

HOW TO GET THE  
**M O N E Y**

YOU NEED TO BUY

**PROPERTY**

Even if your  
credit is shot,  
you're broke  
and living paycheck  
to paycheck

**ALAN  
COWGILL**



# How To Get The Money You Need To Buy Property

Even if your credit is shot, you're broke and living  
paycheck to paycheck

By **Alan Cowgill**

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## **Introduction**

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My burning desire to finally become a full-time real estate investor had come to fruition when I quit my full-time job of 17 years in November of 2001. With this career change, I immediately needed to face the nagging problem of "Where do I find private lenders to fund my real estate deals?"

Without a serious influx of cash in my business to acquire and rehab properties, I would not be able to take my business to the next level.

This was when I developed the idea to hold a lender luncheon to present my program to local lenders. When I started searching to find how to proceed, I found there was very little information out there about this topic. So, I had to develop my own system.

After my 1st two lender luncheons, I had over \$1 million dollars to go buy houses. So I know this works.

I realize there is a huge need by most real estate investors to learn about this concept. I am excited about this topic and I want to help you avoid the pain I experienced in my real estate career by not bringing private lenders into my life early on.

Just so we are all on the same page, a private lender is just an individual that has some money to loan. It is not someone that charges points or other fees. Those folks are called hard money lenders. Private lenders are just ordinary folks that are willing to loan money and get a nice interest rate in return.

So let's get started.

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## Chapter 1 Entrepreneurial Secrets

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When I was thirteen years old, I saw a sight I will never forget. I opened the screen door to our front porch and found my mother sitting on the stoop, hunched over, and crying. I was confused and a little scared. My mother never cried and I couldn't imagine what would make her so upset. My family was broke. How could we be broke? My father was a respected doctor. We lived in a decent house, and suddenly, we couldn't pay our bills?

We had a family friend nearby who was also a doctor, just like my dad. He suggested that my father attend a seminar for doctors on how to grow your practice. My father had agreed to attend, however the problem was, he didn't have any money to spare!

I had received five dollars as a gift for my eighth grade graduation; my father instead used it to buy a train ticket to the seminar.

Something magical happened at that seminar. My father's entire outlook on life changed. I watched him leave that day, a defeated, frustrated man, and I wondered what a seminar could possibly do for him. Five days later my father returned to us an inspired, excited man who was ready to take on the world.

What had happened? Did they give out some magic pill to suddenly transform the participants? No. What that seminar gave my dad was *information*. It showed my father a new way to think and a new way to live.

You see before the seminar, my dad had what he called "stinkin' thinkin'." You must know someone in your life like this. To a stinkin' thinkin' person everything is negative, hopeless, or somebody else's fault. I remember my dad and his old drinking buddy sitting at the kitchen table crushing beer cans and complaining about everything "wrong" in the world.

Now, my dad realized that all of his financial problems, and many of his other problems, were created and maintained by his negative attitude. He also realized that there was something that he could do about it!

First of all, he got rid of his negative friends. Everyone who said "you can't do that!" was no longer a friend in our house. The word "impossible" was no longer spoken. Instead, Dad brought other friends home. He continued to attend seminars and seemed to make new friends every day. He started reading positive books and making new plans. His practice grew and even though he was busier than ever, he accomplished more than he had ever imagined. He began to volunteer in our community and eventually, my dad, Edward Cowgill, became the Mayor of Richwood, Ohio.

Instead of problems he saw opportunities; instead of being overwhelmed by obstacles he embraced challenges. His everyday difficulties didn't give him headaches, they presented him with possibilities. My father became the most positive person I knew. He always said that the key to changing your life was what you read and who you meet.

Twenty-five years later I found myself exactly in my father's shoes. And even though my father had demonstrated a successful, happy life, I couldn't see past my own negativity. I'd drifted away from what my father had learned. As it turns out, I needed to learn it for myself.

After nearly twenty years in the corporate world I was making \$70,000 a year. This may seem like a lot, but I had three kids, a drawn-out divorce, and suddenly no savings at all. I found that I simply couldn't make ends meet. I was spending all my time in a job that didn't excite me; I lived in a tiny two-bedroom apartment, and had a mounting credit card debt.

### **The day my car burst into flames, I knew I should have listened to my dad.**

I knew my car needed to be fixed, but I just didn't have the money. My credit cards were already bursting with debt and every day the interest only made it worse. So I kept my head in the sand, tried not to think about it and just ploughed through each day. Then this...

While out on a first date after having a great dinner, I drove my date home, parked my car to walk her to the door and a few minutes later, my car bursts into flames. The engine was literally *on fire*. As we stood at her front door, fire engines blare down the road to put out my car! Kiss goodnight? Are you serious? I never saw her again.

I like to refer to this story, despite how embarrassing, because it shows how I was so focused on the wrong things. I was at rock-bottom. Everyone has a "rock-bottom" story, but in my case I was fooled. The problem was with my thinking? *I hadn't changed a bit*. I expected outside sources to somehow come into my life and change it for me.

The day a friend told me that 93 percent of the American population retires below the poverty level, I knew I needed to make a change.

At that time I couldn't see it, but I was in the exact same position as my father had been. He desperately wanted to change his life, but didn't know how. His own thinking kept him down and he surrounded himself with the people who reinforced his thinking. It was like a wall he couldn't see through. He could only vaguely hope something would "happen" and things would somehow get better.

I couldn't invent a better way to illustrate this point than to tell you about what I did next. I got some money back on my taxes that year, so I went right out and spent the whole thing on lottery tickets, and lost on every one. My father would have laughed and said "not the sharpest tool in the shed"!

Even if I had won, unless I won millions, my life wouldn't have changed much. However, I did change, and I haven't looked back since.

I was channel surfing one night, when I couldn't sleep and I stumbled upon an infomercial for a course in real estate. I was finally on the right track.

I didn't have the money for the course because I had spent it all on lottery tickets, but I had a credit card. I ordered the course and became enthralled with real estate.

### **Goals Lead to Action**

I wanted to make changes. I was learning a lot about real estate through courses. I was reading positive books and meeting new people. I needed to take action – but how exactly? By making goals! The answer was so simple, that once I started making goals, I couldn't imagine how I had accomplished anything before. (Then I remembered I mostly didn't!)

I began with one year goals and three year goals. I wrote them down and posted them on a cork board in my tiny apartment. Every morning when I rolled out of bed and my feet hit the ground, I saw my cork board and I saw my goals. My very first set of long-term goals included:

- Own my own home. (I had rented for 19 years, so this was a big step!)
- Pay off \$30,000 in debt.
- Do one REO. (REO is “Real Estate Owned”, i.e. a bank owned property from a foreclosure.)
- Own 12 rental properties.
- Own a Cadillac.
- Be on a Real Estate Infomercial.

When I accomplished each goal I wrote the word “VICTORY” after it. I accomplished everything on this list within three years.

Once I began my new way of life, things fell into place. You don't need luck when you're generating your own opportunities! My first year, I purchased two houses. The next year, I purchased five. The year after that I purchased 18. Last year I bought 48 houses, and half of those without monthly house payments.

I quit my job, opened an office, and became a full-time real estate investor. I buy, fix, and sell single family homes and small multi-units. I'm now one of the largest real estate investors in my area.

I also started a second business, which teaches others the secrets and techniques I've learned along my way. It started with one small home study course and has grown into a multi-million dollar business.

Now, I am the one who holds real estate seminars for hundreds of students! I call them “boot camps” because they really are life-changing experiences. I teach what I’ve learned from my dad, and I teach what I’ve learned on my own about investing. I see people transform the way I once transformed and my father before me. I cannot express how gratifying this is.

They say that when the student is ready the teacher will appear. Teachers have appeared over and over in my life. I encourage you to change your life through what you learn – find positive influences, books, audio CDs and seminars. Discover your interests and follow them. Simply doing this will lead you to meet new people. Embrace the positive, have supportive friends, and stay away from those who don’t take responsibility for their own actions and those who tell you it can’t be done. Use what you’ve learned, and the support of those around you to take action. Make goals and take steps every single day toward achieving them.

My father’s favorite saying was: “Change your life through what you read and who you meet.”

The very first day of that seminar, a woman happened to sit next to my dad. He was nervous, clutching his notepad and pencil and not knowing what to expect. The woman smiled, leaned over and jotted a phrase on his notepad. It read: *“Today is the first day of the rest of your life.”*

Today is the first day of the rest of my life, and yours. So, what are you going to read? Who are you going to meet?

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## **Chapter 2 The Key to Freedom and Real Estate Profit in Real Estate**

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Most people don't realize it, but obtaining money for real estate deals has nothing to do with saving money for a down payment, going to the bank, filling out an application, and waiting to be approved. In fact, if you're going about things this way, as I did for many years, you're wasting time and losing money.

For me, discovering how to use private lenders in my real estate business has been truly life altering. The amount of money I make and the kind of work I do each day is incredible to me. And not only is it possible, it's really very simple. If I can do it, anyone can.

For seventeen years I languished in a full-time corporate position. I wasn't very happy and I was barely making ends meet. I was thousands of dollars in debt and it was only getting worse. It wasn't the life I wanted. I felt that my life was just ticking away. When I sat down and really faced things, I knew in the end I could actually retire poor. Something had to be done.

Real estate investing came to me in the form of an infomercial at 2 a.m. on a Tuesday. The course piqued my interest, but the cost was \$159. Money was so tight, I didn't have \$159, but I did have a credit card and the company offered a 30-day money back guarantee. I held that credit card in my hand and considered the future I wanted. Then I picked up the phone and ordered the course. It was the first step toward a brand new life and eventual wealth beyond what I could have imagined.

But that was only the beginning. After a few years, I took a second step that propelled my business and my life to a whole new level. In 2001, when I quit my corporate job and took the plunge to full-time into the world of real estate, I was immediately faced with a very big problem. It turns out that this problem was the best thing that could have ever happened to me. You see, without full-time employment, traditional lenders weren't exactly eager to loan me funds. And without consistently available money to fuel my real estate transactions, I had no business at all. I tried everything:

- Banks
- Line of Credit
- Hard money lenders
- Partners
- Credit cards

If only I had known that all of these methods, even if they had been eager to give me a loan, were complete wastes of my time!

Finally, a few years ago, I learned a lesson I'll never forget. I came across a foreclosure on a \$150,000 property that was going for only \$70,000. I'd hit the jackpot! It was almost too good to be true. Of course I jumped at the chance to get in on this incredible deal. But I didn't have the available funds. It's every real estate dealer's nightmare. I scrambled to the bank, to my partner. I tried to extend lines of credit. But all of this took time, and time is exactly what you don't have with a lucrative short sale like this.

As you can guess, I didn't get the sale. By the time I had secured funds, the property was sold to someone else who had cash ready and could close within days. In this one deal I lost a potential \$60,000.

I swore then and there that this would never happen to me again. And it never did, because then I discovered private lending.

A whole new world opened to me and my investing has never been the same. Private lenders literally provide you with your own bank to fund your real estate deals. Imagine: limitless funds that are constantly and immediately available. Today, I have more available capital than I do property in which to invest it. It's simply a store of money waiting for me to make use of it. And anyone can have this – that's what's so amazing. It's like a dream come true for any serious investor.

It sounds a little overwhelming, doesn't it? Let's slow down. I'll explain the specifics of private lending, and you'll see for yourself how this incredible system works.

### **Who are Private Lenders?**

First of all, private lenders are everyday people. Some are retired, some work, some have substantial investment capital, and others have only a little. They may want to make the most of the savings they've spent their life building, or perhaps they suddenly came into money through an inheritance or property sale. Regardless of their background, all private lenders are looking for a high yield opportunity for their funds.

There's nothing like it anywhere. The incredible thing is that most people don't know about this opportunity. They let their hard-earned money sit in CD's or IRA's. Some even risk the volatile stock market. The win-win reality of private lending is unparalleled. Really, you get immediate, limitless funds to invest in real estate opportunities at a moment's notice.

Your lenders get an incredible high return on their money. They are secured by both a mortgage and hazard insurance policy on the home. Their investment is secured by real estate that is never more than 70% of the appraised value of the property. If for some reason you would fail to repay the loan, they have the value of the property to reclaim their funds. Not a bad deal for your lenders. Now, how does all of this work for you?

## **Why Use Private Lenders?**

The advantage of using private lenders is truly staggering.

- Speed. The two greatest competitive advantages in the real estate market are cash-flow and speed. With private lending, you will already have your investors in place. When an opportunity arises, you have immediate funds to take action. What an incredible feeling to have the confidence that you'll never let another profitable opportunity slip away.
- Cash-flow. Because most lenders prefer not to deal with monthly payments, you have an ever-increasing flow of cash to use to your best advantage and that of your lender.
- Great deals on houses. Not only will you win a house out from under someone waiting on a bank loan, you'll pay less for the house as well!
- Close more deals.
- No down payments.
- No pre-payment penalty.
- Reduced closing costs.
- No points like you'd have with hard money lenders.
- You set the rules. For the first time, you'll be in control of your loans. You can set any parameters you like. I use the generous terms because my lenders are very happy and come back to me over and over. I'm equipped with funds 100% of the time to take advantage of any deal which may arise. And, because of their involvement, I'm making a lot of money.

## **Where Do You Find Private Lenders?**

Everywhere. I'll be honest; my first private lender was my mother. She invested with me and, because she was living off the money, I sent her the interest check every month. Many lenders prefer to let the money sit and receive payment in one lump sum at the end. For them, this means something very similar to compound interest, except with a very high interest rate! And for you it means more funds accruing more revenue.

Find anyone with money stored in a CD or the stock market, you'll have found a potential private lender. Think about it. Like all of us, private lenders want to make money. They seek high-yield opportunities for their funds. CDs and money markets offer limited profits. Smart real estate investing offers them a return that is far and way above anything they are currently earning.

## **Methods Of Finding Lenders Include:**

- Family members and friends
- Newspaper ads (see SEC chapter)
- Flyers
- Seminars
- Word of mouth

Perhaps the most unexpected aspect of using private lenders is the accumulative response by satisfied lenders. After my first seminar I got only a few responses, at first. Then came the steady, unending trickle of eager lenders. Today, that trickle is more like a river! Maybe it's the credibility of one investor to another or the proof of another's prosperity through investing, but word of mouth is so powerful that once you've established a few private lenders, you'll have a continual revenue stream with which to invest.

A real estate guru said, "There's plenty of capital out there. All you have to do is ask, and make people understand what you're using it for. It's really not difficult to get." Simply educate lenders about the high rate of return available through your real estate investments, and watch them line up to give you money!

That's \$78,843 in only four deals, and all because I had the confidence and flexibility of assured funds through private lenders.

Today I shake my head at the thought of it, but once upon a time I was practically begging for bank loans – for the opportunity to wait in line, fill out applications, and wait weeks or even months to see if they would deem me and my prospective property a good "risk."

I could have been using private lenders years earlier, but I hesitated. I lacked confidence and I wasn't sure where to start. If I could give one piece of advice to any budding investor it would be this: Start today.

Don't let even one more deal pass you by. You never know where life is going to take you. That one, 2 a.m. infomercial started me on this path, and today I'm the one appearing in the infomercials, teaching people how to change their lives through real estate.

With private lenders in line, you're always equipped with the funds you need to grab each opportunity as it arises. Your confidence will soar and you'll be making the kind of money of which you've always dreamed.

Private lending allowed me to finally take control of my destiny. You'll gain nothing by waiting. Discover the key to true freedom and big money in real estate investing. Private lenders are out there. They're waiting...

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## **Chapter 3 Two Major Benefits of Having Private Lenders**

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I started my business by using banks, savings, credit cards, lines of credit, creative techniques with sellers (like land contracts or lease/options), and partners. But, once I was self-employed, I was concerned that it was going to be harder to get loans to purchase properties.

I had always been unhappy about how long the banks take to get the job done. I had it take 4-1/2 months on a house without a furnace. The bank didn't know if they wanted to make a loan on that kind of house, but that is what my rehab business is all about. Buy 'em ugly, cheap and fix 'em.

Just think, if I would have used a private lender on the above deal, I could have bought, fixed & sold the house and pocketed \$20,000 by the time I got to the closing table with the bank.

With private lenders, I have the funds available all the time. When a good deal comes my way, I can grab it because I know the money is waiting for me. While my competitors are scrambling around applying at the bank, I've made an offer and closed the deal. My rehab crew is all over the property like ants before the competition knows what happened. I love having private lenders for my business.

So, a major benefit is SPEED to purchase a property.

Let's look at another major benefit of having private lenders. My first private lender was my Mother. My Dad had passed away in 1989 and Mom had insurance money. She proudly invested it on bank certificates of deposit (CDs). When I became a real estate investor, I learned about finding private lenders and so I talked to Mom about it. She loaned me money and received 10% interest in return. I paid her monthly just like her bank did with her CDs. She was delighted and so was I.

As my use of private lenders increased, I learned that some of them didn't need monthly payments and so I started to structure my loans so there was no payment until the property is sold.

This is a huge benefit... Think about what this has done to improve my monthly cash flow. Now my Mom will always get monthly payments from me because she is retired and depends on that income but anyone who can wait on their money, I'll let the money accrue. So the second major benefit is improved CASH FLOW because you don't have to make monthly mortgage payments but just let the interest accrue.

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## Chapter 4 Why Private Money

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This topic is near and dear to my heart. When I started my real estate career, I heard about the necessity of finding private lenders. In fact I even found two. But then I stopped. For four years I PROCRASTINATED. I didn't get it!!! For four years I continued to go to banks and jump through their hoops. I also had used hard money lenders, but found them VERY expensive.

It wasn't until I quit my J.O.B. and found that banks wouldn't loan me money that I realized that I needed to bring private lenders into my life quickly.

When I took that step, everything changed for the better.

What are some of the advantages of using private money for your real estate investments? Well, if you haven't decided whether or not to use private money, I decided to lay it on the line here for everyone to see.

- Fast & you can buy at a discount
- No credit check & doesn't show up on your credit report
- Unlimited funds
- Control, you set the rules
- Help friends, family & meet a great group of people
- Get some of your profit when you buy
- Cash flow
- Flexible
- Can make offers with confidence
- Can structure quick and more profitable exit strategies
- Saves you money
- Cheaper than a partner
- Fund the purchase of defaulted paper
- It is the foundation for a very profitable brokerage business

In this business when a deal comes along you have to move fast. Many investors have watched a deal slip through their hands while they waited for the bank to approve their loan. Once you have private money available, that won't happen to you! You can make an offer knowing you can go ahead and set a closing date. Meanwhile, your competition is wondering how you did it so quickly!

If you go to a bank, chances are they will want tons of paperwork, pay stubs, tax returns, etc. It's a lot of hassle. Eats up time.

When you can move fast with all cash, sellers will sell you their homes at a discount.

- No credit check & doesn't show up on your credit report
- If you have had credit problems, you can still buy houses for cash and make a living in this business while you are cleaning up your credit.
- Private lenders don't ask about your credit nor do they report loans to the credit agencies.
- If they do ask, you are working with the wrong folks.
- Unlimited funds
- Banks will tell you how much you can borrow and the terms.
- With private money, your only limitation is YOU!
- Control, you set the rules
- You decide who you work with and the terms of their investment with you. I have my own set of rules. For example, I don't accept investments for less than \$5,000. I decide whether I'm going to pay my Lenders monthly or when the property sells. I can make the terms so that they allow me to make the most of the investment dollars for both of us.
- Help friends, family & meet a great group of people. Many of you have heard me speak and I usually mention that my first lender was my Mom. The interest that I pay her is much greater than she could get on a CD! She's delighted with the extra money!
- Get some of your profit when you buy. I borrow a little extra when I buy to cover unseen cost and if I don't use it, it becomes early profit.
- Cash Flow. Some lenders won't need monthly payments.
- Flexible. It's your program and you can change it.
- Can make offers with confidence. I love this one and it is obvious.
- Can structure quick and more profitable exit strategies. I have a lot of exit strategies when I use private lenders.
- Saves you money. No points, prepayment penalties, down payment, hidden fees, etc.
- Cheaper than a partner. Why split your profit?
- Fund the purchase of defaulted paper. A new income stream!!!
- It is the foundation for a very profitable brokerage business
- Once you have more money than you can use, you can become a mortgage broker and loan it out.

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Still not convinced? Well, if you insist on continuing to use the following 4 sources for your funds after today, please understand the downsides:

#### 1.) BANKS

- Quit your J.O.B. and they won't loan you money
- Need down payment
- Need decent credit
- Lost time (4 ½ months to close a deal)

- No relationship
- They change rules instantly
- Mountains of paperwork
- Show credit report
- Provide stack of documents
- Jump through their hoops
- You're out of control
- Monthly payments
- Pre-qualifying the property

Let's face it some of us buy some really nasty stuff! Beyond the trash and that horrible smell, some of the houses we buy don't have roofs or windows or furnaces or plumbing. We buy trash and turn it into cash. Banks don't seem to understand that. I've actually had a bank refuse to loan me money on a house for 4-1/2 months because it didn't have a furnace. Gee I thought the idea of being a rehabber was to buy an ugly stinky house and fix it.

With private money I buy what I want. I know how to rehab about anything. That's my decision, not someone else's. Today I am the approval committee.

## 2.) HARD MONEY LENDERS

- They are very expensive
- Maybe your credit score is important
- Need down payment with some lenders
- Only one (1) exit strategy - Sell for cash
- You're out of control
- No up-front fix up money (Rehab \$\$\$)

## 3.) LINE OF CREDIT

- Monthly payments
- Limited \$\$\$
- Can be called back and you're cut off
- Out of control

## 4.) YOUR OWN MONEY & CREDIT CARDS

- Limited \$\$\$
- Could make more by loaning it out (& OPM @ 12%)

Use private lenders and avoid all of these downsides!

One final note on building relationships...

I appreciate my lenders. I've met some great folks. These strong relationships built on trust make your business grow, not to mention make your life more enjoyable. Do you actually know anyone at your bank or are you just a number to them? There are some exceptions, of course. Actually, I loved my banker so much I married her. :)

The bottom line is that now you know the facts. Don't PROCRASTINATE like I did. Go create wealth and live the life you want!

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## Chapter 5 Dealing with the Fear Monster

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Let's face it, the reason most investors don't have any private lenders is fear. It's as basic as that. It's a fear of the unknown. How do I know that? I've been there too. I was comfortable doing things the way I had always done them. I went to the bank, I jumped through their hoops of proving I was qualified for their loan, they gave me the money, and I paid them back the way they said. It was a familiar routine in my business of buying and selling homes.

However, when I became a full-time investor and wanted tons of quickly accessible cash, the bank's painstakingly slow process was no longer acceptable.

Even when I knew for certain what I wanted, I procrastinated. I was not able to do nearly as many deals as I wanted because I waited so long to take action. The thing is, if there is something you are afraid to do, you can always find a reason to not do it.

Sometimes we won't even admit to ourselves that we are afraid. We just can't get to it because we are too busy, too tired, or focused on other "more important" issues.

But then, that didn't solve the whole problem. I was still too shy to approach people who I knew would benefit from my program.

I remember sitting in my doctor's office and being too uncertain of myself to tell him about my program. I didn't have the nerve to ask for the money. That day, we both lost. I wanted money to run my business and he missed out on earning a tremendous interest rate.

Once I recognized what was holding me back, I became educated in learning how to get what I wanted and how to handle private funds once I got them. That gave me the foundation of knowledge.

I am so grateful today that I got a solid real estate education so I can now confidently let everyone know that I have a great opportunity for both of us!

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## Chapter 6 Why Luncheons?

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I got the opportunity to leave my J-O-B in 2001, and devote all my time taking my real estate business to the next level.

At that time I had (2) private lenders. These lenders were delighted with the monthly checks they received from me and I loved the quick cash it provided me to buy houses. I knew this program was golden and I knew I wanted more private lenders in my life FAST who could virtually provide unlimited cash to fund my real estate deals.

So, how do I get the word out?

There were a number of ways such as one-on-one meetings, direct mailing campaigns, newspapers and websites. My choice was to leverage my time by holding a luncheon and invite people to hear my presentation. Please read chapter 22 on the SEC to understand the rules on advertising.

Why a luncheon? Well, let's look at all the benefits.

- a.) Present to a large group to leverage my time
- b.) Attractive meeting location
- c.) Controlled atmosphere
- d.) Answer everyone's questions at once
- e.) No pressure
- f.) Professional presentation
- g.) Linger & mingle
- h.) Synergy

Let's look a little closer at each of those points.

- a.) Present to a large group to leverage my time of all the items listed above, for me, this was the most critical.

I had talked one-on-one with my current lenders and it had taken quite a bit of time. I carefully went over the program in great detail so they would understand it. While that way worked, it would just take too much time to accomplish my goal. I wanted to reach a large audience. I wanted tons of cash.

Now, don't get me wrong, you'll find lenders who want to have a one-on-one meeting and that's great - don't turn it down.

Another thing I'd like to help you avoid is wasting time presenting your program one-on-one to folks who are not ready to invest or are not able. At the luncheon, they know coming in the door what the minimum investment is - that's part of our pre-screening. I don't waste people's time. I don't waste mine.

b.) Attractive meeting location

There are a lot of different options about choosing where to hold a luncheon. While I could have made the presentation in my office for 6 to 8 people, the place is full of paperwork and filing cabinets and all the tools and equipment of a busy rental and rehab business. We focus on function and I didn't want to redirect our activities.

We used a location that was easy to find, had adequate parking, was in a lovely neighborhood and was landscaped beautifully.

An attractive meeting location sets the scene for the presentation.

c.) Controlled atmosphere

Picture this: You are in a lender's home and you start to make your presentation and the phone rings. The husband gets up to answer it while you talk to the wife. When he comes back you have to repeat the information he missed. Now they are both caught up and you continue with the presentation. Then the kids run through the room and the wife's attention is redirected as she gets up to usher them out. Once again you have to wait or repeat the information. Just as you get rolling, the dog wanders in the room and starts whining so the husband yells at the kids to come and take the dog out. This is not a great way to make an effective presentation. It can be frustrating.

The meeting location provides a place where you are in control of the situation.

d.) Answer everyone's questions at once

In a group, people seem to come up with really great questions - things you haven't thought to mention. There are so many things about this business that seasoned real estate business owners know that may be completely foreign to the audience. Someone will bring it to your attention.

Also, someone may be shy about speaking up. They don't want to show what they don't know. When someone asks a question, others are probably wondering about the same thing. With a group, everyone gets educated at once. One of the nice surprises for me was that someone would ask a question and someone else would answer it before I did. This brought a lot of credibility to what I was doing.

e.) No pressure

Even when you are as careful as possible, a one-on-one meeting can come across as high pressure. With our relaxed luncheon, people can listen then pass or play. No pressure. We make sure that no individual is ever put on the spot.

f.) Professional presentation

The pressure was on to come up with a top-notch presentation because I was going to have a room full of sharp lenders. I went over and over my slides and my script until it was perfect.

g.) Linger & mingle

At the luncheon, people were so comfortable they didn't rush off afterwards. They took their time. This gave us the opportunity to tell them even more about the program.

h.) Synergy

There's a kind of excitement that builds as they talk to one another over lunch. This came as a surprise to us. After the presentation everyone went back to the dining tables. Since the dining tables could seat 6-8 people and almost everyone had come alone or with one other person, they were having lunch with strangers. The one thing they obviously had in common was the presentation. As they talked about it, their excitement grew. They sold themselves on the program. Neat!

So, those are just some of the reasons we decided to hold a luncheon and it worked out great.

i.) Your 1<sup>st</sup> luncheon needs to be with your family, friends, and associates. If you want to advertise to work with strangers, you must ask the SEC for permission. For more on this see chapters 22 & 23.

j.) Also, if you compare investing with you to a back CD, then you need to let the lender know that you are not FDIC insured so you don't mislead anyone. They should also be told that real estate can be risky. It is critical that you let them know the facts. If you don't, it could be considered fraud.

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## Chapter 7 Determine and Reach Your Target Market

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This is an awesome business! You can find private lenders who will change your life and help you take your business to an incredible level of success.

As you prepare to find these lenders, it is practical to stop and consider just who they are and how to reach them. You want to attract people who have the means to step up and take action on your program. If you decide to go beyond just your circle of friends and decide to reach out to strangers as well, your challenges are twofold.

1. Are there rules? Yes, there are and you need to comply with the securities rules. For a brief overview see later chapters in this book.
2. How to determine common denominators and find a way to effectively reach those people. You'll want to reach financially savvy people who could appreciate the generous interest rate you offer.

Here is an option; you can get an extremely targeted list of names of potential lenders from a list broker. You can find the name of a list broker in the phone book or on the Internet. You can tailor the list almost any way you want. For pennies on the dollar you can request the names, addresses, and phone numbers of people. Here are some examples:

- a.) Located in your county
- b.) Own their own home
- c.) Bought items through the mail
- d.) Own bank Certificates of Deposit (or CDs)

Let's look at each one on this list for just a moment.

- A.) They are located in your county.

You could focus on your local market because it is likely they already know about you from your other marketing efforts; i.e. they've seen the "I Buy Houses" signs.

Maybe the lender would be comfortable loaning to one of their neighbors.

Also, some lenders might delight in being able to actually drive by the house on which they hold the mortgage and maybe they like being able to tell their friends, 'My money is in that house right there'.

b.) They own their own home.

People who own their own home are probably already aware of the investment real estate can be.

c.) They bought items through the mail.

If they bought things through the mail, they would take time to read things sent to them through the mail. And, one primary marketing tool is a postcard.

d.) They own bank Certificates of Deposit (or CDs).

These people obviously have available money. With the banks paying a pathetically low rate on CDs, this made your program that much more attractive.

Once again read SEC chapters 22 & 23 before you advertise for private lenders.

Be safe and I wish you much success.

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## Chapter 8 Just Before The Luncheon

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I'd like to expand on three steps that can make your luncheon even more successful.

- 1) A week before: Contact relatives, friends, and acquaintances
- 2) The day before: Make confirmation calls
- 3) The day of: Use attendees' names

Let me explain my thoughts on each of these topics.

- 1) A week before: Contact relatives, friends, and acquaintances...

What about the people closest to you? Shouldn't they be invited to your luncheon and told about this opportunity? Of course!

If your family is like my family, news travels pretty fast. Your relatives are probably already aware that you are doing something new and I bet they're very curious about it.

Chances are the story has been somewhat distorted since it has gone through the family grapevine -- from a cousin who heard about it from an uncle who heard about it from Grandma and so on. Anyway, this is a great opportunity to talk to everyone in the family so they get the story straight from the source.

There are several reasons for letting family members know what you are doing. They can lend moral support. They may know someone who is looking for a safe, profitable investment. They may not know there are investment options other than low-paying bank CDs. They may have taken a beating in the stock market and now want to invest with someone they trust. They may be sitting on a pile of cash that they don't know what to do with. You never know.

My 1st lender was my Mom. You know what? I talk to folks all over the nation and hear that one of their family members was their 1st lender also.

Since these are relatives, people you've known your whole life, it's natural for you to want the best for them. You should feel an obligation to share this tremendous opportunity with them. Keep in mind what I have said over and over again: there is no need for pressure. Present the information and they can pass or play. People, who understand the program and are able to take action, will. And, there are enough of them to make you very wealthy!

A week before the luncheon, get on the phone and start calling relatives.

In addition to relatives, how about inviting your friends? I heard someone once say that friends were God's way of making up for some of your relatives. :) Your friends know you and like you anyway and probably want you to succeed as much as you do so wouldn't you like a chance to "share the wealth?" If you aren't used to speaking in public, a friendly face in the audience is going to give you more confidence.

Now let's expand that sphere of influence a little further --what about acquaintances? How about inviting other people who touch your life? You never know where it will lead when you send out that invitation or make that phone call.

If you haven't invited your doctor, chiropractor, dentist, or accountant, do so now. Give them a friendly call.

Think about this. You might tell your barber or hairdresser you need an extra special hairstyle because of your presentation. This is a great opening to explain your whole program.

They're not going anywhere. You have their attention for at least 20 minutes. Go for it. So what if they can't invest? If you arouse their interest, they'll be talking about it to others. You don't know where that story will end up. You may just get a call from an unexpected source that will change your life.

Who are your other acquaintances? Start making those phone calls to relatives, friends, and acquaintances a week before your luncheon.

Like most other things in life, this is a numbers game. Keep making the calls. If someone turns you down, it's ok. They have their reasons. Make another call and just keep going.

## 2) The day before: Make confirmation calls...

By this time you should have a list of folks who have said they want to attend your Private Lending Luncheon. The day before the luncheon, call each person on your list to confirm they will be attending. You might want to ask them if there will be additional people in their party, if they have the correct time and location, and if they know directions to the restaurant or whatever meeting location you have chosen.

This does a couple things. (1) It reminds them about the luncheon just in case they have forgotten. You have gone to a lot of work and expense and it is important to make sure they remember to come. (2) They may have additional people who want to join them, like a friend or neighbor they have been talking to about your program. (The greatest marketing tool is word-of-mouth!) Since you are paying for each lunch, you need to be able to give the restaurant a correct headcount.

Frankly, your list of attendees doesn't have to be long. I was surprised how from my first luncheon with just a few people, it seemed like a trickle of money just started flowing in, has not stopped, and there is no end in sight!

3) The day of: Use attendees' names...

Bring your list of confirmed reservations to the luncheon. This is critical. Those names are golden to your business. When people walk in the door, you can greet them warmly and when they introduce themselves, you can say something like, "Oh, yes, Mr. and Mrs. Jones, we are so glad you could join us". This gives you a head start on putting names and faces together.

Do this over and over again until you have all the money you want! ;)

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## Chapter 9 Credibility Building

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I named my company "Integrity Home Buyers" because the word Integrity has meaning for me. It is the way I run my business and my life. The people around me know this. When I decided to take my business to the next level, I was in a situation where people didn't know me. My challenge with Credibility Building was to convey my philosophy to those people. What I was asking those people to do was give me large sums of money and trust me to do what I said I would.

My credibility building strategy consisted of using these tools:

- a.) Newspaper article
- b.) Credibility kit
- c.) Better Business Bureau
- d.) Presentation
- e.) Follow up

Let's look at each of these in more detail.

a.) Newspaper article

About a year ago the Springfield Sun interviewed me. They did a long article with lots of great information about what my company has done and it also had some information about our lender program. Recently the reporter came back and did an article focusing on the lender program. Talk about credibility! The whole city saw the article. That is powerful!

At my lender luncheons I always made sure my prospective lenders had a copy of the first article. Now I am adding the second article to my packets as well.

To grow your business, you want your name out there. You want the prospective lender to say, "Hey, I've heard of you." or "I've seen the t-shirts on the Little League team you sponsored" or "you're the 'I Buy Houses' guy. That familiarity makes an impact. And, this recognition conveys credibility.

b.) Credibility Kit

My Credibility Kit is a 20-page, spiral bound book. It has a nice cover with colored pictures of over a dozen houses that I have bought and rehabbed. Right from the start before they even open the book they see the before-and-after pictures that show I have a seasoned real estate business. This is evidence of my work that they can go drive by.

Inside the book they see an introduction that tells them about me, the company philosophy, pages of testimonials, and certificates from training I have completed and special reports.

They see page after page of information that sends the strong message that I know my business.

Note: Don't have certificates from training on courses you've purchased? Make your own. Officemax sells certificate paper.

c.) Better Business Bureau

Since this is a serious, responsible business, I joined the Better Business Bureau. I am authorized to use their logo on my material, which further conveys my credibility.

People frequently check with the BBB before making a major decision. To be a member of the BBB you have to agree to "follow the highest principles of business ethics and voluntary self-regulation" and "have a proven record of marketplace honesty and integrity."

d.) Presentation

There are several different ways I built credibility with my luncheon presentation.

First of all, like it or not, people make value judgements about you before you even open your mouth. Think about it. What preconceived ideas do you have about a bag lady vs. a movie star? You get an image but the reality is you don't really know anything about them. It is in your best interest to present a well-groomed professional image and make sure your staff members comply as well.

This professional image extends to the meeting location you choose, the marketing items you provide, and your presentation slides.

The first verbal message should be to gain rapport with the guests. I share that I have lived in the area for 10 years and I have kids in school. I establish credibility as a member of the community. We are in this together. If you lose, I lose - and I'm not gonna lose because I have a lot at stake.

The actual presentation sends one clear, consistent message. You give me money and I give you high interest payments. That's it.

Sending a straightforward message in an easy-to-understand way, to convey credibility because there is no "small print." You let them know this is a simple program. These are the simple forms. This is the way it works. Period.

Current action conveys credibility. I always mention one of my most recent deals which is usually that I bought and/or sold a property yesterday or within the last few days.

In my presentation I acknowledge their fears and openly address a big one when I show the slide that says, "What Happens to my Investment if Alan Dies." They usually chuckle because they thought of that but didn't want to say it. I let them know that the corporation is structured to sell properties and their principle and interest will be paid as agreed. Talk about credibility. Have I not crossed all the T's and dotted all the I's with this presentation?

e.) Follow up

If you say you are going to do it, DO IT.

Someone might be testing you by loaning a small amount just to see if you are for real. Make sure you send them their interest check at exactly the agreed upon time for the correct amount. I've seen this happen time and time again where the lender comes back a couple months later with more money. Then a few months later they come back with even more money. You must prove that you are for real and that you do what you say.

If you break that trust, it's over.

Finally, I build credibility by being reachable. I have an office that they can stop by. I have an answering service that picks up my calls 24 hours a day, 7 days a week and relays important messages quickly. I have a web site where the lender can see what I'm doing and, they can send me email and I respond promptly.

Credibility is powerful... Learn to use it to your advantage.

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## Chapter 10 Room Arrangement

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I got lucky!

When I held my first private lender luncheon, I had something almost magical happen. Because of the way we set up the room, I accidentally created a situation that caused my guests to start discussing my program with each other after I was done talking.

This created a powerful synergy of them selling each other on my private lending program and ME. Read the following to learn how.

While you are still in the planning stage of your first luncheon, one consideration that might be overlooked is the arrangement of the meeting room. Draw out a simple sketch of where you want these three major areas:

- a.) Reception area
- b.) Presentation area
- c.) Dining area

Of course every situation is going to be a little different but let's go over each area and touch on some of the basics to get you started.

- a.) Reception area

Making your potential lender feel welcome by making a great first impression is a powerful tool. As our guests approached the entrance to the meeting room, we had our reception table right at the door and we always had someone right there to greet them with a smile.

The table was at the door, not blocking the door. The table was covered with a nice tablecloth and the items on the table were arranged correctly. The greeter was always dressed professionally.

Let's take this a step further. Have you ever gone into a store to buy something and the clerk didn't acknowledge that you were even there? It didn't matter how he or she looked, did it? The important issue was how you were treated. We focus on each individual guest. Each and every guest is important so we make him or her feel that way.

While you can hold a private lender luncheon by yourself, I always had people assisting me so I'm writing from that perspective. I talked with my greeters before the luncheon to let them know what I expected and they did a great job.

We had someone at the reception table throughout the presentation to make sure the late arrivals were also greeted warmly.

This is an important issue in gaining rapport and building credibility before your guests have even seen you. If your greeter gets a smile out of a guest before the presentation starts, they are in a positive mood and even more open to what you have to say.

b.) Presentation area

I chose a wide-open area for the presentation. I had the media people set up the screen against the wall. The large windows were a consideration because we didn't want a glare on the screen. The chairs were arranged with comfortable space between them in a pattern that let everyone see the screen clearly. I actually walked around and adjusted the chairs to make sure the arrangement was the best it could be. I left a small space between the screen and the first row of chairs for me to stand while I gave the talk about my program.

We made sure the temperature was adjusted to make the room as comfortable as possible.

It was a well thought out arrangement that allowed a certain amount of intimacy with my audience. I wasn't "way up there" at an intimidating podium, but right there with them. I was standing up front being professional while at the same time close enough to chat in a normal tone of voice and ask questions of the guests without putting them on the spot.

This arrangement made it possible for everyone to be comfortable and have a good time.

c.) Dining area

The dining area was separate from the presentation area. This helped create the synergistic situation I discussed earlier. We thought about the different options of tables that would seat 4 people, 6 to 8 people, or one long table. We choose tables that would seat 6. The tables were nicely arranged and since people usually came alone or with one other person, they joined strangers and started polite conversations. No one had to eat alone and guess what they talked about? My private lending program! It was a nice, comfortable atmosphere.

I went from table to table answering questions and making sure everyone was enjoying their meal. This is something all of you will want to do in yours. This program is to build trust and you want them to get to know you.

My assistants and I made sure everyone had a positive experience. It just took some thought and preparation and no extra expense.

Making your potential lender feel welcome by making a great first impression is a powerful tool and many times this is what closes the sale for you. Learn to use it to your advantage.

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## Chapter 11 The "Interest Form"

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Sometimes I have to learn things the hard way.

When I held my 1st luncheon, I didn't know what to say at the end of my talk to get my audience to take action on my private mortgage program.

It was an awkward moment.

There is a nano second of time that I needed to give them some direction and I blew it.

Yes, I still had folks lining up to loan me money, but I could have done better.

In my 2nd luncheon, I did much better. I created an 8-1/2x11 form for them to fill out and provide me key information to see what they wanted the next step to be.

It is the one thing that pulls everything together. It determines your luncheon success and whether or not your guests take action on your program! All of your efforts and the focus of your presentation come to the point where they have to make a decision.

When I held my first luncheon, I knew this, but frankly, I had to learn how to get them to let me know their decision. The one critical item in the program that forces the potential lender to make a "yes" or "no" commitment is what I call the "Interest Form". Are they "interested" or not?

I want them to make a commitment and let me know immediately following my presentation, BEFORE we sit down to eat whether or not they are going to pass or play. I don't want to have to guess or follow up later with each one and waste valuable time.

Because I didn't have the "interest form" in the 1st luncheon I felt like an ambulance chaser when I attempted to follow up with the folks the weeks after the luncheon.

I've found that getting an answer on the spot even if it is a definite "no" is always much better than a "maybe" or "I'll have to talk to my friend or spouse, and I'll get back with you." Not knowing can have you running around like an ambulance chaser and getting frustrated.

Remember, some people will want to lend and some won't. Spend your time and efforts working with those savvy lenders who see the value in your program and are ready to take action. If others are on the fence, but later decide they want to lend with you, they have your phone number and they'll call.

I've had one lender call 18 months after the luncheon to start their loan.

At the conclusion of my luncheon presentation, I direct their attention to the form I gave them when they arrived entitled,

"Please Fill Out And Turn In This Form Before Leaving."

I hold it up while I'm talking and ask them to get out the form, fill it out, and I tell them to return the completed form to me or one of my assistants before they go back to the dining area. We MAKE SURE we get a form from each and every guest.

We collect the forms and scan them to make sure they are filled out and we say "Thank you" without making an issue of their choice.

Since I respect their privacy, and I'm a gracious host, I don't embarrass anyone or reveal who has made which decision. We all sit together and enjoy a nice meal. Since this is such an important issue, let's talk a little about the parts of the "Interest Form". Note: If you have my Private Lending Made Easy "The Premium System", take out the "Interest Form" and follow along.

- Their contact information

You are going to need their complete information for your records so you might as well get this up front. Most of the people gave you some information when they made their reservation. You still need to ask for it again and this will also take care of the people who didn't have reservations but were invited by your other guests.

- Their decision

This form cuts right to the heart of the matter.

Plain and simple. What a tremendous tool to let me know immediately where I stand and where they stand!

- Referrals

Now not only will you find some people ready, willing, and able to give you wads of cash, you will find that these folks tend to associate with people who are just like them -- people who have been financial responsible and have available capital.

Some of these people will see the value of lending with you and want to share this with their friends. Even if they don't provide names and phone numbers immediately, this will get them to start thinking about referring someone in the future. It lets them know that you are interested in getting referrals from them.

Note: If you don't know the person then you must get to know them before they loan you money. It's my understanding from my attorney that you must know them at least 30 days and have 3 touches with them before the SEC will recognize that you have a prior relationship with them.

- Their level of commitment

This bottom section lets you know the level at which they want to lend. If their initial amount is lower than you expected, don't be discouraged. Typically, they want to test you and see if you are for real and will do what you say. I've had this happen where someone will lend a small amount and then more and then more. It's exciting for me because it makes my business grow and it lets me know that we are building a strong business relationship. It's exciting for them because it's more fun than sending their money off to some faceless organization in a distant city. When they see my "WE BUY HOUSES" signs, they know they are an important part of a strong, local business that is taking distressed properties and creating homes for local families.

What a great feeling to have a big stack of these "interest forms" in front of you at the end of the luncheon. You have immediate feedback.

I love this business!

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## Chapter 12 THANK YOU Notes

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I hesitated about writing this topic because on one hand it is so darn simplistic but then I thought back about how I fumbled this area after my 1st luncheon. Instead of JUST sending out thank you cards, I decided to hop on the phone and call everyone that had attended my luncheon. In the end, I felt like an ambulance chaser after my 1st luncheon.

In retrospect, I think I became an 'Annoying Pest' instead of a 'Welcomed Guest'

So, I rethought my position and decided to give you a ton of information on this one topic.

Hope it helps...

Not only is it good manners to send THANK YOU notes, it is also a great way to stay in touch and keep the lines of communication open with your clients and prospects in a friendly, positive way!

While I'm sure you can put together something yourself on your handy dandy computer with clip art and a snazzy font, the only right way to do this is to use professionally made note cards. And, the note should be handwritten.

The best situation is that you write the note yourself but if you are thinking, 'Alan, my hand writing is not too great,' have a staff member write the notes and you proofread and sign them. The next best situation is to use professionally made note cards and use your computer to print the message but by all means, sign the cards personally. It makes a difference.

One of the first activities after your lender luncheon is to send THANK YOU notes. Don't wait because it will lose the desired effect. I have grouped them in the following categories:

- a.) People who attended and want to loan money
- b.) People who attended and want more information
- c.) People who attended and do not want to loan money
- d.) People who couldn't attend but wanted information mailed to them
- e.) No shows
- f.) People who refer other prospects to you

The first three categories, of course, go right along with the 'Interest' form below I have more information about each category and samples of THANK YOU notes. The most important part of this whole exercise is the fact that you write a friendly note and sign it yourself so they feel like you have made a personal contact with them. This is a business built on relationships and this is a nice, easy way to build relationships.

a.) People who attended and want to loan money

Whether you have appointments already set up with these folks or have been in constant contact since the luncheon, you still want to send them a THANK YOU note for attending the luncheon. It goes beyond just saying 'Thank you.' It is a courteous acknowledgment of the new business relationship. It's true that not everyone cares whether or not you take this extra step that shows your attention to detail but frankly, if it makes a difference to a few, isn't it worth it?

It takes focus, work, and money on your part to get a lender to this point. Use this opportunity to show your appreciation and enthusiasm. A simple note from you to a new lender might be something like this:

*Dear Martha and George,*

*Thank you for attending our luncheon last Tuesday. It was great to meet you and I'm delighted that you have chosen to take advantage of our awesome program!*

*Alan*

Simple. Just a THANK YOU and acknowledgment. Personalize your notes however you wish or use my example.

b.) People who attended and want more information

This THANK YOU note is an opportunity to make another reassuring impression on these folks who are interested and need a bit more information before making their move. They will probably be pleased that you made contact so quickly and in a professional manner. You might want to make this a chance to reinforce the fact that you are an established local company. Your THANK YOU note to these folks might say:

*Dear Lovie and Thurston,*

*Thank you for attending our luncheon last Tuesday. It was great to meet you and have a chance to present the program we have here at Integrity Home Buyers. My staff will be sending you more information about our awesome 8% program. I'm looking forward to talking with you again soon.*

*Alan*

Make sure you send them more information ASAP along with a request that they call to make an appointment with you so you can answer their questions personally. If you already have an appointment to meet with them, mention that in the note by saying 'I'm looking forward to talking with you Tuesday, August 31 at 4:00 at my office.' (Include the date, time, and location of the appointment.)

Adjust the note to fit the situation.

c.) People who attended and do not want to loan money

At first you might not understand why you should send THANK YOU notes to this category. It's true that when some people say 'no,' they mean just that. But think about this. Some of them really want to loan money but they have to rearrange their financial situation to make that happen and it might take them a little time. They don't want to go out on a limb and make a commitment without funds readily available. That's fine. Your job is to keep the lines of communication open and when they can loan money, they will let you know.

There can be lots of reasons for their hesitation. Maybe they know that at some point they will be getting a court settlement or inheritance but they don't know exactly when or for how much. They may need to find out if they can get a home equity loan. You've told them about the possibility of using their 401K money so they may want to see how much they have, if they don't check it regularly. They may have some other investment vehicle out there that they want to see about getting rid of so they can loan money to you. Perhaps they want to see if they can start saving more aggressively so they can meet your minimum loan requirement.

The truth is, you don't know why they said 'no' and it could easily change to 'yes' at a later time. You've started them thinking about a great new possibility and their situation may just take a little time.

Wherever their windfall is coming from, your THANK YOU note could be something like this:

*Dear Bonnie and Clyde,*

*Thank you for attending our luncheon last Tuesday. It was great meeting you. I understand that you are not ready to loan money at this time. Please feel free to share information about our awesome program with your friends and family who might like to take advantage of this great 8% return opportunity.*

*Alan*

We've left the door of communication open and we've just started them thinking about talking to others about the program. Word-of-mouth is a powerful advertising tool!

d.) People who couldn't attend but wanted information mailed to them

There will be people who cannot attend or don't want to attend the luncheon. Their reason doesn't matter. They showed interest. You should thank them for that request. Here is a THANK YOU note example:

*Dear Ozzie and Sharon,*

*Thank you for requesting information about our awesome program where you receive 8% interest on your money. I'm looking forward to talking with you and making sure all your questions are answered.*

*Alan*

Use this THANK YOU note to emphasize the 8% return. This is probably the most important part for them so make sure it's in your note somewhere.

Remember, they didn't attend the luncheon or see your presentation so they still might not understand.

e.) No shows

You may find that even though some people call you to say they will attend and the day before the luncheon you call to remind them, they just don't show up. It happens. Why? It doesn't matter. The only important thing is that they've raised their hand and are interested in your program! Thank them for their interest and send them the same package that goes to folks who requested information by mail. Your note to them might be something like this:

*Dear Mr. Hoffa,*

*Sorry we missed you at our luncheon last Tuesday. We covered tons of information and I know you are excited about learning how you can make 8% return with your loan so we are sending you some information.*

*You may have additional questions about how your loan is secured to real estate and how you actually hold a mortgage on a property right here in town while my team and I do all the work.*

*I'd be happy to talk with you at your convenience to answer all your questions.*

*Alan*

Again, the package you send them also has the request that they call your office to set an appointment.

f.) People who refer other prospects to you

During the course of business, prospects, lenders, friends, and even people you don't know very well at all will talk about your program to someone who gets excited about it and calls you. Some of your lenders will understand your program and get so excited they will tell everyone about it! This is fantastic! You need to acknowledge them for thinking so much of you that they put their integrity on the line with you. You need to thank them for that sincere compliment. An example of a nice THANK YOU note follows:

*Dear Arnold,*

*I want to sincerely thank you for letting Marie's family in on our company's 8% loan opportunity. I am so tickled that you thought enough of us to tell them to call. I have a meeting set up to talk with the Senator in the near future!  
Thank you again.*

*Alan*

As always, on the back of each prospect's or lender's 3x5 card or file, make an entry with the date and how they were contacted:

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9/23 Attended luncheon at the country club  
9/25 Sent thank you note

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## Chapter 13 Do Not Call

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This is a very important topic.

You have probably heard about the National Do Not Call list. Well, we don't want you to break any rules so we are giving you some information that will help you comply with the guidelines.

Chapter #11 talked at length about the "Interest" form. For those of you with the Private Lending Made Easy system, get out your "Interest" form and add this to the bottom: "By providing the above information, you are consenting to receive phone calls from our company about our services."

Make sure to keep the call log that shows when they make their initial call to your office. In addition, keep the "Interest" form if they previously signed one.

You've heard me say that there is no need for pressure, right? Well, it's true. If someone asks to not be contacted any more, (1) make a note on their card to that effect, (2) note on the card what day their call(s) to you appear in the phone log book, (3) move their file card and Interest form to a separate file, and (4) make sure their name is removed from every contact list so someone doesn't accidentally call them. Respect their wishes.

To find out more about the National Do Not Call list, go to <http://www.ftc.gov/donotcall/>

There are so many other folks out there who want to take advantage of your program. Work with them and spend your valuable time doing activities that grow your company and make you wealthy!

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## Chapter 14 Alan's Private Lender Rules

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This is my business. After many years in a corporate job working for others, I left because I wanted to run my own business my way and that's exactly what I am doing. I am using my business skills to create the kind of company I want. Along with creating my own rules, procedures, and systems within my real estate business, I have rules that I follow regarding my private lenders. They are:

- a) Loan minimum limits
- b) Make interest payment when property sells
- c) One private lender per promissory note
- d) 70% loan to value (LTV)
- e) I keep my word

Let me further explain what I mean on each of these...

- a) Loan minimum limits...

I only accept loans over (x) amount. It is simply more practical to have a minimum loan amount. There are a lot of folks out there who will want to loan small amounts. My staff is extremely busy and it is more efficient to have them handle the paperwork for one minimum loan lender than it is for them to handle the paperwork for five lenders with very small loan amounts. I use these low dollar loans for my "subject to" houses to do carpet, paint or down payments.
- b) Make interest payment when property sells...

I didn't start out that way. I thought everyone would expect monthly or quarterly payments, so I started paying some early lenders monthly. I quickly changed and now pay when the property sells. What a huge benefit to cash flow and what a BIG help with the office paperwork.

Not only is this a matter of less paperwork for the staff, there is another practical reason for doing this. When a lender's money is applied to a property at closing, the clock starts ticking. The interest rate starts. However, it may take a couple months to renovate the house and find a buyer or rent-to-own tenant. So the cash flow from the property will not even start for a couple months.

In addition, when you sell the house the lender gets a bigger chunk of money to lend back to you for your next project.
- c) One private lender per promissory note...

The #1 question I get from all over the country is "can I pool lenders money". The answer is maybe.

You cannot "pool" lender's money unless you fill out some paperwork with your state (more on that in a later chapter). This needs to be one of your rules also. Pooling would mean that two or more lenders are on the same promissory note.

So, if you need more funds to purchase and rehab a property, then the 1st lender (the one with the most money) gets a 1st mortgage on the property and if you need more money to rehab the property, bring in a 2nd lender and they get a 2nd mortgage.

They are your "Bank" and they get a mortgage (lien) on your property.

You get the deed. The lender gets a mortgage. These are the two key documents on any real estate transaction.

Actually, you can have as many mortgages (1, 2, 3, 4, etc.) as you like on a property as long as you don't over leverage the property.

d) 70% loan to value (LTV) max...

I buy houses right, having the knowledge and available funds allows me to buy property at a price below what most people would have to pay because I can close quickly so I get houses at a discount.

My rule is that when I purchase a house for my lender, it has about 30% equity after it is repaired. It is just another way to protect my lender and assures me of a nice profit when the property sells.

Why would someone sell a house for less than its actual value? Frankly, people contact me all the time wanting me to take houses off their hands for a discounted price. Some folks get in over their heads with credit cards -- it's easy to do. They can't sleep at night and want debt relief NOW. Some people try their hand at having investment property but do not get the education they need to make it profitable or they get burned out being a landlord. They call and just want rid of the headache. Some people inherit property and want rid of it so they can settle the estate. Other folks need to move but don't have any equity in the house so any fee they would have to pay a Realtor would have to come out of their own pocket. And, there's no guarantee that the Realtor could get the house sold. So they call me.

e) I keep my word...

I follow my agreement with each lender exactly. I run my business with integrity. Like I said earlier, my rule now is that I make interest payments when the property sells. But there are a few early lenders with whom I made the agreement to pay monthly. I will stick to my agreement with them regardless of how long they invest with me. And, since they love those checks, they'll probably be around a long time -- and that's great as far as I'm concerned.

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## Chapter 15 Handling The Money

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I always get a lot of questions about how to handle the money so I'd like to go over a few of the basics.

### - Touching the Money

Sometimes when people hear the kind of interest I pay they will get so excited about loaning me money that they want to hand me a big check right on the spot. This is not the way to handle the situation. I want them to send the check to my attorney for the closing on a specific property.

I know that some of you are so eager to launch this new phase of growing your business that you really want to take that first check but don't do it.

This is the procedure: Go over paperwork, have a meeting of the minds, and then they send the check to the attorney for closing. Nice, neat paper trail and well-informed lenders.

If you have promised a lender that their money is secured by real estate and it isn't, then you have just committed fraud in the eyes of the SEC.

### - Co-mingling funds

Here is a common scenario: You will have two lenders who each have a small amount to loan. With the combined amount, you have enough for a particular property. Question: Can you just put the money together and have them share the first mortgage? You cannot typically co-mingle funds. But you can if it is husband and wife.

Now my procedure is to give a lender a first mortgage on a property. If I need additional funds, I can give another lender a second mortgage after explaining to them that the first mortgage holds a stronger position.

BUT...if you do some paperwork with the state and set up an entity. Then you can...

### - When do the payments start and end

This is a little tricky for some real estate investors to understand. The best way to structure this is to start paying interest at the time of closing. Their money is loaned so they should be earning interest. My job is to make repairs and get the place lease optioned so it is producing income to cover the interest payments I need to make to the lender. I get this done as quickly as possible.

I continue paying interest to the lender as long as their money is on the property. When the property sells, they get a check at closing for their principle and interest.

I ask them if they want to loan their money on another property. Nearly all will say yes and then, their interest payments start again at the next closing (to buy) table. I always return the lenders money after I sell.

So they earn interest while the money is loaned – from purchase to sale.

Now if I have some ones money less than 90 days, say on a house I wholesale, I do pay a minimum of 90-days interest on all loans. I just want to be fair.

The lesson here is avoiding the temptation to grab those checks and cash them. Run a professional operation and have your business rules in place and follow them.

You'll be much happier in the long run.

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## Chapter 16 The Audio Business Card

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This is an impressive, convenient marketing tool it keeps your CD and literature together. Just the fact that it is so nicely packaged gives the perception of value and people are less likely to throw it away than just a letter or a CD by itself.

The outside of the holder has a see-through sleeve. You create a cover with your company information, logo, and so forth then slip the cover into the sleeve.

On the inside of the holder on one side is an indentation that holds your CD securely in place and under that is a slot for your business card.

The other side is a bookwell that holds several pages of information. The book well is about 8 1/2 inches x 5 1/2 inches so we create our literature on a regular 8 1/2 x 11 page, landscaped and folded in half to make a booklet.

We hand these out at luncheons and they can also be conveniently mailed to lenders who are not able to attend. They are also impressive marketing tools to hand to lenders at one-on-one meetings.

You can use a white or black holder. We prefer the white holder because of the crisp, clean look.

This is one of those marketing items that can be created well in advance of your luncheon. And, you don't have to be concerned about having more than needed for a scheduled luncheon. In fact, it's a good idea to have several on hand at all times to use anytime you meet someone who might want to take advantage of your awesome program.

Let's look a little closer at each piece of the audio business card CD holder.

- a) Cover
- b) Audio CD
- c) Business card
- d) Literature

- a) Cover  
You can create this yourself or you might choose to have something professionally created for your company. When I started out, I created this in Microsoft Word by going to Page Setup and selecting legal sized paper (8 1/2 x 14) with landscape orientation. Keeping in mind that this would be slipped into

the audio business card holder clear cover sleeve, I put the back cover information on the left side of the paper and front cover information on the right side. I used our company colors, my photo, a little biographical information, a little background about the company, and brief highlights of my program.

The focus with the cover is to make it visually attractive and the text intriguing enough for the lender to want to open it and learn more. Don't try to put the entire program on the cover and fill every inch. Leave open space. This will draw their eyes to the specific points you want them to see like:

"Tired of earning 2% interest on your CDs?"

"Learn how you can earn 8% interest on your investment dollars!"

The purpose of the attractive cover is to get them to open it. Clearly stating your program's major features will cause the lender to want to learn more and open the holder.

Initially, I printed these out on my color laser printer and slipped them into the cover myself so I know you can do this too if you care to. Now I have the office staff take care of this task. Of course, all inserts and the cover are included in my home study system, as a template and just insert your own information. That would be a great time saver.

b) Audio CD

You can make your own audio CD about your program; however, we use a pre-recorded audio called "a great alternative to the stock market" that does a great job selling the concept of private mortgage lending. It clearly explains the program in an entertaining manner. Lenders can listen to this at their leisure at home, in their car, or while exercising and using headphones. This audio is packed with information about the benefits of private lending.

Like with everything else in life, you can make more money if you leverage your efforts. If you have the skills and equipment to create your own recording, that is your choice. I just find that it is more cost-effective for me to use something that is already available and I spend my time buying, rehabbing, and selling houses, talking to private lenders, and making money.

c) Business card

The audio business card holders we use also have a slot for your business card. If you are one of those "I BUY HOUSES" entrepreneurs, you may have wild, bright orange or lime green cards or the card that looks like a \$100 bill or something else equally jazzy. These are for the buying/selling side of your business. They are NOT the kind of card to use for the private lender side of your business!

You are reaching people who are used to dealing with bankers and are usually professional and conservative. If you give them a wild business card, it will have

the opposite effect of what you want. Frankly, it will look a little "flaky" to them. Don't try to be cute. These people are serious about their money and expect you to be too. If you don't have one already, get a professional business card made and use it in all instances with your lenders.

d.) Literature

Here is where you will be spending a little more time and effort because this is specific information about you, your company, and your program. Again, you are welcome to use my examples in your course as a template but insert your particular company information.

I started with a regular 8 1/2 x 11 piece of paper and turned to landscape orientation. I searched my other marketing information and found things that I could shrink to half a page. For instance, I have a one-page information sheet that lists the documents that protect the lender. I shrank this to fit on one side of page. I then shrank a copy of the promissory note and put that on one side of the page. I then turned the page over.

I took my introductory letter and shrank it for one side of the page and then did the same with a one-page information sheet about my company.

So, I've just squeezed four pages of information onto one sheet that folds neatly in half and can be placed in the information book well.

I insert my newspaper article regular sized but folded.

It will be easier if you already have marketing pieces. If not, you will have to create them.

This generous sized bookwell can hold as much or as little as you like. Just remember, the more you tell, the more you sell. Which means, tell them a lot about your company history, your established presence in the community (office location and years in business), the teams you have sponsored, the professional organizations you belong to, family information, before and after photos of properties you have rehabbed, courses you have completed, etc. You get the idea. All this information lets them know you are not a fly-by-night operation. You are a serious businessperson and a company that plans to be in business for many years.

If you are uncomfortable with or unfamiliar with putting together this type of marketing piece, just gather all the information you can, including photos, and hire a writer to create something that you can be proud of.

(Hint: No professional writers in your neighborhood? Since you have Internet access, search for a writer on [www.elance.com](http://www.elance.com). You put a job out there, someone bids on it, and when both of you agree on a price, they create the product you want!)

There, you've created an Audio Business Card, a powerful marketing product that you can use repeatedly in a variety of situations. You can hand this to a lender with confidence. You are a step closer to realizing your goals! Go find some lenders!

Note: Your audio business card only goes to folks that you know unless you are registered with the SEC. See chapters 22 & 23 for more information.

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## Chapter 17 How to Handle One-on-One Meetings

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You have learned a great detail in this book is how to make your luncheons attractive, comfortable, and a very pleasant experience. So, why wouldn't someone want to attend a lovely luncheon at a nice location for free? Well, people are funny sometimes. Maybe they don't want everyone to know they have enough money to loan. They feel it is a very private matter. Maybe they are "The Millionaire Next Door" type who lives an unassuming life style and you would never guess they are actually quite wealthy and very capable and interested in investing with you.

Maybe they are just the shy type who doesn't feel comfortable in social situations like sophisticated luncheons. They just don't go for all that "fancy stuff."

Maybe they are not physically able to attend. Perhaps they are older or have disabilities.

Maybe they are just odd. Remember the stories about Howard Hughes, one of the country's wealthiest men? He probably would not have attended a luncheon because he just did things differently.

There are quite a few reasons why someone might not want to or be able to attend a luncheon but, they called you because they want or need to earn a high rate of return on their money?

**YES!** So we want to extend this tremendous opportunity to them!

You'll recognize some of these folks when they call in to the answering service that is taking reservations for your luncheon. They will identify themselves as interested but unable to attend. This is important: Don't pressure them to attend. Accept that they have their reasons.

They may ask that you just send them information. We send the audio business card holder with the credibility building items, the newspaper articles, an audio CD on private mortgage lending, information about our company, etc.

They may immediately agree to talk with you so you need to set up a one-on-one meeting. Ask them where they would like to meet. They may want you to come to their home. They may want to meet at your office to see if you are "for real." They may want to meet at a coffee shop. The location is not all that important because what we need to be concerned with here is their comfort. Your presentation should be the same regardless of where you meet.

Now you have a date set for a one-on-one meeting so you have to get ready. (Heads up: Do all your preparation ahead of time. What if they want to meet tonight? **BE READY!**)

Go through the same steps you would if you were making a presentation to a large audience.

- a) Prepare presentation items
- b) Go through your checklist
- c) Arrive on time
- d) Look professional
- e) Be professional
- f) Make your presentation
- g) Close

Here's a little more information about each of these points.

- a) Prepare presentation items

This time you won't be concerned with a projector but you may want to use a laptop. That makes a nice professional presentation.

Another option is to print out the presentation and put it in a binder or notebook so you can make the same presentation with paper copies. You might want to put each page in a plastic cover to ensure the pages stay in perfect condition.

Know your material backwards and forwards and be prepared to answer questions.

- b) Go through your checklist

Use the checklist even if you are going to a one-on-one meeting. Sure, you don't have a lot of items to count out but you certainly have items to remember and the checklist is a tremendous help.

- c) Arrive on time

Be courteous and arrive on time. If they are late don't mention it or if they mention it, be gracious. If you arrive 20 or 30 minutes late, forget it. You've blown your credibility. They see that you don't do what you say and the game is over.

- d) Look professional

This doesn't mean that you have to wear a suit to meet at the neighborhood coffee shop. This might come on a little too strong. Just be sure you are well groomed and look nice. We have sports shirts with our company name embroidered on the front that look great.

Their first impression of you is just as important at a one-on-one meeting as it is at a luncheon presentation.

- e) Be professional

Yes, this is a more casual setting but you can still conduct yourself in a professional manner. Always be aware that they are judging the way you present yourself as well as the program. You want them to trust you with a great deal of money so you have to convey to them that you are a serious businessman or businesswoman.

f) Make your presentation

Get to your presentation quickly; this is not a social call, but a business meeting. Don't waste their time.

They may want to chat or there may be other distractions like the family dog running around or phone interruptions. Stay focused and cover the material.

If they have questions you can't answer, assure them that you will find out the answer and get back with them. Remember that questions are not negative, it means they are interested!

g) Close

Just like at a luncheon presentation, you have to have a close or "call to action." Use the form in the system to ask if they are going to pass or play. No hard sell! Whether their answer is yes or no, thank them for their time and conclude the meeting.

Do this over and over again until you have all the money you want!

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## **Chapter 18 Private Lender Marketing Target - Life Insurance Policies**

by Greg Dorriety

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### **“Little Known Secrets About Life Insurance Policies Break That Could Be A Major Source of Capital for Real Estate Investors”**

Any astute real estate investor knows it takes money and lots of it to invest in real estate. The catch is that unless you are Bill Gates or Warren Buffett most investors quickly run out of their own money and must use other people's money (opm) in order to purchase investment real estate. The opm sources are usually banks, mortgage companies, hard money lenders, and private lenders. We will only focus on the private lender source.

On a typical financial statement in the asset column you will always see a line for Life Insurance cash value. The reason is that certain types of Life Insurance policies have a cash value in addition to a death benefit. The industry names for some these types of policies include Whole Life, Universal Life, and Variable Universal Life. Term Insurance is not included because term policies have a death benefit but no cash value.

Over the years many people have taken advantage of the fact they can borrow funds at competitive interest rates from their life insurance policies to pay for such items as college tuition, automobiles, etc. and still keep their policy in force.

In simple terms, the money they are borrowing is provided by the insurance company, which in turn uses the cash value of their policy as the collateral. The policy owner usually has several options in regard to the loan:

They can pay it back to the insurance company at the agreed interest rate while the policy stays in force. Their death benefit will be reduced by the amount they have borrowed until the loan is paid in full. Example – Whole Life Policy with a \$100,000 death benefit and a \$60,000 cash value. The policy owner borrows \$30,000 from the insurance company; the death benefit will now be \$70,000 in the event the policy owner dies with the loan outstanding. They can pay it back to the insurance company at the agreed interest rate with any additional money that they might be receiving from the investment of the funds from the loan and increase both their cash value and death benefit of their policy! This is truly the ideal way to use the cash value of a life insurance policy to their benefit. They can elect not to repay loan and simply use any income from the investment of these funds as personal income. This election will reduce both the policy cash value as well as the death benefit. Depending on the amount of the loan and the terms of the policy they could run the risk of having to pay additional premium to keep the policy in force. They should always consult with their life insurance professional prior to making this election.

Great, So What Does This Mean To A Real Estate Investor?

Before, I answer this question lets review how a private lender with cash value in their life insurance policy might benefit by lending money to a real estate investor from the policy. Consider the following example:

Opportunity: A real estate investor has found a house that when it is repaired will be worth at least \$70,000. The investor has been able to negotiate the purchase price including closing costs to \$30,000. The house needs \$10,000 in repairs. The investor desires to sell the property within six months.

One Solution: Investor locates a Private Lender who has a Whole Life Policy that pays dividends with a \$100,000 death benefit and a \$65,000 cash value. For quick use of the funds the investor will pay 5 points plus 12% simple interest on the loan of \$40,000, secured by a first mortgage on the property. This is a safe investment due to the fact that the loan to value ratio is 57%. The private lender can borrow the funds from the policy at a 7% simple interest rate. Note - The Whole Life Policy still receives the dividends paid by the insurance company regardless if some of the cash value is loaned out.

Result: The investor sells the property for \$72,000 six months later netting him a \$27,600 profit using none of his own money.

Private Lender receives:

\$2,000 points paid at closing  
\$2,400 payments from investor for 6 months  
(\$1,400) interest payments to insurance company  
\$3,000 profit in 6 months on the \$40,000 loan

This transaction results in an annual yield to the private lender of 12% (based on the fact that the money is received in 6 months) if you consider the \$40,000 as their money or the yield is INFINITE if you consider the money is the insurance company's and not theirs. This profit could be used to make additional premium payments to the policy thus increasing both the cash value and the death benefit; additionally, the private lender's policy was still in force during this period with a \$60,000 death benefit. Not bad for money that is usually just sitting idle.

It should now be obvious what the benefits are to the real estate investor. These funds are readily available; usually a policy holder can receive a loan from a life policy with cash value in 3 to 5 days.

The private lender with the life insurance policy does not have to cash out of existing investments like CD's, stocks, bonds, mutual funds that could have surrender penalties.

The bottom line is all real estate investors should include the cash value of life insurance policies owned by private lenders as a source of investment capital. This area is most often overlooked.

A sample newspaper ad to attract these lenders to you might read:

Attention Life Insurance Policy Holders: Let the current cash value of your policy put some additional money in pocket immediately! Free Report details a little known and very safe strategy to put your life insurance policy cash value to work for you using local real estate as the collateral. Learn about how this cash value that is usually sitting idle could be used to generate additional cash so you could:

- \* Take a Caribbean cruise
- \* Pay College Tuition for Kids or Grandkids
- \* Make additional premium payments and increase the cash value and the death benefit of your life insurance policy

Author Greg Dorriety is a well known real estate investor and investing educator in Mobile, AL. Over 1,000 real estate investors have attended his presentations on “How to find, buy, and sell real estate in bankruptcy.” Greg and his wife Donna have been investing in real estate since 1988.

In addition to real estate investing, Greg is a co-owner of Financial Solutions, Inc. a Financial Services Company specializing in advising retirees and those who are about to retire who want to protect their principal and insure that their money lasts.

Note from Alan...

1. I've never paid a private lender points.
2. I've not used this technique, but thought it was important to bring it to you.
3. Greg talks about advertising to find lenders and once again, you must be registered with the SEC to do so.

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## Chapter 19 More on Life Insurance Policies

by Greg Dorriety

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### Should A Real Estate Investor Use Life Insurance As Part Of Their Investment Strategy?

Absolutely!!

There is an old saying that "life insurance makes for a poor investment and investments make for poor life insurance." This could not be any truer for people holding investment real estate. Why?

1. In most cases upon the death (and we are all going to die) of the person holding real estate, there is a high probability that their spouse or heirs will be facing an estate tax problem. Real Estate is an outstanding investment to create wealth and defer taxes while the owner is living. However, it can quickly turn into a nightmare upon their death. Currently, any person who dies in the United States having an estate in which the assets total more than \$1.5 million, the amount over the \$1.5 million could be subject to an estate tax as high as 52%!!!!

Example: for every \$100,000 of value of an estate over \$1.5 million the estate tax could be \$52,000. In the world of real estate, it does not take much property to exceed the \$1.5 million mark. The unfortunate outcome is that usually the deceased owner's surviving spouse or heirs are faced with raising the money to pay the taxes either by selling the real estate in fire sale mode or borrowing the money using the real estate as collateral. Either case is not a desirable outcome considering that in most cases it could be avoided.

2. A life insurance policy owned by an appropriately structured trust is not subject to income or estate taxes because it is not part of the estate!! At the death of the property owner, the proceeds from this policy could be used to pay their estate tax. The result would be that the real estate does not have to be sold or leveraged to raise the funds for estate taxes and the passive income or future sale proceeds can go to benefit the intended beneficiaries for years to come.

Note: Please seek the advice of a tax and a legal professional prior to implementing any estate planning strategy.

3. The cash value of a life insurance policy could be used purchase real estate and still maintain a death benefit. If you are properly disciplined and use some of the profits from real estate transactions to pay additional premiums, you can significantly increase your cash value and death benefit.

Additionally, life insurance policies are generally protected from the claims of creditors and lawsuits.

4. As an additional sales tool to attract private lenders, you should have a life insurance policy structured such that in the event of your death, the policy would pay off any outstanding loans. This fact should give your potential private lenders an additional sense of security and position. With this arrangement in place, your spouse or heirs could inherit the real estate free and clear.

The bottom line is that life insurance should be a key part of any real estate investor's wealth building and preservation strategy. This is not something that should be put off primarily because life insurance is issued on the basis of the age and the health condition of the person applying for it. Things happen as time passes.

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## Chapter 20 Firing Private Lenders

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WAIT A MINUTE ALAN!

We've spent all this time and effort to get private lenders and now you're telling us you want to fire them! What are you thinking?!

Well, stay with me here and I'll explain. I love my private lenders. We get along great and I make sure of that. Up to this point we've talked about how to attract and keep private lenders. If you don't have private lenders at this point, being selective about them may be something you've never even considered.

Once you've done your homework, gotten your real estate education, and taken all the steps needed to attract private lenders, you could quite possibly have many of them offering to do business with you. This is an awesome position to be in and gives you a great opportunity to work with some pretty fantastic folks.

What are some scenarios where I might not work with a private lender who is trying to throw wads of cash at me?

- a) They want to be too involved.
- b) They want to loan a great deal of money.
- c) You simply are not ready to go to the next level.

Let's look at each of these a little more closely.

a) **They want to be too involved...**

I've spent tens of thousands of dollars on my education and have been in the business for over 10 years, I know how to do this business. I have definite ideas about the way I want to run my real estate business. I attend seminars all the time. I'm always striving to learn and to improve.

Sometimes a well-meaning soul will want to "help" me by offering advice in an area where, frankly, I'm an expert, and they have little experience.

You are going to run into these folks. This is where you need to have a solid education so you don't get sidetracked. I can work with most private lenders. They give me money; I send them interest payments.

Let's be clear on your private lender's job. Their job is to write a check and then set back and wait for a bigger check. It is the American Dream.

Once in awhile you will find that someone wants to work "with" you and maybe even be a partner.

They believe that the money they invest in your business gives them the right to offer advice and they expect you to take it, in the way you run your office, what properties you purchase, what rehab workers you hire, and so forth.

Just be aware that some folks will want to be a partner and if this is not what you want, be prepared to correct the situation before it goes too far in the relationship.

To be honest, I stop it on DAY ONE.

My advice is to always be professional about it. I'm gracious. I simply explain my position and my rationale for what I do.

**b) They want to loan a great deal of money...**

Gee, talk about the American Dream.

Sounds pretty good doesn't it? You've probably thought, "Hey, if I could find just one lender with a ton of money, I'd have it made." Well, let's look at this a minute. You've heard the saying that putting all your eggs in one basket is a bad idea. Having one lender is like having all your eggs in one basket. Life can change in a heartbeat and if that one lender needs to quickly pull out his or her money you are out of business!

Today, one of my private lenders died.

She had retired from her job of 20+ years in September and invested her retirement funds with me in October. What if she was my only lender with millions loaned?

What decisions are her beneficiaries going to make?

Thanks goodness she was not my only lender.

If you have ten solid lenders and one has to pull out, you simply make adjustments (replace one lender's funds with another) and continue business as usual.

Having multiple lenders makes your business more secure.

**c) You simply are not ready to go to the next level.**

1) Maybe you are satisfied with where you're at

OR

2) Maybe you haven't done your 1st deal and you don't want to go out and promise folks you'll get their money working and then find out you can't perform.

If it is the 2nd item, let's talk about it.

"What would you do first, find a deal or find private money?"

Some of you may answer "Find a deal and then go find the money because it gives you the incentive to make it happen."

I answered just the opposite because having private money will give you the confidence when you make offers that you are going to be able to close.

I don't know if there is one right answer but if you are not doing either one, read on...

If you simply are not ready to go to the next level is it FEAR holding you back?

If so, I've found that education is the key in taming that fear monster and give you the confidence to move ahead.

I remember my 1st deal. My knees were knocking. Fortunately for me I had an experienced real estate investor walk me through my 1<sup>st</sup> deal. I also had gotten six months of solid real estate education through two home study courses I had purchased, library books on creative real estate and a local REIA seminar.

After that 1st deal the fear monster was gone and I was ready to do it again.

Like I said before, I've done my homework, spent tons of money on education and have had lots of practical experience in the business.

If there are gaps in your real estate education, take care of that now while you're busy finding lenders to help take your business to the next level.

You'll be very glad you did.

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## Chapter 21 Mortgages

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Every time I speak I get ask... "What if I need more money to buy and fix the house than I can get from one private lender?"

This is the #1 question I get. The answer is easy and I see light bulbs go on as soon as they hear the answer.

What you can do is create mortgages. And you can create as many as you need to.

The lender with the bigger chunk of money gets the 1st mortgage and the 2nd chunk of money gets the 2nd mortgage. And so on.

Now for some of you folks we need to discuss some of the terminology...

I've seen some real estate investors just zone out when we talk about:

- a) Mortgage
- b) Mortgagor and Mortgagee
- c) First mortgage and Second mortgage

Well let's clear up the mystery right now.

### a) **Mortgage**

When you get a loan from your private lender to purchase a house, one of the document they get says you will repay the loan is the mortgage. A mortgage creates a legal claim (or lien) on the property until the debt is paid. Please consult your attorney if you have questions about what that legal claim involves.

The name of your private lender is on the mortgage. It is a protection for your lenders that reassures them that you are going to pay as agreed. They also get a promissory note and you get the deed.

Once the debt is paid, there is no longer a mortgage on the property.

### b) **Mortgagor and mortgagee**

The person who borrows the money is the mortgagor. The private lender or the bank is the mortgagee.

### c) **First mortgage and second mortgage**

The first mortgage is the document that creates a lien that is in the first position. This means that in the case of a foreclosure, the money from the sale of the property will be used to pay taxes and fees, and then whatever is left goes to pay the first mortgage.

The second mortgage is a lien in the second position. If after paying taxes, fees, and the first mortgage there is money left over, it goes to pay the second mortgage.

The order of the mortgages is based on the order they are recorded/

As you can see, it is much better to hold the first mortgage rather than the second.

Some private lenders have a great deal of money available to loan. For example, let's say your criteria for a private lender to hold a first mortgage is that they lend more than \$125,000. Then lenders with less than \$124,000 can generally only hold a second mortgage. You do not accept loans of less than \$15,000 simply because of the paperwork involved.

An example of the way this works is that one private lender will have \$125,000 they want to loan so you purchase the property with their money. They hold the first mortgage. Another lender will only have \$16,000 but that is just what is needed to fix the roof, repair and paint the place to get it ready to rent or sell. That second lender will hold the second mortgage.

You can have as many liens on a property as you want. Just stay under 70% LTV so you don't over-leverage the property.

See, that wasn't so hard!

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## Chapter 22 SEC Questions Answered

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While speaking all over the nation, meeting thousands of real estate investors the past couple years and getting asked these same SEC questions, I realized that there is a lot of confusion concerning SEC regulations vs. private lending.

The confusion seems to arise because of the following:

- 1) Each state establishes its own regulations and exemptions. Therefore there are different guidelines depending on where you live.
- 2) If you cross state lines with your private lending, i.e. houses in one state and lenders in another, the Federal SEC regulations come into play.
- 3) There are a lot of half-truths floating around and when people hear these, they get confused and possibly fearful.

To be better equipped to answer everyone's questions, and since I'm not an attorney nor can I provide legal advice, I decided to hire an attorney to do some research. In fact, consistently recommend that real estate investors hire an SEC attorney for all of their SEC questions and needs. Since each state is able to establish its own regulations, I decided to have the attorney start his research with the state of Ohio.

Some highlights while working with my attorney:

- 1) In Ohio I can acquire up to 10 private lenders without having to file any paperwork with the state. Once I file the proper paperwork my number of lenders can go up. Different states have different numbers and most are higher than Ohio. The range goes from 4 private lenders to 40 private lenders, depending on the state.
- 2) As long as my properties and lenders are in Ohio, just the state regulations apply. If I have lenders and/or houses in different states, then the federal SEC regulations apply.
- 3) If I want over 10 lenders, the paperwork I need to file with the state is very simple.
- 4) I need to give a disclosure statement to potential lenders.
- 5) I can't pool lender money but I can if I file the proper paperwork.
- 6) I can't use the word "guarantee" or any other word that might mislead a private lender. Words like secure, low risk, etc. You see, real estate is risky and you can't guarantee the loan. That would be considered FRAUD.

As a side note, some of you are under the impression that the SEC is out to cause you problems. The SEC is not the bad guy; they are looking for the bad guys. They want legitimate business owners to prosper. They are very willing to help you if you just ask, but remember, they can't give legal advice. They just want you to comply with their regulations.

There are (4) other items I'd like to share with you to hopefully make this a lot simpler.

1.) Exempt vs. Registered

The real estate investor is in one of two categories. You can be exempt, which means you can so get private lenders in your state up to the thresholds of dollars and lenders for your state. This is the way everyone starts out. Some real estate investors will want to go above the threshold so they will become "Registered" by filing paperwork with their states SEC office. They will use an SEC attorney to handle this (Not a real estate attorney).

2.) 3-Touch Rule

The SEC in all state wants you to work with folks that you have a "Prior Relationship" with when you are in the exempt category. To have a prior relationship the SEC considers that if you have known someone for at least 30 days and had at least 3 touches (contacts) they would count.

3.) 13 states

There are 13 states that the SEC wants the real estate investor to send in a memo or brief state-provided form to their office before you get your first private lender.

4.) Safe Act

This impacts the lender in a handful of states. It went into effect 7/1/10 and requires the lender to be licensed in 14 states.

The following is more information from my attorney, Ralph M. Sherman, on SEC compliance. This is general information to help you understand the issues and not legal advice.

*Topic: What is a security?*

The term "security" is broadly defined to mean "any certificate or instrument, or any oral, written, or electronic agreement, understanding, or opportunity, that represents title to or interest in, or is secured by any lien or charge upon the capital, assets, profits, property or credit of any person or of any public or governmental body, subdivision, or agency."

That's the language used on the website of the Ohio Division of Securities. This definition includes such common items as shares of stock, warrants and options, promissory notes, membership interests in limited liability companies, bonds and debentures. Limited partnership interests are considered to be securities, while general partnership interests are generally not considered to be securities. The statutory definition additionally includes the term "investment contract," which has been construed by court decisions to include numerous investment opportunities and business opportunities, which at first glance may not appear to fit within the definition of "security."

*Topic: Does that mean private lending may be considered securities?*

When you are borrowing money from private lenders, you are offering them a security. You're making an IOU to them, by borrowing their money and promising to pay them a fixed interest rate over a certain time period or when the sale of a property is concluded.

When a company sells shares of stock, it's selling equity in the company and it's giving the purchaser of the securities an ownership interest. Shareholders make their money when they get dividends on their investment or when they sell their stock. Private lenders are lending you funds and they make their money by receiving the interest rate you've promised them.

Ohio and all other states allow securities to be offered to lenders when the securities are either registered or offered under a proper exemption from registration. Securities laws do define debt as a type of security. This means that your business has the same kind of opportunities as businesses that sell shares of their company to the public. It also means that securities laws and regulations apply to the business.

*Topic: Who regulates securities?*

Each state regulates investments offered to its citizens. The federal government, through the Securities & Exchange Commission (SEC), regulates offerings across state lines. This means that you'll have to look at the laws and regulations in your state when you're only working with private lenders in your state. If you're working with folks across state lines, you'll need to comply with the laws in each state you're working in and comply with the SEC's rules too.

*Topic: What about advertising?*

In virtually every other area of life, when you have something to sell you would advertise. **Not so here.** There are rules. You can not advertise to find private lenders unless you REGISTER with your state's division of the SEC. You would hire an SEC attorney and have them handle the request for registration.

*Topic: What about advertising across state lines?*

This kind of approach is referred to as a Reg. D offering, and I suggest you use the approach under Rule 504 of Reg. D. If you're looking at using this approach to reach out to private lenders outside of your home state, it is possible to advertise to private lenders.

You would use a state exemption that allows you to advertise and only advertise to accredited investors. The Securities Act of 1933 has several definitions of accredited investors. The most important for your business are likely to be these two:

- 1) A natural person who has individual net worth, or joint net worth with the person's spouse, of at least \$1 million, excluding any equity in a primary residence, at the time of purchase;
- 2) A natural person with the income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year.

*Topic: What sort of disclosure should I give my private lenders?*

When you are reaching out to private lenders, whether it's just a handful or a large group, it's very important that you disclose the risks and benefits of the private lending opportunity you're offering them. There are several reasons you should do this. Some are for the benefit of your private lenders, who will want to know what your business is and how they can make money lending to you.

Securities laws also work to protect private lenders, so you must disclose to them what the potential downsides are. These might include how long it will take to sell a property; mortgage rate changes, housing market pricing fluctuations, or the cost of rehabbing a property. There are others you'll want to mention.

Disclosure documents will also help you protect yourself and business against possible claims that you didn't describe the business properly. A strong disclosure document will help you protect your reputation and protect you against frivolous litigation. It will also help you comply with securities laws and regulations and, should you get a question from a regulator, help you demonstrate to them that you are working to be in compliance.

*Topic: Commissions*

The bottom line on paying commissions is: don't. Almost every state prohibits paying commissions for the sale of securities.

But the state of Texas and a couple of other state do allow finders to help find private lenders for the real estate investor. There are steps to follow to do so.

*Topic: Comparing a mortgage loan to a bank CD*

You should point out that you are not FDIC insured like a bank CD. You want to make sure you do not mislead a lender.

*Topic: Public Offerings*

It's easiest to explain what it means by explaining what a public offering isn't.

Generally, any offering that is not exempt under the private offering exemption of the securities act of 1933 (Regulation D) is a public offering. This means that if you aren't using an exempt offering, then you are getting involved in a public offering. Each and every state has its own definition of exempt offerings and these aren't considered to be public offerings. Exempt offerings are what open the door for you to run your real estate investing business successfully and in compliance.

*Topic: Doing Business*

Remember, securities laws and regulations offer you many opportunities to do your real estate investing business and stay in compliance. Yes, there's going to be some paperwork that goes with these laws and regulations. It's just part of doing business, and that's what I am focused on, helping you get into business and do it the right way and successfully.

Ralph M. Sherman, Esq., is an attorney who has been in practice for over twenty years, working with small-business owners and entrepreneurs to raise funds and run their businesses in compliance with the laws, helping them to take advantage of the opportunities they find to build their businesses. I have asked him to help my students understand how securities laws affect their business.

Special note: The goal of Mr. Sherman's SEC information is to provide some very basic training. The real estate investor needs to seek out their own SEC attorney to get legal advice on this matter.

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## Chapter 23 Exempt Or Registered

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There are only two categories; exempt and registered when it comes to acquiring private lenders and the SEC.

Many of the rich successful national real estate speakers have private lenders. When you get an education in real estate, you go to live events, you go to weekend seminars, you listen to webinars, and many of those trainers have private lenders. In fact, many of them tell me that they got my system and that's what made the difference in their lives.

At my "Where To Get The Money" boot camp my students have received commitments from potential private lenders for over half a billion dollars in the first 24 hours of my live event. This is from their family, friends, and associates. I want to make sure everybody understands this. I started holding boot camps back in 2004 and they typically amassed multi millions of dollars in the first 24 hours of the event.

And as the event goes on more money continues to roll in but I cut the clock off in the first 24 hours. When you add up all the money that's been amassed in my boot camps, they have amassed over half a billion dollars. Is that impressive or what?

I believe using private lenders is the greatest source of funding you can use. The benefits tremendously outweigh any downsides. The only downside I can see is if you fail to be in compliance with the SEC and it's easy to be in compliance.

Here is more training from my SEC attorney.

You've got two options; exempt or register.

### **Exempt**

If you're on the exempt side, you're working with people that you have a prior relationship with. I like to call it family, friends, and associates so that I can categorize it and talk about those different categories of folks. There's no filing unless you're in one of 13 states and if you're in one of the 13, there's a minimal filing which is just a memo or a small state form. There are thresholds for both the number of private lenders and the dollar amount on the exempt side and then if you want to go above them, then you've got to register.

## **Registered**

Now, if you want to work with a list of strangers, then you have to register. No choice, no option; if you want to advertise, if you want to pool money, or if you want to go above the thresholds. In every state, there is a lender threshold and a dollar threshold but the good news is you can go unlimited but you have to register to do that. You must file and you do it through your own SEC attorney.

Every state has the five same areas controlled. Do you think all the SEC officers got together and decided what to control? Well, here they are.

### **1) Advertising.**

They're controlled because the SEC wants to make sure that your real estate empire doesn't get so big that if it tumbles, you don't hurt a lot of people. Their goal is protecting the little old gray haired lady from someone taking her life savings. And yes your website is considered advertising. So advertise and pooling, you can do both. You just have to ask for permission. You have to register. Don't ever use the word "guarantee". The SEC believes (and rightfully so) that saying the loan is 'guaranteed' is misleading the lender. You see, real estate can be risky and to tell the private lender the loan is guaranteed is considered fraud by the SEC. In fact, I tell my lenders in writing through my disclosure statement that real estate is risky. I've never lost a lender because of it.

**2) Pooling.** Same reasoning as above.

**3) Commissions.** You can not pay commissions. Why?

Well, back in the 1920's there was a person named Charles Ponzi. He found that you could buy postal reply coupons from Italy at one price, a lower price, and sell them in the US at a higher price. He was telling people you could invest your money and get a higher rate of return. The only problem is that Charles took their money but didn't get the postal reply coupons; just kept their money so he didn't invest it.

Well, what he did was he had an army of people out finding investors for him and that army of folks would all get paid a commission if they brought him an investor. Charles obviously went to jail. When the Security Exchange come along in 1934, then they looked back at what had happened to Charles and said that was one of the problems so we're not going to allow people to take commissions.

There are three states that do allow commissions, though. Texas happens to be one of them. And there might be more in the future but that's the way it is right now.

**4) Dollar limits.** When you're in the exempt category, you typically have a million dollars. I believe Vermont and Indiana are at a half a million; the rest are a million. If you want to go unlimited, fine, you can create a private placement memorandum and you can go unlimited.

**5) Number of lenders.** In my state it is 10. Most states are between the 15 and 25 range. Quite a few states are 25 which is a lot. If you want to go higher, you've got to register. That's the way it works.

You follow these five areas so you never again have to beg for money from a bank again.

I want you to be safe and wealthy. I hired an SEC attorney to research every state. I did the heavy lifting so you didn't have to. Who realized that the SEC doesn't have to be complicated if you've got the right information in front of you?

## You Have Two Options

Option A Exempt	Option B Registered
Family Friends & Associates	Advertise
No filing or minimal filing	Pool
	Above Threshold
	Must File



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## **Chapter 24 Pooling Money**

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WHEN YOU POOL MONEY from private lenders, you're putting funds together from two or more different private lenders.

You obviously need to look at doing something different where your state's paperwork is concerned. This means you will need to file paperwork with your state and provide a disclosure document to your potential private lenders. My SEC attorney has provided the following information.

You have different filing choices that allow for advertising to find private lenders. These registrations allow for pooling private lenders' money in running your real-estate investment business.

These filings also allow for advertising and more private lenders.

Remember, securities laws and regulations vary from state to state and the Federal SEC has its own set of laws and regulations.

You should use or form a new business entity. You should choose a corporation (which could be an S-corporation) or an LLC. Some states have different filings available depending upon whether you have a corporation or an LLC, and LLC's are sometimes treated as partnerships. Most states won't allow you to pool money when you're operating as a sole proprietorship or DBA.

You cannot use your state's exemption for real-estate transactions (similar to Ohio's 3(H) exemption) when you pool lenders together. You cannot use this particular exemption because there is no filing or registration involved. You must "upgrade" to make a registration that allows pooling. All states have similar paperwork levels. You should use one of your state's filings that allow for pooling money.

These filings require you to fill out paperwork, informing the state regulator about your business and what you're doing. It usually requires you to disclose information to your potential private lenders, which is for your benefit as well as your private lenders' benefit.

You'll pay a fee to your state regulator when you file your paperwork.

You shouldn't be pooling money from private lenders unless you're in compliance.

In order to be in compliance with your home state's securities laws, your SEC attorney needs to find the proper exemption, filing or registration option and comply with its requirements.

The following is some general information on staying in compliance with your state's requirements.

When you use an exemption to bring in private lenders, you are making an offer and sale of a security. It's important to understand that an offer to sell is usually treated the same as a sale when it comes to securities compliance.

Two key concepts to understand when you sell securities are that there are exempt securities and there are exempt transactions. Whether you're selling stock, equities, borrowing money, or debt, these are treated as securities. An exempt security usually means a security issued by a governmental agency or authority.

An exempt transaction refers to the sale of a security not issued by a governmental agency that has been given an exemption under state law (or federal law) because of the nature of the security and how it's sold.

Many of my students are basing their compliance on the exemptions in their states that are similar to the one in Ohio found under 3(H). Here is what it says...

*Ohio Revised Code, Chapter XVII, Title 1707.03(H) The sale of notes, bonds, or other evidences of indebtedness that are secured by a mortgage lien upon real estate, leasehold estate other than oil, gas, or mining leasehold, or tangible personal property, or which evidence of indebtedness is due under or based upon a conditional-sale contract, if all such notes, bonds, or other evidences or indebtedness are sold to a single purchaser at a single sale, is exempt.*

Remember, these are still securities, and the sale of these securities can be exempt under securities laws. Compliance with the offer and sale of these securities is still required.

Some states may offer you more than one choice, so you'll want to evaluate those choices.

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## Note

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The next four chapters are not on private lending but they close the circle on:

1. Find
2. Fund
3. Fix
4. Sell Quickly (ok Flip)

And will give you some insight on running a real estate business.

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## Chapter 25 Buying the Houses

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Let me run through the steps that I have used to buy five to seven houses a month with no money out of my pocket.

### **Step one –**

I find a rookie realtor. I have honed this down to where I've got a system set up, and if I get a rookie realtor, I've got someone, that is going to follow my lead, and get me into houses that I want to look at. They're going to typically do what I asked them to do so they've got to follow instructions, and they're hungry. They're looking for business.

### **Step two –**

Make sure it's somebody you like because you're going to be spending some time with them.

### **Step three –**

I give them my rules, "my buying criteria", what I'm looking for. In my case, I'm looking for three bedroom homes out of the war zone. I don't want to buy in areas that are typically all rentals. So that's the criteria, and then they do all the work as far as the MLS. If you've got a realtor that's bringing you the MLS to go through. Your working with the wrong person. I never look at the MLS. I let them do the work; decide which ones we're going to look at.

### **Step four –**

What I do is give them instructions that I want six to ten houses to look at every Friday, and so at 1:30 in the afternoon, we hop in his car, and when we get to the house I've got a worksheet on a clipboard so that I can go through a routine on where I need to spend rehab dollars. Does it need a roof? Does it need exterior paint? Does it need landscaping? Does it need spouting? Is the foundation cracked? While I'm looking at everything on the outside of the house, he's taking the lockbox off the door and getting the keys out and the door open, then we'll go through the inside. I take a look at what's needed inside the house. Interior paint – does it need bathroom work? Does it need kitchen work? What's the electrical box look like? Carpet, paint – typical things inside a house. Anywhere from about six minutes to twelve, maybe fifteen, I'll be coming back out of the house, and I'll have my worksheet fairly completed, and as I walk off the steps, I'll make an offer on every house. If it's an ugly, ugly house, it'll be a low, low offer. So we do that every Friday. At the end of the month, I'm going to have 24 offers floating around out there.

### **Step five –**

Since I've already done my due diligence on the house, I turn around and have him put the offer back in on the 20<sup>th</sup> of every month. Why the 20<sup>th</sup>? It's just the date I picked. Prior to the end of the month –maybe the bank would want to unload their inventory before the end of the month and that would give them a chance to do that – these are bank owned houses. They're empty houses, so I'm not having to wait for somebody to let me in or walk through the house. So we're in and out.

Repeat that every month. Look at my expenses. Most of you are out there doing newspaper ads, and signs and yellow page ads, and I do all those too, but in this system where I buy the most houses, I have zero expense. No costs. I've gotten so many questions on this, I created a "How To" book, and an audio CD. On the audio CD, I interviewed my realtor.

If you're interested, the information on 'How Alan buys 5 to 7 houses a month' is on my website [www.PrivateLendingMadeEasy.com](http://www.PrivateLendingMadeEasy.com). When I came out with it, it was an immediate smash success.

The bottom line is that with the power of having private lenders in my life, I can have hundreds of thousands of dollars, offers made at the same time and the confidence that if they all get accepted, I can close quickly with all cash.

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## Chapter 26 Fixing the House Selling Machine

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I was buying 5 to 7 houses a month and my market for selling got soft. I started to pile up empty houses so I needed to take steps to fix the selling machine and here is what I did to fixing my house selling machine: My exit strategy is rent-to-own so when I talk about 'selling' I am talking about getting a tenant/buyer in the property.

1) Fired the sales person.

I changed the compensation plan. I had a sales person that was getting a higher amount if she cashed out on a house and a lower amount when we put someone in on a rent-to-own basis. Well it took me a few months to figure out that she was turning down rent-to-own folks and holding on to houses waiting for the cash buyer. 85% of my homes go rent-to-own and then I get cashed out in 12 months. She was holding houses after they were newly rehabbed waiting for the perfect buyer. Dumb move. Cost her, her job and cost me a lot of money on holding cost.

2) Hired two new sales folks then fired one of them.

There is a rule to hire slow fire fast. I am getting better on the fire fast part. Don't want to seem harsh here but the bottom line is you can't let anyone slow you down and potentially steal your dreams...

3) Shut down buying machine.

Ouch! Didn't want to do this but the market was soft and so I put my house buyer on selling houses too.

4) Started monthly off-site, meetings with my staff:

- a) Looked at past years numbers (sold houses) to determine what worked and what didn't. This was very enlightening and so we then took that information and did the following.
- b) Adjusted the 'model' we were using to purchase houses. What comes in needs to go out and what was coming in wasn't selling. The results of the revised model were that I needed to buy more high price houses to rehab and not rehab the low-end properties, just wholesale them to someone that wants a rental.
- c) Stop over-fixing houses in low-end areas. These are properties that we still had in inventory and would get them back after an eviction. The biggest change was rather than putting vinyl in the kitchen and bath and have good carpet in the whole house, I switched to putting nice carpet with a nice pad downstairs but glue down carpet in kitchen, bath and upstairs bedrooms to cut cost. We

found that many of these homes would come back to us one or two times before they finally sold and this change would not hurt us selling these houses in the low-end area and be cheaper in the long run.

5) Stage the houses.

Makes the rehabbed home look nice but at a very low cost. We put up a cheap table with fake flowers and a tablecloth in the living room. We put potholders in the kitchen and hand towels in the bathroom and hung a shower curtain. Mini blind (very inexpensive ones) in some, if not all, the windows. I even have guidelines on how I want the mini blinds to look once they are up. Keep them closed for the nice look BUT pull them up a foot so people can look in the house. By the way, it seems like the bath towels always come up missing by the time the house sells.

6) Fine tune the advertising we were using.

Test, test and test until we hit on the ones that work. You know what I found? Yard signs work best. Do not run newspaper ads early in the month. The phone starts ringing after the 15th.

7) Listed some homes.

I sold two this way. I have it set up with my realtor that if I find a buyer, he will cancel the listing at no charge.

8) Wholesale more.

9) Do sweat equity deals.

I love these. No rehab work for Alan.

10) Get the house selling website in shape.

Made sure all the house pictures were up-to-date after rehab and all the info was current.

11) Get our 1-800 number home information up-to-date.

12) Hired a new person to handle much the clerical work above.

One person is responsible for the rental management for all the houses we own. The new person handles the buying and selling clerical work such as advertising, land trust creation and dealing with private lender paperwork.

13) Got more signs in the yards. 5 in every yard plus one in the window.

14) Get pointer signs out. 4 per house

15) All my house sellers have a cell phone on them, etc.

The above was an aggressive approach I took to solve our selling houses. It worked and we could then crank up the buying machine once again.

I realized there are a lot of folks that need to know how I sell houses and the machine I have set up. So I called my sales people together and we recorded everything we do. I included the documents we use also, check it out at...

<http://www.privatelendingmadeeasy.com/products> “Alan’s Secret Method to Buying 5 Houses a Month” and “How to Sell Houses at Lightening Speed”.

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## **Chapter 27 Dealing With Contractors = Lessons Learned**

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### **Contractors/handyman/sub-contractors**

As I started getting properties it seemed like each had their unique problems. Some had trees, shrubs, and junk that needed to be removed while others had nice yards but bad roofs and so forth. With each new house I added the names of different types of workers. I'd evaluate the work and price of each and choose to keep their numbers handy and add them to my team or keep looking for someone better.

After awhile I was able to walk through a property and see what needed to be repaired or replaced and I would immediately have someone in mind that could do the work.

A couple of early lessons I learned that I want to share with you can help you avoid some pain in this area.

First lesson...

What was the skill level I should hire?

At first, 'to save me money', I hired the lowest level of handyman. These are the workers that when you ask them what type of rehab work they can do; plumbing, electrical, drywall, and carpentry they will answer "I can do it all". These are the guys that are not licensed. You can spot them with their old pickup truck with a DBA company name, if any name at all. Now I guess I'm a slow learner. Took me a couple of years of having material and money stolen, jobs started and never finished, poor workmanship, chasing contractors to get the job finished, being overcharged, etc, etc, etc.. I woke up and realized that I had hired the wrong folks.

Now what you should do when you meet these folks is run.

Do not hire them...

There are roughly 3 levels of contractors. 1st level I just described, the 2nd level are skilled workers, they have some folks working for them and were licensed. The 3rd level is the contractors with the big ads in the yellow pages, big crews and big trucks. The boss never gets dirty. I learned that I should work with the 2nd level of contractors. More competent and skilled than the 1st group. Cost more too but the work gets done. Less expensive than group #3 that has to pay for their big yellow pages ad.

2nd lesson...

In the early years, I'd hire one person to do demolition work, another person to do drywall, someone to do carpentry work of putting in cabinets and hang doors, another person to paint the house. I was writing out a check to buy the carpet and then hire someone else to lay carpet. No more...

Today, I use the philosophy of writing no more than 7 checks per rehab. Checks are written to electrician, plumber, roofer, landscaper, carpet company, Furnace Company, and sub contractor.

I need to explain what the sub contractor does. He has a crew of about 10 folks. He gets the trash out of the house along with old sinks, drywall, carpentry work, interior and exterior paint.

Get all the jobs quoted and get it in writing.

The bottom line is hire higher skilled folks, pay more but the job is done right.

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## **Chapter 28 Team Building My Dream Team**

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While many of you are trying to be a one-man or one-woman show -- the owner, manager, rehabber, rent collector, bookkeeper, plumber, electrician, and everything else for your business -- a much easier and more profitable way is to build a team.

You don't need to know everything there is to know about everything. If you are not an attorney, find a good real estate attorney. If you really don't like or understand accounting, find a good accountant who specializes in real estate.

It is truly worth the time and effort it takes to have a team of experts to handle the variety of tasks associated with running your business.

How is this more profitable? Well for the hours you spend trying to learn what they already know, you could be out making real estate deals and making money in your area of expertise. I can call my accountant, pay a reasonable fee, and quickly get the right answer. It is absolutely worth it.

What other people might you want on your team? Well how about if I go back to the beginning of my business and see what team members I added as the company evolved.

### **1) Real Estate Educators (Gurus)**

In the beginning I purchased a course from a real estate guru and started learning about the business. This information was the foundation of my business and I have spent hundreds of hours learning from many of the great real estate gurus. I learned early on that the key to this business was getting a solid education.

### **2) Other real estate investors**

Once I decided this was something I wanted to try but was still hesitant to just jump out there on my own, I joined the local real estate investment association. Here I found a tremendous amount of information and support from people in my city. And a bunch of great friends.

### **3) Office staff**

Over the years my company has grown from a file box in my two-bedroom apartment to an office with people to answer the phones, update my web site, schedule my appointments, and take care of many of the parts of the business that I am now too busy to do.

1st position I hired was someone to pay the bills and handle the filing. They came into my home on Saturday mornings and spent 3-4 hours working. Then I got my 1st 600 sq. ft. office and they would work 30 hours per week. Then, in time, went to 40 hour a week job.

2nd position I hired was someone to get tenant/buyers into my empties. They would stage the property with applications, take the phone calls and work with the folks to get them into the property to look at it. I use lock boxes with keys inside so we don't physically show the unit. The tenant/buyers let themselves in the unit. Once we ran credit and they qualified, I would have them go to the office and the office clerk would work with them to sign the paperwork, change over utilities and give them the keys.

To manage your business and keep in touch with your staff, you need to do a couple of key things early on. 1st you need to set up systems. As an example, I setup one day of the week I want all bills paid. What day of the month we invoice tenants and what to do if the tenants don't pay.

These are the start of my systems. Start documenting every step to take chaos out of your business. Then hand these systems off to other folks to run for you and build your team.

The 2nd part of staying in control is getting key reports from your office folks.

I have a number of reports that I get on the 1st day of the month. One is an updated property listing showing what we own. We buy and sell houses every month and as things change I want to make sure I have clean data.

Another is a rent increase schedule so I can make sure I raise rent if it's time.

I also get a report on monthly cash flow.

All these key reports will help you stay in tune with what is happening in your business and your team.

#### **4) Advertising**

I have lots of people help me with advertising.

When I sponsored a Little League team, the youngsters became my advertising team members when they wore their shirts with my name and phone number on them.

I have a specific person at the newspaper that I ask for because I've worked with them before and they know how I want my ads to appear.

I have a sign company that I've used for years because when I call them, they know what I liked about the last order.

#### **5) Attorney, Accountant, Insurance**

Of course, I have a great accountant and insurance person. I have a number of attorneys. I focus on their specialty. One for evictions, one for closings and a bank of attorneys on retainer for other stuff.

## **6) Private Lenders**

Now, at this stage of my business I have lenders on my team who have helped me launch my business to an amazing level.

In Summary...

I consider all these people as part of my dream team. I take care to keep these relationships strong. A strong team helps me keep a strong and growing business.

Start building your team!

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## Summary

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In the real estate game all of the (4) elements are critical to financial success.

1. Find
2. Fund
3. Fix
4. Sell Quickly (OK Flip)

This book briefly teaches on the find, fix and flip portions, but without consistent and adequate funding you can lose deals. The purpose has been to show an awesome yet little know secret to fund deals. Struggle to find funding and ultimately slow your wealth building.

Private lenders put you in control. They eliminate the fear of making offers for fear they are going to get accepted and then you can't close because of lack of funding.

I encourage you to put the lessons in this book to use immediately and take a leap forward to achieving your real estate wealth building dream.

*E. Alan Cowgill*

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## About Alan Cowgill

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*Alan Cowgill is a speaker, author, and real estate entrepreneur. Alan has completed hundreds of real estate transactions. His step-by-step system "Private Lending Made Easy" teaches others to find private lenders. Contact Alan at 937-390-0816 or 866-831-3540. For more information go to [www.PrivateLendingMadeEasy.com](http://www.PrivateLendingMadeEasy.com).*

### Biography

E. Alan Cowgill is the owner of Colby Properties, LLC and President of Integrity Home Buyers, Inc. Alan is a full-time real estate investor investing in single family and small multi-family properties in Springfield, Ohio.

Alan uses Private Lenders, not banks, to fund his real estate purchases. By doing this, he has created his own private bank of funds. Alan looks for "Win-Win" situations where the seller, the lender, and the eventual homeowner can all "Win." He is not a realtor, but a private investor.

Alan has served as an elected official to the Board of Directors for the Clark County Property Management Association. He is an author, consultant, and national speaker. He has been asked to speak on the topics of "Investing for the Beginning Investor" and "Finding Private Lenders." His home study system "Private Lending Made Easy" shows new and seasoned real estate investors how to find private lenders for their own real estate business.

In addition, Alan:

- Holds a BS Degree in Business Management.
- Has over a quarter century experience in business management.
- Is a published author not only for real Estate, but also in American Industry.
- Featured in the Business Section of the Springfield News-Sun newspaper in May, 2001-article on real estate investing in Springfield, Ohio.
- Adjunct Professor for five (5) years at Clark State University.
- Acknowledged in the book "e-Mail Basics" ISBN #09676313-1-9.
- Speaking engagements include: Yovel, England; Dallas, Texas; Fort Collins, Colorado; Atlanta, Georgia; Jacksonville, Florida; Cashiers, North Carolina; Las Vegas, Nevada; and Springfield, Ohio.
- Business trainer and consultant.
- Appears on three real estate infomercials that are shown nationwide.
- Contributing author in the book "Walking with the Wise Real Estate Investors" which included chapters by Donald Trump and Dan Kennedy.

And best of all, Alan is the father of three children.