overview of the tasks involved in each step. In the second part, we will go deeper into how to evaluate and process a loan request to ensure it meets your basic lending standards. This is also known as underwriting a loan. Here, we will cover what essential documents to review and what key metrics or datapoints to assess, and how these impact the overall risk of the loan.

The intent here is to provide a baseline understanding of the process before diving into the details of how it's done. Think of private lending like learning how to fish. First, you have to learn how the entire process works, including how to bait the hook, how to find a location suitable to catching fish, and how to identify key indicators that fish will be present. Only then will you learn how to cast your line and, hopefully, reel in a big one. The “art” of fishing requires figuring out where to look for a good fishing hole. Similar to underwriting, there are a lot of key factors that come into play, including asking local experts, looking for other fishermen gathered in the same spot, and observing common signs like fish jumping out of the water.

We also have provided bonus materials and resources that you may need to use along the way. You can find these at www.biggerpockets.com/lendingbonus. It is unreasonable to think we can cover every option related to handling a particular task or reviewing a specific document in a single book. Much of your learning will come through personal experience. These downloadable materials will help you when certain circumstances do come your way that were not completely covered in this entry-level introduction to private lending.

Chapter 2

THE BASICS

More than likely you've picked up this book because you've heard, read, or talked about private money lending in some form or fashion, and it piqued your interest to learn more. Maybe you've learned enough to be dangerous, or maybe you just heard someone discuss the general concept of private lending and the only thing you recall is the generous rates of return. Either way, you obviously felt compelled enough to take matters into your own hands, literally, with this book.

Regardless of where you are in your investment journey, we are first going to talk about the overall process so you can get a basic understanding of what private lending means in the context of this book. We begin by laying the foundation for real estate financing and private lending. Once you have those fundamental concepts down, we dive into the actual steps to funding a private money loan. But don't think this is going to be a linear process because it likely won't. For those of you who are sequential learners, this will probably drive you nuts, but bear with us. Take your time to digest these concepts, be comfortable with starting and stopping the process, and accept that you will probably make mistakes along the way. Remember: Private lending can be very collaborative, so reach out and ask questions of other lenders and attorneys familiar with lending in your desired market. Doing so will allow you to learn from the smaller mistakes rather than the big ones. Get the basics, involve the right people, and it will be smooth sailing.

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Many of you may have purchased single-family homes, so the leap into this type of real estate investing and lending won't be as far of a stretch as it would be to start lending on commercial property types such as retail, office space, etc. We do want to point out one key difference between financing a property for your home and financing an investment property. The traditional home-buying process typically requires the borrower to get pre-qualified with a mortgage professional—this helps the buyers know how much they are qualified to purchase. However, in real estate investing, a subject property typically needs to be identified because the loan is underwritten mostly by the asset (the property) and not borrower credit or financials.

Beginning your private lending journey with a type of property you know well, such as residential homes, is the easiest way to transition into real estate investing. Plus, with this style of private lending, you will never be short on potential borrowers or projects to lend on. The opportunities to lend on homes and small multifamily property assets are plentiful.

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The basics of private lending are simple: You have money to lend out to someone who will put that money to work for you. The loan will be secured by real estate. At some agreed-upon future date, the borrower will repay your capital with interest.

For the purposes of this book, and as a recommendation from us on where to start your lending if you have little to no experience in real estate, we will use the following “vanilla” loan example throughout the book for context:

- **Property type:** Detached, single-family house (not a townhome or condominium with shared walls)
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The goal of this book is to reveal to you the wealth-building power of private lending. The realm of borrowing and repaying doesn't have to exist solely in the hallowed halls of Wall Street investment funds or the local conglomerate bank. In fact, private lending is frequently done by individuals just like you. With the knowledge in this book, you can accomplish this style of investing more safely and with enough dedication to generate a dependable stream of income for yourself and your family.

WHO SHOULD READ THIS BOOK

Most people assume you only need to learn about private lending if you are actively going into this type of investment as an individual lender. However, there are many advantages to becoming more familiar with private lending concepts and best practices. Whether you are an active real estate investor, a passive investor such as a landlord, or a limited partner in a private debt fund, understanding the basics and learning how to navigate the private lending process will help all parties involved in ensuring a smooth real estate investment transaction.

The Active Investor

Flippers, developers, and other active real estate investors are continuously on the hunt for the next deal and know that searching for the capital to fund those deals is a constant activity. Being able to find and court high-net-worth individuals

to fund future projects is critical to maintaining consistent deal flow. To that extent, a borrower's ability to become an expert in private lending—and in doing it safely for all parties involved—can set them apart from other borrowers who are also seeking capital partners.

Additionally, private lending can benefit active investors by keeping cash working for them in between projects. We often have investors ask us to place their funds temporarily in a short-term (six to ten month) loan while they search for their next project.

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If you do not want to fix toilets or deal with tenant evictions, we don't blame you! There are many investors who are busy W-2 income earners, stay-at-home parents with young families, or who simply do not have the desire or propensity to become active real estate investors and prefer the idea of diversifying in real estate through private lending. Sometimes being the lender can be a lot less stressful than owning and managing the property.

Additionally, many seasoned landlords transition into private lending when they are at a chapter in life where they are entering retirement and looking to simplify their lifestyle as well as their estate planning by liquidating their rental portfolio so that the properties do not become a burden to themselves or to their beneficiaries. Private lending provides these types of investors with more time to enjoy their retirement as well as a strong source of passive cash flow without the extra hassles associated with rental property management.

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If you are a new or aspiring real estate investor, chances are you started out on BiggerPockets and at local real estate investing meetups learning anything and everything you could about how to get started in real estate investing. With a limited amount of capital but an unlimited amount of devotion and desire to learn, you quickly realized that activities like wholesaling—despite not needing a ton of cash to start out with— isn't the right path for you, and that flipping either required more money than you had or a partnership you weren't yet comfortable initiating with complete strangers.

But what do you do next with only a seemingly small amount of capital to start out with? Private lending can help you passively grow your capital to a sizeable amount so that you can eventually start actively investing. Some grow to like the passive-income approach so much that they abandon previous plans to go into active investing and remain private lenders indefinitely.

The Private-Placement Fund Participant

Understanding the core concepts of private lending can help you choose the right fund to invest in. Plus, it's critical to know what key questions to ask a fund manager before choosing to place your capital with them. While we won't dive too deep into how to choose the right fund to invest in, we will explore the pros and cons associated with either doing it yourself or going with a more passive and supported approach like a pooled mortgage fund. Hopefully this book will shed light on which path those of you contemplating private lending as an investment tool should choose, and why it's a better choice for you and your desired lifestyle.

In this book, we'll address the entire process through the lens of a lender, but the concepts and processes outlined will be universally beneficial no matter which side of the transaction you happen to be on. An educated investor with realistic expectations and knowledge of safeguards makes any investment safer!

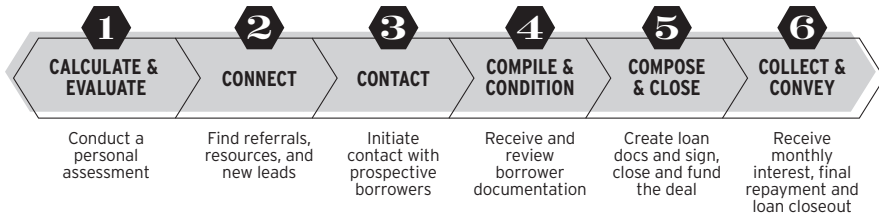
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But never fear! We have developed a systematic approach to help you learn all the necessary steps of the entire loan life cycle. It starts when you begin looking for a new loan to fund and ends when your loan is finally paid off in full. We walk you through the entire process with a repeatable set of steps that can help you do it all over again. We call this system "C.P.R. lending," and it will help you manage each step in the loan life cycle from beginning to end. The C.P.R. lending system breaks out the stages of the loan process, the considerations to make in each stage, and the risks and rewards of each stage to help guide your decision-making.

The C.P.R. Lending™ System

Your Lifeline to Private Lending



PEOPLE. PROPERTY. PAPERWORK.

Every step in the C.P.R. lending process will cover WHO to involve, WHAT to consider related to the property and project, and HOW to collect or create the appropriate paperwork needed to safely pass each step.

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When faced with a multitude of different ways to lend private capital, you will learn how to identify your personal risks and limitations as well as potential rewards associated with lending under certain terms and circumstances at each step of the loan life cycle.

C'ing the Big Picture

The “C” in C.P.R. lending covers each stage of the loan cycle. Each chapter represents its own “C.” We designed the book this way so that you could return to any chapter and reread it when you are in that stage of the loan. This will allow you to quickly and easily reference something in the future. It is kind of like the children’s book series Choose Your Own Adventure, where you (as the reader) decide what happens next and skip around the book based on those choices. Similarly, we’ve designed this book to walk you through the storyline of a private loan, but you can also skip around as you see fit, based on what you want to learn about and do next. Someone has presented you with a loan opportunity, but you don’t know what to do first? Skip to Chapter Five: “Contact.” The title report is back but it is full of special exceptions and you don’t know what to do next? Go directly to Chapter Eleven: “Underwriting Deep Dive—Paperwork.”

The Steps of the Loan Life Cycle (the C’s) We Will Be Discussing:

STEP 1	CALCULATE & EVALUATE	Establish personal risks and lending criteria
STEP 2	CONNECT	Make connections to find potential borrowers and vendors
STEP 3	CONTACT	Initiate contact with prospective borrowers and vendors
STEP 4	COMPILE & CONDITION	Receive and review borrower documentation
STEP 5	COMPOSE & CLOSE	Create loan documents and manage the loan closing process
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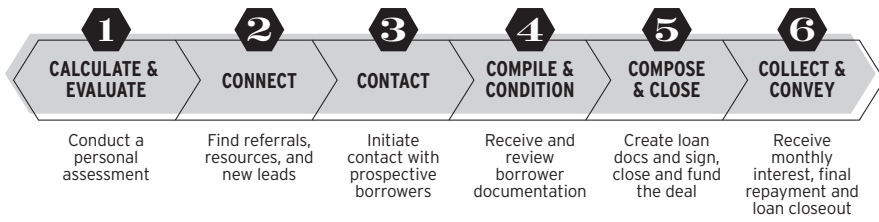
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The Steps of the Loan Life Cycle (the C’s) We Will Be Discussing:

STEP 1	CALCULATE & EVALUATE	Establish personal risks and lending criteria
STEP 2	CONNECT	Make connections to find potential borrowers and vendors
STEP 3	CONTACT	Initiate contact with prospective borrowers and vendors
STEP 4	COMPILE & CONDITION	Receive and review borrower documentation
STEP 5	COMPOSE & CLOSE	Create loan documents and manage the loan closing process
STEP 6	COLLECT & CONVEY	Receive monthly interest, final repayment, and loan closeout

Minding Your P’s and R’s

Within each “C”, which represents a stage in the loan life cycle, we will also cover three P’s. Think of the P’s as fact-finding missions. The three P’s are: Person, Property, and Paperwork. The first two P’s tell you what people and what property and project considerations are involved in that part of the loan cycle. The last P covers what paperwork is involved in that stage of the loan. This includes both the paperwork you need to request as the lender and paperwork you need to generate as the lender.

PERSON	In each step of the C.P.R. lending system, you will learn who the key players are and who is responsible for the key outcomes of that step. While the borrower is always front and center, there are also other individuals who help collect data, process paperwork, and validate certain aspects of the property or paperwork.
PROPERTY	The collateral being used to secure your loan will be the property. Often that property is going to be renovated, so it is also important to understand the project scope and financials.
PAPERWORK	Private lending has different paperwork to either request, review, create, sign, or provide. We’ll let you know what paperwork is required for each step in the C.P.R. lending process.

Lastly, each stage of the loan cycle has specific and unique considerations for Risk and Reward. We will cover how to balance your risk tolerance with your potential reward. These can be very specific to you as an individual, but we will touch on some broad areas of consideration. Everyone has different risk tolerances, so don't think of it as doing something "right" or "wrong" but rather as doing what's best for you and your comfort level. Of course, evaluating the rewards is also a part of the process. Knowing what could go wrong is just half of the equation, but you also need to know what could go right. After all, this book is designed to give you information about private lending and how to do it more safely.

At the end of the day, these will be your personal processes and preferences to define. Since the concept and practice of private lending is so widely varied, we can only give you the general factors to contemplate. You alone will be responsible for determining what you can and cannot live with in regard to lending out your own money and managing those trade-offs accordingly. Hopefully, this will help you recognize your no-go areas before funding a loan so you don't get into a sticky situation after your money is lent out.

Keep It Simple, Stupid!

We are not calling you stupid, but we certainly felt a little dense when we were new private lenders. A few things we found overwhelming when starting out in private lending were the overly engineered processes and complicated jargon used throughout the industry. At our first private lender conference, we remember sitting among a sea of mostly men in suits listening to them talk about capital markets and how many assets they had under management (the amount of capital they used to lend out). Sometimes they would ask us what asset classes we specialized in (in lay terms, it's just property types). Meanwhile, we sat there with shocked looks on our faces like a pair of deer in headlights. It was intimidating, to say the least!

After years of being in the industry, we found it's not as difficult as it was made out to be, but it will take time and experience to learn all the ins and outs. While a certain language needs to be used within the alternative-lending industry as a whole, you don't need to get caught up in it as a truly private, individual lender. Sure, you may need to speak the same language if you are looking to scale your lending into a full-time practice, but that's not what this book is about. It's about getting started and using private lending as a passive income source. And—from what we've noticed over time—borrowers tend to

appreciate the fact that we keep it simple and accessible by speaking in a language everyone can understand.

In this book, we put private lending into easy-to-understand terminology and overly simplified steps. It is very easy to get caught up in the specific language of real estate and lending. While knowing those words can be helpful when communicating with potential borrowers or even other lenders, we wanted to make this process easy to digest and provide real-world stories and examples, which help drive home key concepts.

Additionally, we have organized this book in two parts. First, we will introduce the stages involved in privately funding a loan, which will provide you with a complete look at the loan life cycle from start to finish. This will include the key objective and a high-level overview of the tasks involved in each step. In the second part, we will go deeper into how to evaluate and process a loan request to ensure it meets your basic lending standards. This is also known as underwriting a loan. Here, we will cover what essential documents to review and what key metrics or datapoints to assess, and how these impact the overall risk of the loan.

The intent here is to provide a baseline understanding of the process before diving into the details of how it's done. Think of private lending like learning how to fish. First, you have to learn how the entire process works, including how to bait the hook, how to find a location suitable to catching fish, and how to identify key indicators that fish will be present. Only then will you learn how to cast your line and, hopefully, reel in a big one. The “art” of fishing requires figuring out where to look for a good fishing hole. Similar to underwriting, there are a lot of key factors that come into play, including asking local experts, looking for other fishermen gathered in the same spot, and observing common signs like fish jumping out of the water.

We also have provided bonus materials and resources that you may need to use along the way. You can find these at www.biggerpockets.com/lendingbonus. It is unreasonable to think we can cover every option related to handling a particular task or reviewing a specific document in a single book. Much of your learning will come through personal experience. These downloadable materials will help you when certain circumstances do come your way that were not completely covered in this entry-level introduction to private lending.

Chapter 2

THE BASICS

More than likely you've picked up this book because you've heard, read, or talked about private money lending in some form or fashion, and it piqued your interest to learn more. Maybe you've learned enough to be dangerous, or maybe you just heard someone discuss the general concept of private lending and the only thing you recall is the generous rates of return. Either way, you obviously felt compelled enough to take matters into your own hands, literally, with this book.

Regardless of where you are in your investment journey, we are first going to talk about the overall process so you can get a basic understanding of what private lending means in the context of this book. We begin by laying the foundation for real estate financing and private lending. Once you have those fundamental concepts down, we dive into the actual steps to funding a private money loan. But don't think this is going to be a linear process because it likely won't. For those of you who are sequential learners, this will probably drive you nuts, but bear with us. Take your time to digest these concepts, be comfortable with starting and stopping the process, and accept that you will probably make mistakes along the way. Remember: Private lending can be very collaborative, so reach out and ask questions of other lenders and attorneys familiar with lending in your desired market. Doing so will allow you to learn from the smaller mistakes rather than the big ones. Get the basics, involve the right people, and it will be smooth sailing.

WHAT IS PRIVATE LENDING?

While private lending can take a lot of forms, this book is going to focus on lending to people who are buying preexisting single-family homes and small

multifamily dwellings like duplexes. For simplicity we're going to begin with a common lending scenario of a borrower who needs funding to fix-and-flip a residential property for profit. Once you are comfortable after a few loans, you can then pursue more specialized lending. This simplified look at private lending allows a beginner to understand the investment, learn the asset inside and out, and then make an informed decision.

Many of you may have purchased single-family homes, so the leap into this type of real estate investing and lending won't be as far of a stretch as it would be to start lending on commercial property types such as retail, office space, etc. We do want to point out one key difference between financing a property for your home and financing an investment property. The traditional home-buying process typically requires the borrower to get pre-qualified with a mortgage professional—this helps the buyers know how much they are qualified to purchase. However, in real estate investing, a subject property typically needs to be identified because the loan is underwritten mostly by the asset (the property) and not borrower credit or financials.

Beginning your private lending journey with a type of property you know well, such as residential homes, is the easiest way to transition into real estate investing. Plus, with this style of private lending, you will never be short on potential borrowers or projects to lend on. The opportunities to lend on homes and small multifamily property assets are plentiful.

The “Vanilla” First Loan

The basics of private lending are simple: You have money to lend out to someone who will put that money to work for you. The loan will be secured by real estate. At some agreed-upon future date, the borrower will repay your capital with interest.

For the purposes of this book, and as a recommendation from us on where to start your lending if you have little to no experience in real estate, we will use the following “vanilla” loan example throughout the book for context:

- **Property type:** Detached, single-family house (not a townhome or condominium with shared walls)
- **Property condition:** In need of cosmetic repairs such as new paint, floors, kitchens, and bathrooms (not major renovation needs like structural issues or an addition)
- **Project strategy:** Borrower plans to fix-and-flip (rehab and put property back on the market) or will BRRRR (buy, rehab, rent, refinance, repeat) out of the private loan