

# **HOW TO RAISE PRIVATE MONEY FOR YOUR REAL ESTATE DEALS**

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# How to Raise Private Money for Your Real Estate Deals

Private money is considered by many investors to be the pinnacle of funding sources. Flexibility, low interest rates and ease of use can be just a few of the many benefits of private money. With private money, you could potentially borrow enough to purchase the property, cover all the repairs and throw in enough for carrying costs and only pay the interest once the deal was completed. The reason is that the majority of private money lenders are simply ordinary people, like friends and family, who are looking to earn more than they are currently getting with their money while maintaining a high level of security. As a real estate investor, you can offer both a strong rate of return (even though it may be far lower than what a hard money lender would charge) and a strong guarantee that comes with backing the money with real estate. There is a reason why the term “real estate” is used to describe property. You can touch it, you can feel it; it is “real”. Unlike stocks or bonds that are intangible financial instruments, real estate is tangible, something you can grasp with your hands. Typically, private money people are extremely concerned about preservation of capital (that’s a fancy way of saying, “not losing the money they already have.”) Since real estate is both profitable and has the perception of safety and security, it can be ideal for attracting private money.

***POWER TIP: Raising private money involves building relationships and providing great deals.***

## Mental Associations About Money

Your mental associations about money can greatly impact your success in finding and utilizing private money. Finding private money is oftentimes a self fulfilling prophecy. As Henry Ford said, “whether you think you can or you think you can’t, you’re right.” When you believe deep down in what you’re are doing,

others can sense it and are drawn to it. But, on the other hand, if you doubt, others can sense that apprehension and will be less likely to work with you. Since private money is based on relationships, how you communicate is critical. Further, since most communication is non-verbal, your mental associations about money can be far more important than what comes out of your mouth. Therefore, the beginning of learning how to find private money involves working on your mental associations about money.

**Association # 1 - There is More than Enough Money Available:** We live in a very big world and there truly is enough money available to fund all the great real estate deals you'll ever find. This is often referred to as the "abundance mentality", the view that there is more than enough resources, money, opportunity, etc to go around for everyone. On the other hand, the poverty mentality suggests that there is only a limited supply of resources. This restricting view stunts financial growth and plants the seed of not being able to find money.

**Association # 2 - You Are Not Asking For Money:** When raising private money, you are not asking people for money; you are informing people of a productive vehicle to place their money. The difference may seem subtle, but it is quite dramatic in practice. Very few people enjoy when others ask them for money. However, most people enjoy when they are informed of things that may help them. People love to buy but hate to be sold. Therefore, rather than fear the process of forming private money relationships as asking people for money, instead, approach it with excitement since you may be helping others make better returns on their money.

*WISDOM KEY: From a technical standpoint, soliciting investment opportunities is highly regulated, may require specific licenses and unless you are licensed properly, should not be practiced. Raising private*

*money is therefore not soliciting investment opportunities. You may also want to consult your local attorney to make sure you are handling this detail correctly.*

**Association # 3 - You Are Helping People:** Assuming you are investing in profitable deals, private money lenders can greatly benefit by being a part of your endeavors. You're helping people place their money in a vehicle that is better than where they had it before. Each deal you do should be a win-win for all parties, including the private money person. Therefore, feel good about raising and utilizing private money because you are helping people.

## **Finding Private Money**

Finding private money usually starts with your circle of influence such as friends, family and also, the people they know. You'll be surprised how much money the people closest to you may have access to and the people they may know. Almost everyone has a retirement account and many would rather take control of their own future using a self-directed IRA as opposed to leaving their fate in the hands of others such as a 401K managed by a mutual fund. Therefore, everyone is a potential private money lender, especially the people closest to you.

Finding private money is not about quantity, it's about quality. You probably won't need droves of private money lenders in order to be successful. Just a few key relationships usually suffice but you must cultivate, nurture and protect these relationships. One simple meeting at a coffee shop may not solidify the relationship. It may take time. That's why we encourage you to start with the people closest to you. You have already built these relationships which can be the most time consuming part. *NOTE: If you are not recognized as trustworthy amongst you're sphere of influence, you may need to look outside that group of people in order to raise private money.*

By now, the people closest to you should know that you are a real estate investor, at least part time anyway. If not, they should. Be proud of what you do and although you don't have to shout it from the rooftops, making your sphere of influence aware of what you do is important. But how do you bring up the conversation of private money to the people closest to you?

## **Raising the Private Money Topic**

How does one raise the topic of private money without coming across as a salesman? It can be as simple as asking the right questions. Anytime you are building a relationship with someone, it is important to take interest in the person. The most popular topic someone usually wants to talk about is him/herself. Since private money is about building relationships, you must learn to be good at this skill.

***POWER TIP: When building relationships, keep in mind, “me, me, me is dull, dull, dull.”***

Use the PBS Method to most effectively raise the private money topic:

1. **Pique Their Interest** (Elevator speech)
2. **Build Anticipation** (Do not explain the details)
3. **Set the Appointment** (At a different time from the conversation, have a one on one meeting)

### **Pique Their Interest (Elevator Speech)**

When you ask questions and actively listen, you are practicing the single most powerful technique for relationship building. The more the other person talks, usually, the happier they will be at the end of the conversation. In order to get the private money ball started, you must have a short “elevator” speech on what you do. As an investor, your speech changes depending on who you are talking to. That's why it is critical that you learn about the person you are speaking with first, before you give your own personal commercial.

For example, if you're at a church function and you begin speaking with an individual and he/she shares with you the many financial challenges he/she has been facing recently, you may want to use the elevator speech:

*"I'm in real estate. Mostly investing. I help people who really need to sell their real estate and get out from underneath financial burdens."*

The above commercial is ideal for the person struggling financially, because either they or someone they know could use your services as an investor. On the other hand, if you are speaking with someone who appears to be in normal or good financial shape, you could use a private money commercial along the lines of:

*"I'm a real estate investor. I buy property low and sell high, or sometimes rent for cash flow. I also work with people who want to have their money working for them in a safe and secure investment backed by real estate. Since I acquire real estate at such a discount, it provides great opportunities for others to gain as well. Does that make sense?"*

Still in other situations, you may be at a networking event such as a local real estate investor's association meeting, a Rotary Club meeting, a VFW function, a business breakfast networking get together or other such function where you are speaking with complete strangers. Here's an elevator speech for that scenario (assuming you have already asked the person numerous questions about him/herself):

*"I buy, sell, and lease real estate. I also have been using cash from other investors, who are everyday people like you and I, to do so. Typically, I work with people who are tired of the ups and downs of the stock market, people who are frustrated with the minimal returns in their CD's and mutual funds, or people who have 401K's or IRA's not performing at the desired rate. I provide safe, secure*

*opportunities in real estate for everyday people to get their money working hard for them instead of the other way around. Honestly right now the market is incredible for investors to buy properties at deep discounts. Does that make sense?"*

### **Build Anticipation (Do Not Explain the Details)**

When using this elevator speech, your intent is to pique the person's interest. If you succeed in getting the person interested, rather than try to explain how you work (especially at a social setting), it is far better to set a time to meet with the person one on one, at say a coffee shop, to explain in further detail. This strategy does two things for you. First, it eliminates the possibility of you being asked a question you don't know the answer to and looking unknowledgeable. In fact, if you are asked something you don't know for sure the answer to, the best way to handle it would be to respond with,

“Great question. Now would probably not be the time to go into that and further, I'd need to get back to you on that anyway, but we could cover that later if you wanted to get together for coffee?"

Second, when you resist the temptation to “tell all” and instead, avoid explaining the details, you build anticipation and create an environment where your prospective private money person is chasing after you, which is exactly what you want. In sales training, you learn that it is far easier to pull a prospect along than to push them in the direction you want them to go. Let the person chase after your opportunity.

***POWER TIP: When raising money for real estate, YOU ARE NOT ASKING FOR MONEY, you are describing an opportunity for someone to invest.***



## Set the Appointment

Once you have built the anticipation by not divulging on the details of how you work, the person may follow up with a simple question like,

“Well how does that work, the safe, secure investment backed by real estate?”

Your answer should be something generic followed by an appointment set up question:

*“Well, my friends and family saw how well I was doing with real estate, even in this market, and they wanted in on it. I’m a generous guy but I also wasn’t prepared to share all my secrets on how I find these killer deals. So a friend suggested to me that I allow people to invest in my deals. Since I am very conservative and only work on home run deals, it provided a way where they could benefit as well, safely and securely. If you’re interested, why don’t we grab coffee and I can explain in more detail?”*

If the prospect says “yes”, then you can use the skills you have learned in previous sections to nail down a time and date. Use a limited options approach:

*“My schedule, probably like yours, is fairly booked, but my Tuesdays and Thursdays are pretty flexible. Which one of those days is best? Is morning or afternoon better? How’s 11 AM? Great, and where are you located? I may have to be on that side of town that day anyway, is there a Starbucks close to you? OK, let’s do it there. 11AM Tuesday. I’ll call you about an hour before hand to make sure we’re still on. By the way, I’ll spend as much time as you want, but I like to try to keep things to less than 45 minutes, is that OK with you?”*

Your goal is to get the meeting set. Then, change the subject. It never gets better than, “Yes.” Once you have the meeting set, you have all you need at that point in time. Anything else you add can only take away from what you already have.

*WISDOM KEY: To accelerate your success in business, add people to your rolodex every month.*

*Join clubs that fit your interests, attend their meetings and most importantly, don't be shy; meet the people in those clubs. Join business networking clubs and organizations as well. And, certainly, get involved in serving your community. Some of your best relationships may be built while doing community service or volunteer work. The more you give, the more you will receive.*

In the next section, you'll discover how to handle the actual meeting. Hint; it's easier than you think! But first, here are some additional ways to find potential private money people.

### **Referrals**

As your reputation grows, you should be able to obtain referrals. There are a large number of people out there beyond just your own sphere of influence that make a ton of money and are actively seeking places to invest that capital. Some examples include people that have inherited money but have no investment experience, professionals who have money but little time to invest their earnings such as doctors, attorneys, corporate executives, entrepreneurs and extremely high income earners in fields unrelated to money, such as musicians, professional athletes, actors and actresses.

*WISDOM KEY: Although you should only invest in great deals, for deals that may be far more risky, it can be smart to seek out accredited investors as your private money people. Accredited investors are those people that meet stringent financial criteria which allow them to invest in risky opportunities*

*that the majority of people are not able to participate in. In the event of a major problem, if a deal was to ever go to court, a judge may view an accredited investor far different from someone who invested their life's savings. The reason is that an accredited investor should "know better" since he/she is more experienced. Therefore, for very risky deals, your best bet if you want to pursue the opportunity using private money is to seek out accredited investors. You may even be able to seek out brokers whose job is to connect accredited investors with investment opportunities.*

### **Using the Public Records**

Outside of your sphere of influence and referrals, another extremely effective manner in which to find private money is through the public records. Every county in the US has a separate office used to record and store official documents. In many states this office is called the "Register of Deeds", or in others, it is simply called the "Recorder's Office." Most have some or all of their recorded documents available online. Some counties charge a fee for detailed records while others provide all recorded data for free online. In order to locate information on the Recorder's Office of any specific county, go to the Preferred Vendor Network in ePartner® for a link to a website which stores every counties' Recorder's Office information. Once you have located the Recorder's Office, speak to one of the employees and ask how you can search their records to locate mortgage loans that have been originated recently whereby the lender is a private person or private company and not a mortgage company or bank. Once you describe what you are looking for, usually one of the people in the office can figure out how to help you find what you are seeking. Since every single county is different and the way in which the records are stored changes consistently, the easiest and most efficient way to locate private mortgage loans in public records is to ask the people who work in the office how to find them. Put them to work (that's part of why they are getting paid to work in that office).

Once you have gathered information on specific transactions where private money was used, your next step is get in touch with the private lender.

**CAUTION: When reaching out to the general public (those not in your sphere of influence), you will need to be aware that such solicitations may fall underneath strict SEC guidelines and therefore any direct mail or cold calls may have to be SEC compliant in order to be used. Reach out to your attorney prior to any solicitation of investment opportunities.**

Cold calling is the most efficient way to get a hold of someone. Refer to the Preferred Vendor Network for services that can help you track down phone numbers for people. Once you have the person on the phone, you need to have a plan as to what you are going to say. You can start by introducing how you have their information and what the purpose of your call is. It may sound something like this:

YOU: “Hi, is this *Private Money Lender Name*?”

PML: “Yes, who may I ask is calling?”

YOU: “Great, this is *Your Name* and I was doing some research down at the Recorder’s Office and came across your name on a deal that recently closed on *Street Name*. Do I have the right person, does that deal ring a bell to you?”

PML: “Yes, what about that deal?”

YOU: “Oh, all is good, no worries there. But I noticed you were the lender on that deal. Are you looking for other real estate deals to lend on?”

At this point, either it will be a “yes” or a “no”. If the answer is “no”, then you can move on by saying, “Great, well feel free to call me back if you are looking for great real estate deals to lend on.” If the answer is “yes”, then you can follow up by asking, “What types of deals are you looking for? In other words, what would be your perfect deal?” Then set an appointment to meet with the individual in person. Remember, private money is all about building and nurturing relationships.

## **Prospective Private Money Source Meeting**

The meeting you have set with your prospective private money person can be in person, or if long distance, can be over the phone. The structure of the meeting should be the same:

1. Build Rapport (Get Set)
2. Gain Understanding (Get Ready)
3. Present the Opportunity (Go!)

You want to get set, then get ready, and then go. There is a tendency to want to tell, tell, tell when in reality, the best way to present anything to anyone is to first build rapport with the person, then find out what they are looking for and then present them with what they want!

### **Build Rapport (Get Set)**

You have already learned how to build rapport from meeting with motivated sellers. The process is the same with prospective private money people. Ask questions about their family, occupation, hobbies and for private money people specifically, ask about their goals and dreams. And with every question, active listen (nod your head and make eye contact if in person; use many “uh-huh” noises if over the phone) and then ask follow up questions. The more interested you are in them, the better your rapport building will be. And the good news is that you don’t have to fake or act like you are interested. Most people lead more interesting lives than they think. You’d be surprised at what other people have done in their lives. There is no time limit on how long this process takes. For some people, they will want to get right down to business while others will want to small talk for a long time. This is a skill you will have to develop over time; reading people. In fact, you may want to research the topic of reading people to learn more about this important skill. Knowing when to move away from rapport building and more down to business is a very helpful skill to have in your professional toolbox.

### **Gain Understanding (Get Ready)**

Once rapport has been built, maintain control of the conversation by asking specific money related questions to gain a better understanding of what the person wants out of an investment.

- What investments are you currently involved in?
- What do you like most about those investments?
- What do you like least?
- If you were to step out of your current investment box and do something different, what would that look like to you?
- What would you want to get out of it?
- What would you define as an incredible, home run investment?
- Ultimately, what's the purpose of investing in the first place?
- Have you ever invested in real estate before? If so, in what capacity?
- When you think of real estate, what comes to mind?

With each question, sprinkle in comments so that it doesn't sound like an interrogation. Slip in phrases such as, "Preservation of capital has always been a huge thing for me in business; recounting Warren Buffett's advice on investing, 'Rule # 1, don't lose money and rule # 2, don't forget rule # 1.'" And when talking about real estate specifically, you may want to say, "Real estate has been very good to me. But I've done my homework and I've aligned myself with mentors along the way so I have avoided many of the pitfalls that so many others have fallen into." And whenever possible, slide in something along the lines of, "Fortunately for me, I've haven't been bitten by the emotional bug when it comes to business and investing. I look at the numbers and when they work, I move forward and when they don't I move on. I tend to be on the very conservative side so I miss some deals, but the ones I jump on are typically home runs so I do just fine." By adding these comments and then following up with a question, you balance out the conversation while also building up your own credibility.

### **Present the Opportunity (Go!)**

This is where you will transition from conversation to showing them the possibilities that this presents for them. Know your power point, your presentation, and your real estate inside and out. Sit down with all the decision makers in the house hold and show them the power point that you have made. First, you want to show them your business model and some of the things you have done. Next, is to educate them on the type of investments that you are part of and how they can benefit (fix and flip, quick flip, buy and hold, etc). Step three if you have any current opportunities let them know what they are (the key here is not to get them to find a deal they like today, but to show them there are always active deals going on). Step four shows them how to take advantage of future opportunities and see what they would be interested in pursuing (long term or short term investments). Step 4 is important in determining if they want short term, high yield, or do they want long term above average returns. You will want to have them sign a commitment that states all the above items in it so that you can count on that money being there for your investments. If they have an interest then let them know when a deal comes up you will call them and say “I came across this I am not sure if it would interest you, but here it is,” if it is a no always ask do you know someone else that may be interested in investing in this project.

Present the opportunities with excitement and enthusiasm about what you do in real estate, but do not get emotional if the answer is no. This is business and you have to realize that this will not fit some people’s investment models. Ensure that you ask if they know anyone else that may be interested in high yield investments secured by real estate. No matter what their decision is get all of their contact info that way you can stay in communication with them whether it be a home purchase or private money venture you have built you sphere of influence. Make an impression on these people, make sure they remember you so that net time they are at the ball game and someone is talking about investments your name comes up.

People can invest from a variety of vehicles. These range from cash to retirement account to even using stock accounts without cashing them out. Even other people may not have the capital, but you may be able to

utilize their credit or income to help you buy a long term hold property. Do not rule out anyone based on the fact that you do not believe they don't have any money or that they don't have any credit. Everyone is a potential investor until they say no to real estate secured investments. Realize there is no to a specific deal and no to real estate secured investments ensure you are clear on where they stand when you leave that meeting.

### **Structuring the Private Money Deal**

The beauty of private money is the flexibility you may have in how you structure the deal. You'll be marrying two distinct items; the needs of the private money person and the profitability of the deal. Starting with the needs of the private money person, typically, the most important aspect of the deal structure to the private money person is preservation of capital. The best way to handle this detail is to have your closing company create the paperwork which secures the money to the property, usually in the form of a mortgage note and deed of trust. The other aspect of the deal that is critically important to the private money person is the return they want and the way in which they want to be paid back. What is the yearly return required for them to invest and do they need monthly payouts or can they wait to receive their return upon the completion of the deal? These details would have been established during the meeting you had with the person.

Now that you have your parameters on what the private money person needs, next you must figure out if the deal you have will be profitable (and/or doable) based on their terms.

**Private Money Example # 1 (Hard Money – Private Money Combo):** If the deal calls for a purchase followed by a renovation and then a re-sell, you'll need money to purchase as well as renovate the property. You may be able to secure a hard money loan for the majority of the purchase price and only need an additional 10-20% down payment to complete the purchase. A private money person could fund the down payment for you. Further, the hard money lender will provide periodic



draw payments to you once certain parts of the project have been completed but the hard money lender won't cover the monthly cost to borrow their money and you will need some money to pay contractors for the work before the hard money lender pays the periodic draws. Here's another place where the private money person can help, in paying the monthly payment of the hard money loan as well as fronting the money to pay contractors until the hard money lender's draw payment is made to you. You would secure the private money person's loan as a 2<sup>nd</sup> mortgage and hopefully this person would agree to accept their return upon closing so that you didn't have to make monthly payments to them as well. This is a common private money deal structure when doing a rehab deal.

**Private Money Example # 2 (Subject To – Private Money Combo)** – The seller has an existing loan that they are willing to allow you to simply begin making payments on but they absolutely need \$20,000 in order to walk away. With a tenant renting the property at the market rate, this deal could cash flow \$700 per month and the only thing standing in the way is \$20,000. You could have a private money person lend the \$20,000 and in exchange, he/she would be secured with a 2<sup>nd</sup> mortgage and a guaranteed 1% interest payment per month. This would translate to paying the private money person \$200 per month, reducing your cash flow to \$500 per month, but you would have purchased the deal with no cash or credit and the deal would be owned by you which would give you the benefit from any built in equity when you closed on the deal, any appreciation if the property went up in value over time and also, the monthly rental income would probably be completely tax free money once you deducted the yearly depreciation amount the IRS allows from rental property.

**Private Money Example # 3 (100% Private Money Deal)** – Some private money people have hundreds of thousands available in retirement accounts and the only way they feel comfortable investing is if they are in the first position in the deal (are secured by a 1<sup>st</sup> mortgage). This typically

applies to numerous deal types, including rehabs, long term holds, tax liens/deeds and even short term transactional deals. Some private money sources may want both a debt and equity position in the deal. By debt, they may expect a very competitive interest rate and by equity, they may want to share in the profits. Ideally, it is better to pay the lease amount possible. Some private money sources may want both a strong interest rate similar to a hard money lender and they may want a percentage of the profits. If that is the only way to get the deal done, you may have to agree to those terms, but usually you can opt for one or the other, either an equity position or a debt position.

In all three of the above examples, only one private money lender was involved. Starting out, avoid pooling more than one private money source into the same deal. This can trigger various sorts of laws that could require you to register with the SEC and other government regulatory bodies.

*WISDOM KEY: Whatever arrangement you work out, make sure your closing company draws up the paperwork to ensure everyone is protected in the deal. In some cases, this may be the single biggest concern of a private lender; “How is my money secured?” A great answer to that question is, “An attorney can draw up all of the paperwork securing your interests in the deal.” When an attorney does the work of drawing up the paperwork, it provides much more comfort to the private money lender and also shows your confidence that what you are doing is standard practice in business. Plus, having a local attorney draw up the paperwork will ensure that you are compliant and have had signed all the necessary disclosures and paperwork needed for the state the deal is located in.*

## **Post Lending**

The final step in the private money raising process is follow up. Once a private money person actually invests their money, you now have an even greater responsibility than before. First, you must follow through

on the deal and ensure it is profitable for all parties. Second, you must keep the person up to date on what is going on with the deal. And third, it is critical that you continue to nurture the relationship. The simplest way to solve all three of these responsibilities at once is to provide a periodic report. It could be weekly if you are doing a rehab or monthly for long term rental income deals. By providing a report, you have a great excuse to contact the person. You may email the actual report (which should only include what the private lender wants to see and nothing more), but you should also follow up with a call. The call could be brief, but the key is the personal interaction. In fact, you may not even talk about the deal. The goal is relationship nurturing. It may even help to send holiday and birthday cards as well. Further, if you have other deals coming up and you know that person was tapped out from your current deal, you may even ask for a referral. If you think of the relationship like a seed, it starts to germinate upon the money being invested and then it is critical to water and fertilize that relationship until it grows and eventually bears fruit year after year.

***POWER TIP: Private Money is all about relationships. Build and nurture a few very strong relationships and you'll be able to tap into all the private money you'll need.***

### **Summary of Key Ideas – How to Raise Private Money for Your Real Estate Deals**

- Private Money is all about relationships.
- Quality over quantity. You won't need droves of private money lenders to be successful. Just a few key, very strong relationships can provide you with what you need.
- Your sphere of influence and referrals from your sphere of influence are great places to find private money lenders.
- People in your community who are actively providing private money on other deals as evidenced by recorded documents in your Recorder's Office is another great place to find private money.
- Use an attorney to draft all documents used to secure your private money lender's interests in a deal.