

Banks continue to constrain lending, and as a result, private lending is taking a more prominent role in the marketplace today. Many individuals are drawn to private lending by the rates of return they receive, especially when CD rates are so low. Private lenders feel they are better off getting the interest straight from the public by acting as a mini-bank.

However, many investors are unaware of the risks associated with this type of investment. As with all investments, to mitigate risk, it is important to be educated in the investment of choice because no investment is without risk.

The following is a checklist for private lending and an understanding of the points listed is mandatory for anyone considering this investment.

Title Insurance	Require title insurance on the property - make sure you know who owns it and what is already owed!
Professional Paperwork	Use professional paperwork - promissory note, mortgage/deed of trust, Assignments of Rents, Confession of Judgement, Deed in Lieu of Foreclosure, Guaranty Agreement, etc.
Insurance	Verify with the insurance company that you are insured in case of a property or liability loss.
Value	Know the value of the security and the market conditions - evaluate at least annually.
Exit Strategy	Know your borrower's exit strategy - sell, re-finance, etc.
Plan	Know what you will do if the borrowers dies or walks away
Key Man	Do you have "key man" insurance on the borrower?
Financial Health	Understand the financial health of the borrower - do you have any indicators that show the deal going bad?
Foreclosing	Plan on foreclosing - know the cost, time, and who will do the actual foreclosure.
Draw Schedule	Use a draw schedule if improvement money is in the deal.
Taxes	Verify taxes are paid annually; unpaid taxes can wipe-out the loan.
Verify	Verify that any association fees, senior liens, etc. are paid annually

Interest rate and returns don't mean a thing if you lose your money!

There are many other factors that should be considered when considering becoming a private lender. If you want more education on the subject of private lending, Cama Academy offers frequent classes on the subject. Please visit our Events Calendar to register for an upcoming workshop.