A Guide to Safe and Consistent Cash Flow Making Private Money Loans

Discover How You Can Profit in the Business of Distressed Property Investments and Never Deal with Tenants, Toilets, and Trash!

Lee J. Carney
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ABOUT THE AUTHOR

Lee J. Carney has over a decade of banking and commercial lending experience. During his corporate banking career with Farm Credit Services and Sterling Savings Bank, Mr. Carney risk-assessed and approved over $425,000,000 in commercial real estate loans and personally managed a portfolio of over $42 million in adversely classified loans. In 2007, Mr. Carney left corporate banking to develop private money lending techniques where everyday people learn to profit and create wealth making private money loans. As founder and managing director of Mountain Capital, LLC, a commercial private money lender located in Spokane, WA, Mr. Carney is a sought after speaker and consultant. He works with investors and entrepreneurs mentoring and educating them of the benefits of private money lending and teaching them the most profitable and most effective commercial loan structure for their deals.

Mr. Carney is a Suma Cum Laude graduate of Arizona State University where he received his Bachelor of Science in agri-business management with emphasis in finance. Mr. Carney served four years in the U.S. Military, is an Eagle Scout, and is an active Boy Scout volunteer. He resides in Spokane, WA, with the wife of his youth and two children.
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INTRODUCTION

My name is Lee Carney and I am going to introduce you the time-tested method to create wealth making safe and profitable private money real estate loans to local investors and business entrepreneurs.

You will learn how to avoid the current detrimental economic state of the middle class by significantly increasing your return on investment, ROI, over your current return you are receiving from income property, certificate of deposits, money market accounts, or mutual funds. You will learn how others, right now in your community, are personally earning 10% to 20% return on their investment as private money lenders.

We have a lot to cover, so let’s get started!

To Your Wealth,

Lee J. Carney
CHAPTER 1

**CAUTION:** If you believe high investment returns are impossible or are high risk, consider shifting your paradigm by thinking out of the box. You know the saying, “If it sounds too good to be true, it probably is.” Well, that saying does NOT apply to private money lending.

My financial partners and I have been making high returns consistently for years. For an unspecified amount of time, I am willing to teach other business people how I make real money in a safe and consistent way. I don’t have time to convince you of anything. Naysayers are welcome to keep their current low returning investments and maintain the status quo.

If you are ready to start creating wealth in a secure and consistent manner, the best aspect of this book is it introduces you to how private money lending will generate cash flow for you, while at the same time, provide excellent security and safety for your principle investment.
What is Private Money Lending?

We are going to talk about private money lending using real estate as collateral. However, many other types of collateral can be taken to secure a private money loan such as heavy equipment, business inventory, or automobiles/recreational vehicles, but, that will be for another time.

When regular people like you and I lend our money to a real estate investor to buy a distressed property at a discount, this is called a hard money loan or a private money loan. It is called “hard” because the collateral taken is solid and tangible. The funds to close on the purchase (your money) are secured by a 1st mortgage or deed of trust (lien) against the house, small apartment complex, or commercial property you have taken as collateral. Essentially, private money lending is your opportunity to become the bank and earn the high interest rate that the bank earns on your money when you give a bank funds through a bank certificate of deposit or a bank money market account. It’s your opportunity to take the place of the bank middle man and increase your annual returns. The time is now to consider alternative forms of investing and making money.

If Private Money Lending is so Great, Why Aren’t More People Doing It?

Answer: They are! In every community, right now, there are private money lenders profiting in the business of making loans to investors and
business people. These lenders are consistently making 10% to 20% return while being secured by first deed of trust on marketable real estate at a low loan to value. However, these private money lenders are not in the habit of telling you about their success because private money lenders really don’t work that hard and making a private money loan is easy.

So Why am I Letting You in on the Secret of Private Money Lending?

Frankly, I don’t need to and I don’t know how long I will continue to, but, right now, I get a charge out of seeing the twinkle in a new private money lender’s eye when the first check is delivered by the FED EX person and they see a very bright financial future for themselves and their family. In addition, because my company makes loans in a certain geographic area, I will never make a loan, for instance, in Jacksonville, Florida or in Denver Colorado. However, I will teach you how to make a safe and secure private money loan in your geographic area. Ask yourself what consequences the following questions will have on your business and investments.

What will be the result of millions of baby boomers being forced to withdraw their defined benefit Individual Retirement Account contributions from the stock market?

In a few short years, 2016, the first of the 75 million baby boomers will...
turn seventy-one and one-half years old and will be required to withdraw funds from the stock market. This will create a market sell-off as baby boomers convert to cash. Quoting Warren Buffett, “The fact that people will be full of greed, fear, or folly is predictable. The sequence is not predictable.” Typically, the effect of more sellers than buyer on the market is a bear market with depressed prices where fear and greed dominate emotions. In contrast, private money lenders have their money secured by marketable real estate at low loan to value ratios.

How has the advice, “Invest for the long term and diversify”, been working for most investors?

When we invest in America’s stocks and bonds through mutual funds, we are professing our faith that the fund manager will be cautious stewards of our money. We anticipate modest to high returns on our investments.

In return, we, the shareholders, pay mutual fund and bond fund managers large salaries and bonuses to manage our stock and bond funds. These large salaries and bonuses are facilitated by boards of directors that consent to counter-productive management policies and excessive fees, with minimal consideration of their powerful negative impact on the returns earned by fund shareholders. This is in the light that **Diversification is not always a good idea.**
financial studies have verified very few mutual funds outperform the market.

Furthermore, each percentage point handed over to a fund manager in fees is one less percentage point in returns for the investor. Given fund manager’s high salaries and fees, the investment dividend to the investor is quite lack luster in comparison. If a mutual fund or an individual stock “defaults” and goes down in value or does not pay a dividend to investors, investors have no recourse except to withdraw their reduced initial investment and diversify into another unfamiliar stock, bond or mutual fund.

Diversification is not always a good idea. Any financial adviser will tell you not to put all of your eggs in one basket. You may agree saying, “If I put all of my money in one basket, that basket could break.” That makes sense to the passive investor’s thinking.

However, that philosophy does not make as much sense when you study what one of the wealthiest of multimillionaires, Andrew Carnegie, said on the subject, “The way to become rich is to put all your eggs in one basket and then watch that basket.” Carnegie understood this basic rule of wealth. There is a time to

"The way to become rich is to put all your eggs in one basket and then watch that basket."

Andrew Carnegie

"Wide diversification is only required when investors do not know what they are doing"

Warren Buffet
diversify and a time to concentrate. If you are just beginning to create wealth, diversify because you really do not know what you are doing. If you take a small loss while you are building your investments, it will not harm you. However, being so diversified, you will never bag the “big elephant” and make a great deal of money either. The big money comes when you discover your strong suit. When you find your strong suit, throw your whole energy into it. Don’t dissipate your energies in multiple directions diversifying. Become the expert. As Warren Buffet said, “Wide diversification is only required when investors do not understand what they are doing.”

So what about diversification? It is another word for insurance. As a private money lender, you should diversify only a small percentage of your cash into money markets or certificate of deposits in preparation to make a loan where you will earn 10% to 20% return on your investment.

Have you considered the effect of inevitable inflationary pressure on the average American’s paycheck or savings?

If a government prints money faster than the growth of gross national product, it reduces the value of money, and this invariably causes inflation. Governments often resort to printing money when they cannot finance their borrowing by selling bonds. This inflation can cause economic slowdowns
and can be extremely damaging to the growth of the economy. As the United States government delegated the right to print the nation's currency, the Federal Reserve Bank (the Fed) was entrusted the right to print massive sums of money out of thin air and then charge the American taxpayer interest on that money. In essence, what the United States government did was place the American people into indentured servitude by forcing the people to pay usury on worthless fiat currency, which is not backed by gold.

With the United States’ unprecedented debt, inflationary pressure is not hard to fathom. John Maynard Keynes (1886-1946) was a British economist, whose ideas had major impact on economic and political theory. He stated, “The best way to destroy the capitalist system is to debauch the currency”. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens.” By contrast, a private money lender takes marketable real estate as collateral. A tangible asset like real estate is an effective tool against inflationary pressure.

It is true, bank certificate of deposits and money market accounts are backed by the full faith and credit of the United States government. However, according to the United States Treasury, this government currently has unprecedented debt of trillions dollars and climbing and unheard of deficits. The United States government unfunded liabilities are
An ineffective tool against inflation is bank certificate of deposits. Certificate of deposit rates not only provide depositors minimal income, rates are also well below estimated inflation of 3% per year. Notice, the 3% is an estimated figure. According to USA TODAY, the Federal Reserve does not calculate the cost of food and fuel in the 3% inflation number because these categories are “subject to wild swings”. If food and fuel are calculated into the government’s inflation number, inflation is estimated at 7% to 8% per year. However, through short-term and well-structured loans, private money lender’s principle can be protected with sizable returns. Private money lenders lend today’s dollars and are repaid by tomorrow’s inflationary dollars, thereby counter balancing inflationary risk.

Similarly, bonds are nothing more than guaranteed certificates of confiscation. The investor has double risks: 1) potential default from the bond issuer, and 2) inflation risk, when the substantial printing of new currency to prevent default makes the currency worthless. Even if the investor is paid back by the issuing company or government, it is quite possible the investor would be paid back with depreciated dollars. Due to fiscal irresponsibility, even independent sovereign bond debt is risky. Without a valid source of funding, politicians have over committed promises of the public treasury.
By contrast, a private money lender takes real estate as collateral and is paid with inflationary dollars, not deflationary dollars. A tangible asset like real estate can always produce rental cash flow during slow economic times.

**How damaging will the outcome of higher taxes be on your investments and your businesses?**

The year 2010 was the first year Social Security was technically insolvent with an expected deficit of $41 billion. The Summary of 2010 Annual Reports, Social Security, and Medicare Boards of Trustees stipulated that “Social Security expenditures are expected to exceed tax receipts this year for the first time since 1983.” In addition, the report goes on to state, “After 2014 deficits are expected to grow rapidly as the baby boomer generation retirement causes the number of beneficiaries to grow substantially more rapidly than the number of covered workers.”

Someone will have to pay the deficit! At some point in the foreseeable future, America as a nation will have a very unpleasant encounter with our debt. Health Care legislation will certainly cause taxes to increase as well. Alternatively, the private money lender has the ability to maximize tax write offs by establishing Limited Liability Companies, Partnerships, and Corporations to incur the least tax liability.
In addition, private money lenders habitually use self-directed individual retirement account funds, IRA, to fund their loans. Self-directed IRAs are either tax free or tax deferred, depending if the account is a Roth or Traditional IRA. Regardless, the IRA account holder’s funds are able to grow tax free! This is a huge benefit when calculating compound interest which I consider to be the eighth wonder of the world.
What Kind of Interest do People Earn as Private Money Lenders?

You are in control of your profit. As long as you stay within the structure of your state’s lending laws, you can earn as much as you want. Furthermore, you can charge any point fee, inspection, fee, or document processing fee the market will bear! Making private money business loans earns me a minimum of 10% to 20% annual return on investment!

This is done through an interest rate of 10% to 13%, a point fee of 4%-6%, and a documentation fee. A point fee is basically a loan fee. For instance, if my company made a $100,000 loan, at a minimum, I would charge $4,000 for a point fee. That is $4,000, not including interest, for less than three hours of work! This works out to over $1,300 per hour!

The trick to such high return on investment is the quick turn of the principle loaned. As such, all my \textit{Making private money loans earns me a minimum of 10\% to 20\% annual return on investment.}
loans mature in less than six months. If more borrower time is needed, an extension of the maturity date of the loan is granted for a small fee.

Why Would Anyone Borrow Money at this Interest Rate When Banks Charge Less?

The bottom line is…the borrower makes money! A rational person will not borrow at higher rates if there was not a financial incentive to do so. There are multiple opportunities available to borrowers if they can close on their business transaction fast. Private money lenders typically close their loans within 3 days! Conventional banks take up to 45 days to close. If a borrower needs money now, they will always obtain a loan from a private money lender, albeit more expensive.

More specifically, real estate investors commonly borrow money at these rates because it’s not the cost of the money that is important but rather it is the speed and availability of the funds.

Case-in-point: Real estate investors buy distressed properties at steep discounts for profit. Many times, the properties purchased are so distressed that banks take a long time to evaluate a loan package. This usually works against the deal. Speed is a real estate investor’s best friend. The best real estate deals are made when the real estate investor can close fast and pay cash.
So, when banks delay and are too slow to fund, real estate investors lose deals. Because real estate investors buy for profit, paying a high return on money borrowed is really just akin to giving a little profit away to the lender that helps get the deal done. It’s a win/win opportunity for both lender and borrower. You, as the private money lender, are presented with the opportunity to earn high returns secured by low loan to value real estate deals. A low *loan to value* is the relationship between the loan amount and the market value of the collateral. The borrower, who is the real estate investor, gets to close on a profitable real estate transaction without the limitations and delays usually imposed by traditional banks.

That said, the borrower does not always make money. Sometimes, the borrower’s real estate transaction performs well and the borrower makes money; however, sometimes unforeseen circumstances occur, and the borrower simply breaks even or possibly even loses money. Nevertheless, private money lenders are always paid and are always well secured by collateral.

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**Buying Real Estate vs. Making Private Money Loans**

The key to controlling and profiting from real estate is not to buy and sell real estate, not to wholesale equity deals to another investor, and not to buy and hold rental income properties. The key to making big money in the
real estate industry is to make private money loans to real estate investors and entrepreneurs. This is the Gold Fever principle discussed briefly in the following paragraphs and more in depth in my book Four Steps to Private Money Lending Profits.

Gold Fever

In January of 1848, a small nugget of gold was found at John Sutter’s mill in Northern California. Sutter was afraid that the discovery of gold would take his workers away from the mill. He was also concerned that gold would bring prospectors onto his land. He asked his workers at the mill to keep the gold a secret, but it did not stay a secret. By late 1848, gold fever started to spread across the country making national news. In droves, people flooded the state of California seeking their fortune in gold!

However, while a minority of miners made money during the Californian gold rush, the majority of miners did not make a great deal of money from the gold rush. Actually, out of every 1000 miners, 3 got rich. So, who did make the money during the gold rush?

The merchants made the money! It was very common for people to become wealthy by providing the miners with food, supplies and services. Many people who became wealthy ran the boarding houses, the livery stables, and supply stores. There is a story of an entrepreneurial gentleman, who found out about the gold at Sutter’s mill while he was in Northern California. He immediately headed south to San Francisco and
bought every pickaxe and gold pan from every supply store in town. He then established his own supply store and spread the word about the gold rush! When buyers of pickaxes and gold pans came to his store, his inventory was priced twenty times the cost of what he paid for it as he had a virtual monopoly for pickaxes and gold pans. Just like in 1848, the entrepreneur who thinks out of the box will be successful and profitable.

The parallelism between private money lending and the gold rush is uncanny. Today, all real estate investors want to get rich building residential subdivisions, flipping properties, or managing large apartment complexes or commercial properties. However, only a minority of the participants in this market will get rich. Much like the mass of miners in 1848, the participants of this market work too hard and are always looking for the next dollar. The way to make money in the real estate market is by providing the capital to the “miners” through private money lending.

In the private money lending business, the borrower is the one who works hard. He takes the risk, and equity is built in the lender’s collateral through the borrower’s capital improvements and hard work. What a deal for the lender! Remember, the objective is not to
work harder and make money – trading time for money. The objective is to work smarter and make money.

Case-in-point, have you ever noticed how diligently a fly tries to fly through a closed window. He will continually bang his head against the glass until he dies or knocks himself out. I am sure you have seen what is on the window sill – yes, dead flies! The “work harder” system does not work. Most people will work harder if they want to make more money. They will even trade more of their time for money. I submit, stop working harder and start working smarter by making private money loans. Make your money start working for you.
CHAPTER 3

Compelling Reasons NOT to Buy Real Estate Outright

Time consuming locating discounted properties
Multiple offers to make and analyze
Multiple properties to inspect
Multiple title searches to perform
Multiple lien searches and easements to verify
Potential loss if property is not bought correctly
Substantial personal liability associated with property ownership
Required to obtain a contractor’s license in some states
Hours at the court house reviewing records
Hours standing at auctions waiting for a potential property
Hard manual labor remodeling properties
Dealing with unforeseen repairs
Hassles of dealing with construction crews
Hassles of dealing with county building departments
Limited number of properties which can be in the remodel phase
Compelling Reasons to Make Real Estate Loans

Proverbs states, “the debtor is slave to the lender”
Passive income (minimal time involved)
No dealing with tenants
No manual labor renovating properties
No dealing with unscrupulous contractors
Short-term use of lenders money
Sense of security that money will be coming back soon
Secure collateral position in marketable and liquid real estate
Consistent monthly cash flow
Borrowers do the HARD WORK of finding the collateral
Borrowers put THEIR MONEY into lender's collateral
Borrowers put THEIR TIME and LABOR into lender's collateral
Borrower takes majority of the risk
If lender must foreclose, lender makes even more money
Multiple loans can be made at one time
Work from anywhere…home, beach, golf course, charter fishing boat
It is easy and clean work
Huge annual industry business loan volume
You make money while you are sleeping
It improves the golf game by allowing more play time
Profits can be tax free
It is PROFITABLE with no cap on earnings!
While buying and selling real estate can be profitable, it is much more labor-intensive and is subject to many local and state regulations in comparison to private money lending. By referencing the two preceding lists, it is understandable why private money lending, secured by tangible real estate, is more desirable than buying and selling real estate outright. Two more great advantages of private money lending are lenders are paid upfront by prepaid interest and lenders take a handsome loan fee at loan inception. See my book *Four Steps to Private Money Lending Profits* for more information on this.

**How Do I Evaluate Whether a Private Money Loan is a Good Investment or Not?**

It is a simple process to evaluate the risk and the potential opportunity of a private money loan. Real estate investors buy properties at significant discounts and borrow funds well below the market value of the property securing the loan. Equity and your maximum loan to value are your safety nets and your primary points to consider in every deal. Here is the correct way to do just that.

As a collateral-based lender, first, determine the after repaired value (ARV) of the property being considered for the loan. This value can be
done by reviewing comparable properties provided by a real estate agent or by a property inspector.

Second, consider the estimated fix up or repair costs. This should be provided by the real estate investor you are considering making the loan to. If you are unsure whether the estimate being provided is accurate; ask a contractor to provide a bid. Once you gain experience inspecting collateral, you will gain insight into what repairs a specific property needs. Until that time, I provide my consulting clients with an estimated repair spreadsheet, used by bankers, detailing each line item needing repair and the cost to repair that item.

Third, calculate the loan to value for the loan. The loan to value should be around 65%. The higher the loan to value is for your loan, the more risk the loan poses. If you have a low loan to value loan, you can always find a financial partner to fund the loan if you do not have enough money to fund the loan yourself.

Fourth, close the loan using a real estate attorney or title company. At this step, the closer does most of the work for you and you simply sit back, collect your annualized 20% ROI up front and wait until the loan matures. Once the loan matures, you re-loan your original principle and make even more money!

_Private money lending is truly the way to watch your investments consistently grow at 20% ROI per year._
Private money lending is truly the way to watch your investments consistently grow at 20% ROI per year. While private money lending has provided opportunity for me, it will also provide opportunity for you, if you take action now. Attend one of our live events or review one of our audio selections and see for yourself how private money lending can provide financial freedom for you and your family.

If you have any questions, please give me a call or send me an email. I have been a commercial lender for over a decade, and I am willing to share with you how I have created unbelievable amounts of wealth being a private money lender!

All the Best!

Lee J. Carney
Founder, Mountain Capital Private Money Loans

Mountain Capital Investing
505 W. Riverside Ave
Spokane, WA 99201
lee.carney@mountaincapital-llc.com
www.Learn2EarnHighROI.com
www.MtCapitalInvesting.com
(888) 497-1204
(509) 999-5694