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## Cheat Sheet: "Private Money" Real Estate Investing

The **Private Money** strategy involves borrowing funds from private individuals or entities (not traditional banks) to finance real estate investments. This strategy is ideal for investors who need quick access to capital or have difficulty securing traditional financing. Here's your step-by-step guide:

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### 1. What is Private Money?

- Funds provided by private individuals, groups, or companies (not banks).
  - Typically used for short-term financing, such as fix-and-flips or bridge loans.
  - Terms are negotiated directly between the borrower and lender.
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### 2. Key Benefits

- **Fast Funding:** Close deals quickly without lengthy bank approvals.
  - **Flexible Terms:** Negotiate interest rates, repayment schedules, and loan amounts.
  - **No Strict Criteria:** Private lenders focus on the deal's potential rather than your credit score.
  - **Build Relationships:** Establish long-term partnerships with private lenders.
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### 3. How It Works

1. **Find Private Lenders:** Look for individuals with cash to invest (e.g., family, friends, or local investors).
2. **Present the Deal:** Share the investment opportunity, including property details, projected returns, and exit strategy.
3. **Negotiate Terms:** Agree on the loan amount, interest rate, repayment schedule, and collateral.



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4. **Sign the Agreement:** Draft a **Promissory Note** and **Deed of Trust** (or Mortgage).
5. **Receive Funds:** Use the money to purchase or renovate the property.
6. **Repay the Loan:** Pay back the lender with interest after selling or refinancing the property.

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## 4. Key Documents

- **Promissory Note:** Outlines the loan terms (amount, interest rate, repayment schedule, etc.).
- **Deed of Trust or Mortgage:** Secures the loan with the property as collateral.
- **Loan Agreement:** Details the terms and conditions of the loan.

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## 5. Risks and Mitigation

- **High Interest Rates:**
  - **Risk:** Private money loans often have higher interest rates than traditional loans.
  - **Mitigation:** Ensure the deal's profitability justifies the cost.
- **Default Risk:**
  - **Risk:** Failure to repay the loan could result in losing the property.
  - **Mitigation:** Have a solid exit strategy (e.g., sale or refinance).

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## 6. Finding Private Lenders

- **Networking:** Attend real estate meetups, conferences, and local events.
- **Online Platforms:** Use websites like **LinkedIn**, **BiggerPockets**, or **Crowdfunding Platforms**.



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- **Direct Outreach:** Approach high-net-worth individuals, retirees, or business owners.
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## 7. Example Deal

- **Property Purchase Price:** \$150,000
  - **Renovation Costs:** \$50,000
  - **Total Investment:** \$200,000
  - **Private Loan Amount:** \$160,000 (80% of ARV)
  - **Interest Rate:** 10%
  - **Loan Term:** 12 months
  - **After-Repair Value (ARV):** \$300,000
  - **Selling Costs:** \$20,000
  - **Profit:** \$80,000
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## 8. Pro Tips

- **Build Trust:** Provide clear communication and regular updates to your lenders.
  - **Start Small:** Begin with smaller loans to establish a track record.
  - **Offer Security:** Use the property as collateral to reassure lenders.
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## 9. Script for Talking to Private Lenders

"Hi [Lender's Name], I have a real estate investment opportunity that offers strong returns with minimal risk. I'm looking for a private lender to partner with me on this deal. Would you be open to discussing how we can work together to achieve mutual success?"