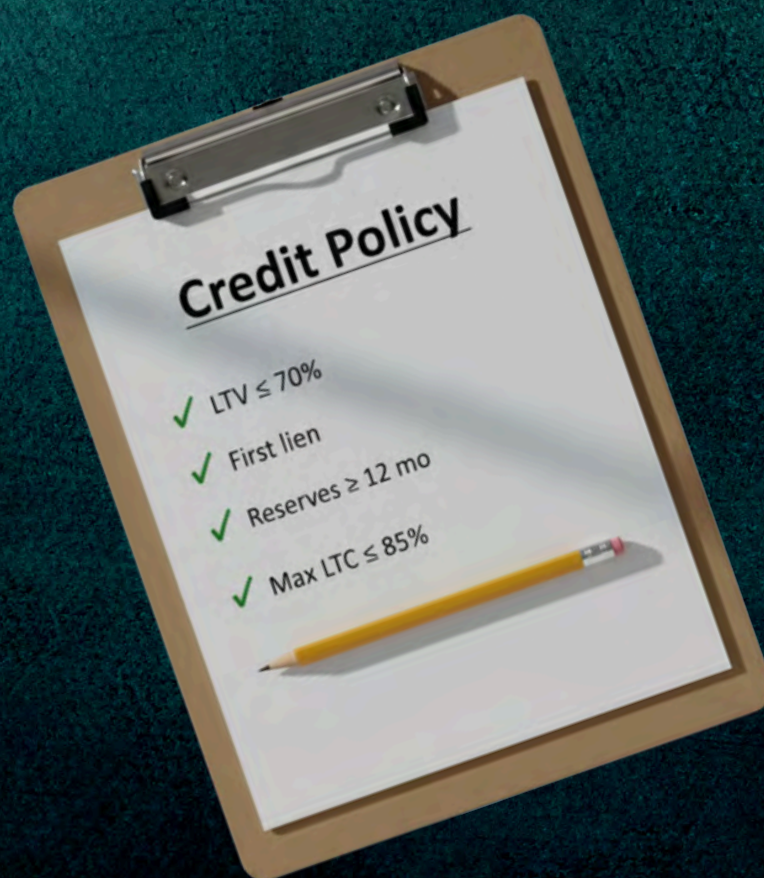


YOUR DOUBLE-DIGIT RETURN PLAYBOOK:

The 10 Point Framework for a
Bulletproof Private Lending Strategy



The Stech Family Office



JUST BE THE BANK

YOUR DOUBLE-DIGIT RETURN PLAYBOOK

The 10 Point Framework for a Bulletproof Private Lending Strategy

DAVE STECH AND THE STECH FAMILY OFFICE

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INTRODUCTION

ASK YOURSELF: WHAT INVESTMENT STRATEGY ACTUALLY WORKS IN THIS OVERPRICED, OVERHEATED MARKET?

One investor to another, let me ask you...

What ONE passive investment strategy do you truly believe in right now?

What asset class are you actually excited to bet on, and feel confident will ***safely generate double-digit annualized cash flow in this overpriced, overheated market?***

Is it *real estate*?

Afraid not. We're at the absolute top of the market cycle right now — properties have literally NEVER been more expensive to buy. And good luck getting a newly-purchased rental to cash flow at these 7% mortgage rates!

OK, well what about *stocks*?

Talk about a gamble. We just hit a RECORD high in the S&P 500. There's more "dumb money" piling into stocks every day, driving prices way above intrinsic value...and into what many are calling "pre-crash" territory. That's a hard pass for me.

How about *precious metals*? Or *oil and gas*? Or *crypto*?

Look, if you actually understand those asset classes, more power to you. I don't. I don't even *want* to, because I can't control the outcome...AND I don't know who might be pulling the strings behind the scenes (think Wall Street and politicians).

SO THE QUESTION REMAINS:
WHAT IS THE BEST CASH-FLOW INVESTMENT STRATEGY —
THAT MAXIMIZES YOUR “EFFORT-TO-RETURN RATIO” —
GIVEN THESE UNCERTAIN MARKET CONDITIONS?

See, that term “effort-to-return ratio” is key.

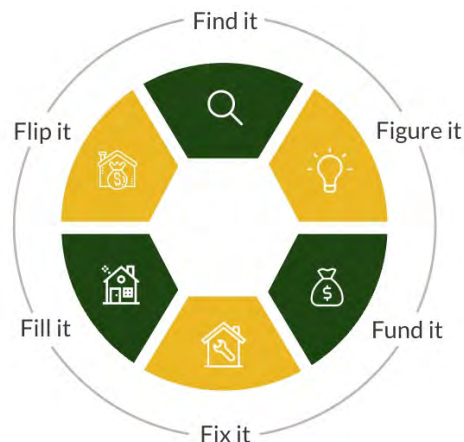
Every investor understands the concept on some level. They may not not have a fancy phrase for it like “effort-to-return,” but intuitively they understand...

You want to do the least amount of work (effort) while making the most money (return).

Of course, it’s easier said than done. The real trick is finding a vehicle that actually checks those boxes..an investment that generates solid, double-digit returns in the most passive way possible, with maximum security and control.

MY FAVORITE SUCH VEHICLE —
IN AN UP OR A DOWN MARKET —
IS **PRIVATE MONEY LENDING.**

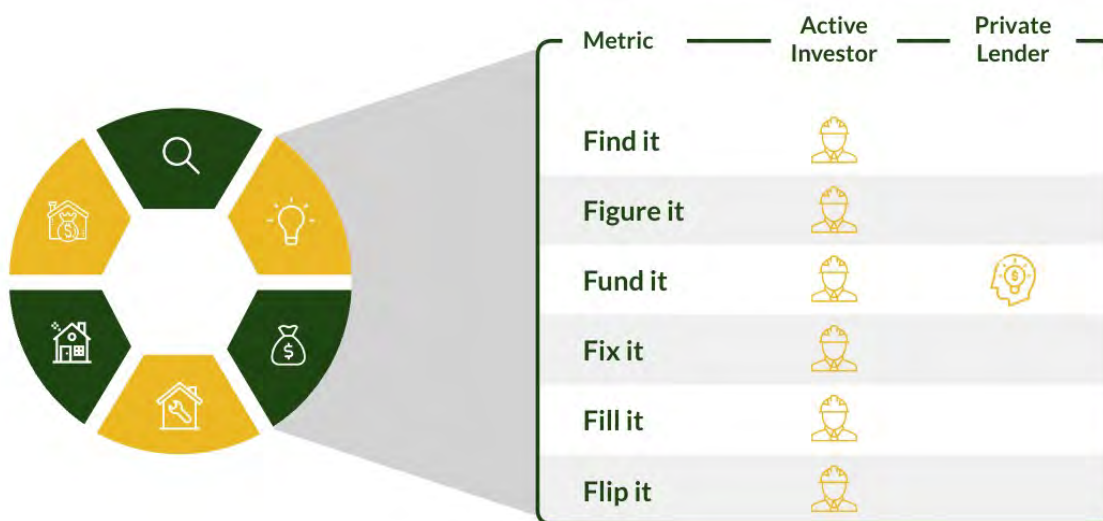
Here’s my rationale. See, there are 6 “Fs” in real estate investing:



In every real estate transaction...

1. Someone has to FIND the deal.
2. Someone has to FIGURE it by doing due diligence and running the numbers.
3. Someone has to FUND it, either with their own cash or with a private loan.
4. Someone has to FIX it up to make it sellable or rentable.
5. Someone has to FILL it with a renter (assuming they're buying to hold, or ultimately flipping it as a turnkey rental to a landlord buyer).
6. Someone has to FLIP it to an end-buyer or no one makes any money.

If you're an ACTIVE investor, i.e. a flipper, you have to do all 6. You literally make no money if you skip even one of the steps (with the possible exception of "filling it").



As a private lender, you only do ONE. You just have to FUND it, and then wait for the checks to roll in. It's a beautiful thing :)

CHAPTER 1

THE ONE STRATEGY THAT GENERATES DOUBLE-DIGIT RETURNS IN ANY MARKET, AT ANY TIME: PRIVATE MONEY LENDING (WITH AN EXAMPLE DEAL)

So what exactly is private money lending?

Private (aka hard money) lending is simply another way of deploying capital in real estate. It involves making high-interest, short-term loans to house flippers...usually secured by the property they're flipping.

Here's a stripped-down example:

Let's say you're sitting on some cash and you meet a fix-and-flip investor at a local REI meeting. This flipper is under contract to buy a house for \$85,000 that needs \$15,000 in rehab (\$100,000 total) and plans to resell it for \$150,000 and make a profit.

But the flipper (also called an investor-operator) doesn't have the \$100,000 cash needed to get the deal done, and a traditional bank won't help. That's where you come in.

You, the private lender (sometimes called the hard money lender), loan 80-100% of the capital needed (\$80,000-100,000), with the expectation of a nice return — in the form of origination points, monthly interest, and ultimately, repayment of your principal.

The flipper eagerly takes the loan in exchange for the opportunity to flip the house and get the end profit. You get paid *origination fees* upfront, *interest* along the way, and when the flipper resells the house, you get back the original loan amount (called the *principal*).

Here's how that deal would look on a spreadsheet if your loan was out for 6 months:

Day	1	30	60	90	120	150	180	
Principal Loan	-100,000						100,000	0
Interest	12.0%	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Net Cash Flow	-100,000	1,000	1,000	1,000	1,000	1,000	101,000	6,000

Cash on Cash Return	6.00%
Turns per Year	2
Yield (Annualized)	12.00%

On Day 1, you loan \$100,000 and the flipper agrees to pay you a 12% annual interest rate.

12% of \$100,000 is, of course, \$12,000, which is paid in equal monthly installments (\$1,000) over the course of 12 months.

On Day 30, the flipper makes his first \$1,000 interest payment, then again on Day 60, Day 90, and so on.

Then, on Day 180, he resells the property and repays the original \$100,000 you loaned him.

Since he repaid the loan in 6 months, you made \$6,000 in interest, for a 6% Cash-on-Cash return.

However, because you can make that same loan twice in the same year (each 6 months long) your *annualized* return is $6\% \times 2 = 12\%$.

Now, that's a simplified example that doesn't include origination fees, due diligence fees, payoff fees, etc, all of which make the returns even better.

But hopefully you get what I'm driving at: **a private lending deal can be modeled on just 4 lines in a spreadsheet. It's one of the simplest, most predictable ways to make double digit returns with very little ongoing effort...and the built-in risk mitigation that comes with a hard asset as collateral for repayment.**

CHAPTER 2

THE 10 POINT FRAMEWORK FOR A BULLETPROOF LENDING POLICY

THE FIRST THING EVERY LENDER NEEDS IS A **CREDIT POLICY** — WHAT I CALL YOUR PERSONAL PRIVATE LENDING “GOSPEL”

If there's one thing I've learned from the subprime meltdown of 2008, and more recently the implosion in commercial real estate...

...it's the importance of knowing your investment *parameters*. In the world of private money lending, we call this your **credit policy**.

A credit policy is the set of specific, non-negotiable loan parameters within which you will extend capital to borrowers to ensure maximum profit and minimum risk.

More practically, it's your way of screening out deals that don't align with your goals. It's your way of getting to NO as fast as possible, so you can focus on the “fewer better” YESSES that will maximize your effort-to-return.

But what exactly goes into a Credit Policy? Let's break it down, starting with your *loan amount range*.

1. Loan amount range — what are the minimum and maximum dollar amounts you're comfortable lending in order to keep your money safely deployed?

We'll start with arguably the easiest piece of your Credit Policy to decide, and the quickest litmus test for every deal that crosses your desk: your loan amount range.

At a high level, your loan amount range is your answer to two questions:

- How much of your investable capital do you want to deploy in private lending as a strategy, at any one time?
- How many loans are you comfortable managing at once?

If you have a rough answer to those two questions, some quick math (dividing #1 by #2) will give you a number around which you can build your loan range.

To help you think through it further, consider the following:

- **Understand Your Real Estate Submarket:** First and foremost, consider the real estate submarket you're operating in. Property values can vary dramatically from one zip code to the next, even within the same city. Average values vary even more by state; a \$100-200K loan range might make sense for deals in Indiana, but would be much too low for flips in a high-priced state like California.

Align your loan amount range with the average property values of your target submarket. You want your range to be meaningful enough to attract serious borrowers while still fitting within the economic landscape of the area.

- **Effort-to-Return Ratio:** Your time and effort are finite resources as we know. In the context of your loan amount range, think about it this way: assuming the same interest rate, five \$100K loans will generate the exact same interest-income as a single \$500K loan.

But here's the kicker: managing five loans is five times the work. That means more underwriting, more paperwork, more borrower interactions, more payoffs, and so on.

In markets like California, where home prices are sky-high, you can deploy larger amounts of capital more quickly, maximizing your return on effort and optimizing your time. By focusing on fewer, larger loans, you streamline your operations and free yourself up to focus on what really matters: finding and funding high-quality deals.

- **Diversification vs. Concentration:** The counterpoint to the above is diversification, a cornerstone of risk management. Smaller loan amounts can help you spread your capital across a broader range of properties, which mitigates risk. However, this comes at the cost of increased administrative effort.

The key is to find a balance that aligns with your risk tolerance and investment goals.

IF YOUR PRIMARY OBJECTIVES ARE CAPITAL PRESERVATION AND MAX ROI PER LOAN, A MORE DIVERSIFIED APPROACH WITH SMALLER LOANS MIGHT MAKE SENSE. BUT IF YOU'RE COMFORTABLE WITH A BIT MORE CONCENTRATION IN EXCHANGE FOR EFFICIENCY, SCALE AND PASSIVITY, CONSIDER SETTING A HIGHER MINIMUM LOAN AMOUNT.

- **The Small Loan Opportunity:** Most national lenders have a strict minimum loan amount—often \$100K or more. This leaves a gap in the market that can be a goldmine for private lenders. By offering loans below this threshold, you can cater to an underserved segment of borrowers, capturing deals that other lenders overlook.

Just make sure the property you're lending against is consistent with the surrounding neighborhood's values. The last thing you want is to be left holding a note on property that won't sell because an outlier in terms of value and appeal.

- **Foreclosure Costs and Loan Size:** Here's a vital consideration: foreclosure costs are largely fixed, meaning they don't scale with the size of the loan. If you need to foreclose on a \$1,000,000 loan, a \$7,500 foreclosure fee is just a minor dent—0.75% of the loan amount. But on a \$40K loan, that same \$7,500 represents a whopping 18.75%. The smaller the loan, the bigger the bite foreclosure costs take out of your potential recovery. Keep this in mind when setting your lower loan amount limit.
- **Tailoring Loan Limits to Borrower Experience:** One size doesn't fit all, especially when it comes to loan amounts. Experienced, reliable borrowers—what I call “Tier 1” borrowers—might warrant a higher loan amount; they've proven their ability to execute deals successfully, making them less risky. By selectively increasing your loan limits for these top-tier borrowers, you can deploy more capital with less effort and lower risk. We'll dive deeper into borrower tiers and how to evaluate them later, but keep this in mind as a flexible component of your loan amount range.

SETTING A WELL-DEFINED LOAN AMOUNT RANGE IS ABOUT ALIGNING YOUR LENDING ACTIVITIES WITH YOUR OVERALL STRATEGY. IT'S NOT JUST ABOUT HOW MUCH YOU CAN LEND; IT'S ABOUT LENDING WISELY TO MAXIMIZE RETURNS AND MINIMIZE HEADACHES.

2. Loan term range — what's the maximum and minimum length of time you want to have your money loaned out?

A typical hard money loan is structured with a 6 or 12-month duration. You normally won't find a private loan with an initial term shorter or longer than this.

We could leave it at that and you'd likely be fine. But I think it's better if I take this opportunity to introduce you to the idea of *velocity of capital*.

Velocity of capital is the speed at which you can re-loan the same money in a given year. And it's a function of how quickly your borrowers finish their flips and repay the loan you gave them.

**REMEMBER, PRIVATE MONEY LOANS SHOULD BE A MAXIMUM
OF 12 MONTHS LONG. I SHOOT FOR EVEN SHORTER...
AS SHORT AS POSSIBLE, IN FACT**

Here's why: if you're lending on deals shorter than 12 months, you can "turn" your money more than once per year and really boost your annual ROI.

Say you have \$100k sitting in your Self-Directed IRA or Solo 401k. You decide to use that money to do some private lending. You make four 3-month loans over the course of the year, one after the other, using the same \$100k.

You get to charge upfront *origination fees* (aka "points") on all four loans. If, for example, you charged a 3% fee to originate each loan, you'd make 12% just in fees for the year...on the same \$100k.

And that 12% in fees is IN ADDITION to the double-digit interest you'd be collecting along the way...resulting (in the example below) in a 24% total annual yield.

Day		1	30	60	90	
Principal Loan		-100,000			100,000	0
Interest	12.0%		1,000	1,000	1,000	3,000
Origination Points	3.0%	3,000				3,000
Net Cash Flows		-97,000	1,000	1,000	101,000	6,000

Cash on Cash Return	6.00%
Turns per Year	4
Yield (Annualized)	24.00%

If instead you only make 1 loan that takes 12 months to pay off, you'd only get to charge the 3% origination fee once, for a 15% yield (i.e. 12% interest + 3% origination fee).

This really gets down to the kind of experience you want as a lender:

- Are you looking for a maximally passive experience, and you're OK with a somewhat lower (but still double-digit) return? If so, you'd probably want to set your minimum loan term at 6 months or more, and prioritize borrowers who do longer, more involved deals.
- Or are you willing to be more active in your lending in order to get your ROI up into 20%+ territory? In that case, you'd prefer to set your loan term range at a maximum of 6 months, and look for borrowers who are doing "paint and carpet" type deals that pay off quickly. That leads to more work underwriting loans, but also more origination points and a higher annual yield.

Before we wrap up here, I want to give you one important tip for negotiations around your loan term: do NOT set a standard loan duration when you begin negotiations.

Instead, ask the borrower how long it will take them to go "from check to check." They'll often be overly optimistic. For whatever reason, many borrowers just can't help but underestimate their expected deal-timeline, so they'll say something like 3 months when it'll really take 5 months.

When they do, don't fight them on it. Set the term at what they've told you, and build in extension fees that kick in the day after their stated end-date. These extension fees will boost your ROI even further.

3. Geographic parameters — where in the world do you want to focus your lending?

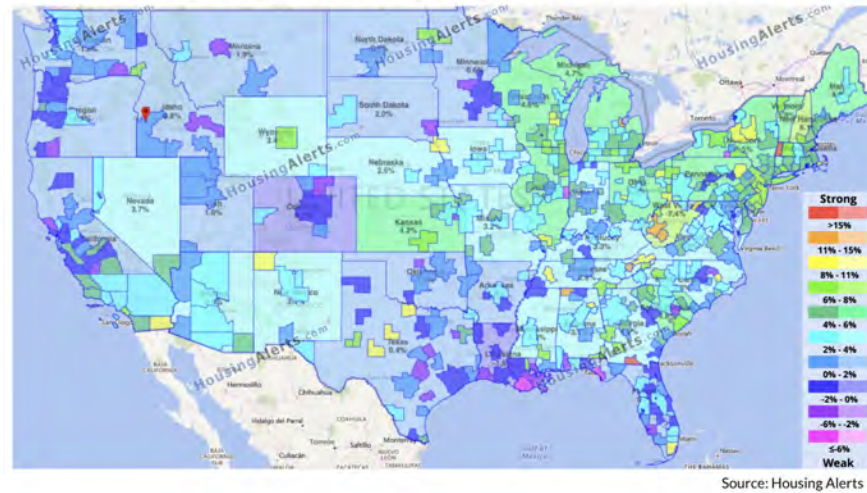
LOOK, UNLESS YOU HAVE A STRONG REASON TO DO OTHERWISE, I'D START IN YOUR OWN BACKYARD. I CAN PRETTY MUCH GUARANTEE THERE ARE PLENTY OF LOAN OPPORTUNITIES WITHIN DRIVING DISTANCE OF YOUR HOME.

Heck, there are around 400 flips per month in bigger cities like Houston or San Diego (for example), and roughly 70 per month even in smaller markets like Dayton, Ohio.

Plus, there's a lot to consider when expanding to a new geography:

- **Seasonality** - can homes be renovated year-round, or will weather conditions make it tough in the winter months? More importantly, do those winter months keep buyers on the sidelines more than in other markets? Think San Diego vs Chicago.
- **Housing stock conformity** - how similar to one another are the homes in the market you're considering? The more cookie-cutter the homes, the easier it is to quickly estimate ARV. In markets where there's a wide array of home styles, sizes, year built, etc, running comps to establish an accurate ARV becomes more challenging.
- **Foreclosure timeline** - are you in a *judicial foreclosure state* where the courts have to get involved, and the borrower can drag out the process for a year or more? Or are you in a *non-judicial state*, where the foreclosure process can be completed in a matter of months?
- **Home-price appreciation** - is the movement of home prices in your prospective market going to help or hurt you? Some states are more volatile (swingy) than others; Arizona, California, Nevada and Florida experience a lot of price growth when people are bullish on housing, but prices also fall more dramatically when buyer "mood" swings the other way. A state like Nebraska tends to be a lot more flat — slow to appreciate, slow to depreciate. And of course within each state you have many cities, zip codes and neighborhoods that can appreciate and depreciate at different rates as well.

INFLATION-ADJUSTED ANNUAL HOME-PRICE APPRECIATION (% , Q2'24)



- **Relative competition** - There are simply more lenders trying to deploy money in California, Texas and Florida than there are in states like New York, New Jersey, Tennessee or North Carolina (as examples). This is a consequence of multiple factors, but the bottom line is that interest rates and fees tend to be lower in states with more lender competition. If you're searching for the highest ROI, you may need to look to less popular states.
- **Downside protection of local presence** - Being local means you can physically drive to the property and check on things yourself. Can you find someone you trust to do that for you if you're lending at a distance? You really want some boots-on-the-ground in any market you're lending in, whether that's you or someone else.
- **Permit requirements and timelines vary** - Every municipality has different regulations around what work needs to be permitted vs what doesn't, and they all tend to have different processes for applying and receiving those permits. Some are very slow moving and can drag out a project big time. Be wary of lending on heavy rehab projects in such markets.

4. Property Types — which one of the 3 main real estate categories will you lend on?



I say “one” because it’s really not advisable to try to juggle multiple categories — they’re too different in terms of supply and demand, regulations, expected ROI and so on. Just do what Gary Keller, co-founder of Keller Williams Realty, suggests: get really good at ONE thing and do that over and over again.

Once you’ve picked your one category, the next question is...what subtype *within* that category do you want to concentrate on?

Commercial real estate, for example, has multifamily, office, hotel, and retail as its main subtypes. And, as with the “category” level, each subtype is different in terms of its buyer and seller pools, Scopes of Work, expected ROIs, etc. You really want to pick THE best one for your goals.

I LIKE TO KEEP IT SIMPLE AND STICK TO THE CATEGORY OF RESIDENTIAL, AND THE SUBTYPE OF SINGLE-FAMILY HOMES.

Why? Because it's the most understandable for the average person, it's got the largest pool of borrowers, and I can spread my money across more, smaller deals, creating diversification.

One caveat: the residential subtypes are similar enough that you *can* branch out in the name of doing more deals. I've listed out the subtypes below, in my descending order of preference:

- Single-Family Home
- Townhome
- Condominium (Condo)
- Planned Unit Development (PUD)
- Duplex (2plex)
- Triplex (3plex)
- Fourplex (4plex)

You may be asking, "why are duplexes, triplexes, and fourplexes so low on our list?"

WELL, THIS BRINGS UP A QUESTION
YOU SHOULD ALWAYS ASK YOURSELF WHEN EVALUATING A
PROSPECTIVE LOAN: **"AM I PREPARED TO OWN IT?"**

As in, *"in the unlikely event the borrower abandons the deal, am I prepared to own the property I loaned on?"*

This is such an important idea that lenders have come up with a catchy "rule" to remember it by, called "loan to own".

And the rule is a simple one: ONLY lend on properties that you wouldn't mind owning yourself.

By "own", I mean *take possession of*, in one of three ways:

- You hold the property and use it as a long- or short-term rental
- You wholesale it as-is to another investor-operator (either a flipper or a landlord buyer)
- You finish the flip yourself and resell it on the retail market (This, by the way, is another reason it's good to stay local in your lending, at least initially; it's a lot easier to manage a rehab if you have relationships in the area and can regularly check on the project in person).

As you evaluate a prospective loan, think through each of these three methods of ownership. Are you OK with doing one or all of them? Is there at least one that will allow you to make as much or more money than you would have as the lender (if the deal had gone as planned)?

IF YOU'RE NOT WILLING TO OWN THE SUBJECT PROPERTY IN ONE OF THOSE THREE WAYS, AND YOU DON'T THINK YOU CAN MAKE A RETURN AT LEAST EQUIVALENT TO THAT WHICH YOU WOULD HAVE MADE AS THE LENDER, JUST PASS ON THE DEAL.

Getting back to duplexes, triplexes and fourplexes, there's one other factor that leads us to put them at the bottom of the list: marketability. *There are simply way fewer buyers for these 2-4 unit properties than there are for single-family homes.*

Think about it...if you have to take possession of a single-family home, you can turn around and sell to a regular, owner-occupant homebuyer or an investor. Not so with a 2-4 unit property.

That property only appeals to an investor, and not all investors either. Many are aware of exactly these marketability issues when *he/she* resells, and will pass over your property in favor of a single-family home.

5. Borrower Experience Requirements — how much of a track record do you want your borrower(s) to have?

Let's start with a very central point I probably should have made earlier:

IN ALL LENDING (PRIVATE OR OTHERWISE), THE INTEREST RATE YOU CHARGE IS ALWAYS A DIRECT REFLECTION OF THE RISK YOU PERCEIVE IN THE DEAL.

And one of the main sources of potential risk is the borrower.

Yes, it's true that the borrower is somewhat lower in our underwriting priorities than the deal itself. The property is always going to be *primary* in the underwriting equation...no amount of mitigating factors can overcome fundamentally bad economics in the deal.

But the borrower is still a huge consideration, especially when it comes to risk. The borrower represents the human element, after all...and the human element always carries the greatest uncertainty.

And — like the deal itself — the borrower gives us another way to filter out unworthy deals right from the start.

THE BORROWER'S LEVEL OF EXPERIENCE IN THE FLIPPING BUSINESS IS ONE OF THE QUICKEST DEAL FILTERS OF ALL. **FOR ME, EXPERIENCE IS ALL ABOUT THEIR NUMBER OF “EXITS” — SUCCESSFULLY RESOLD FLIPS — OVER THE PAST 12 MONTHS.**

I suggest you use “exits” as well, and then organize borrowers into tiers based on those exits. Here’s an example:

Example Experience Tiers:

BORROWER TIER	EXITS IN 12 MONTHS
1	10+
2	4-9
3	2-4

Notice how there’s no tier for borrowers who’ve done fewer than 2 deals in the last 12 months?

Yep, that’s intentional. I’m not interested in making loans to first-time or “once-in-a-blue-moon” type flippers, for two reasons:

1. My *full* borrower-screening process involves looking at their cash reserves, criminal background, credit score, etc. Why would I go through all that unless I’m SURE they’re planning to do more flips in the future? I want to be 100% confident that this is just their *latest* deal, not their only deal. And that — if all goes well — I can reasonably expect to get their *next* deal. If I don’t feel there’s a high likelihood that this is the start of an ongoing relationship with regular, repeat business, I’ll move on to the next borrower.

2. I don't want people "experimenting" with my money. I'm not going to be someone's guinea pig while they stumble through their first deal and work out the kinks. And neither should you.

In my mind, no amount of "risk premium" (i.e. additional interest I charge) can compensate me for lending to someone who hasn't run the flip playbook at least a few times in recent history. You're just asking for a headache, and that's completely contrary to why I'm in this business in the first place: to maximize my effort-to-return.

I'll leave you with this final thought on borrower experience, and investing in general:

"DEALS DON'T DO DEALS. PEOPLE DO DEALS."

Always remember that. Heck, write it out and frame it on your wall, so it's always visible any time you're vetting a prospective loan. *People* are the linchpin in any deal. If you don't *like* the people involved, or you don't believe they're the right fit to see the project through, make your life easy and just move on.

The deal itself may be the first piece you have to get right, but it's people who will bring the deal to the finish line.

6. Base Pricing — what's the absolute minimum interest rate you'll accept on your money, and how will that minimum differ based on borrower experience?

Now that you've got your tiers figured out, the next step is to decide your *base loan pricing* for each tier...the minimum interest rate you're willing to accept given a borrower's experience.

Remember what we said above: **the interest rate you charge is always a reflection of the risk you perceive in the deal.** Here we're trying to establish a baseline before we've even seen a specific deal; a minimum ROI you expect from a borrower in a given tier, not just for the use of your money, but for the risk that he/she doesn't perform as promised.

NATURALLY, MORE EXPERIENCED BORROWERS CARRY LESS RISK, SO WE CHARGE THEM LOWER BASE RATES. AND VICE VERSA — WE CHARGE HIGHER BASE RATES FOR THOSE WITH LESS OF A TRACK RECORD.

Here's an example of base loan pricing for three tiers of borrowers:

Example Pricing Matrix:

BORROWER TIER	INTEREST RATE
1	11%
2	13%
3	15%

Now, those interest rates aren't prescriptive. Nor is the 2% increase from one tier to the next. The above is simply an example intended to illustrate the need to charge more the lower you go in borrower tier.

Why won't I give you a definitive number for each tier? Because your base pricing numbers are YOUR decision. They're the answer to a very subjective, personal question:

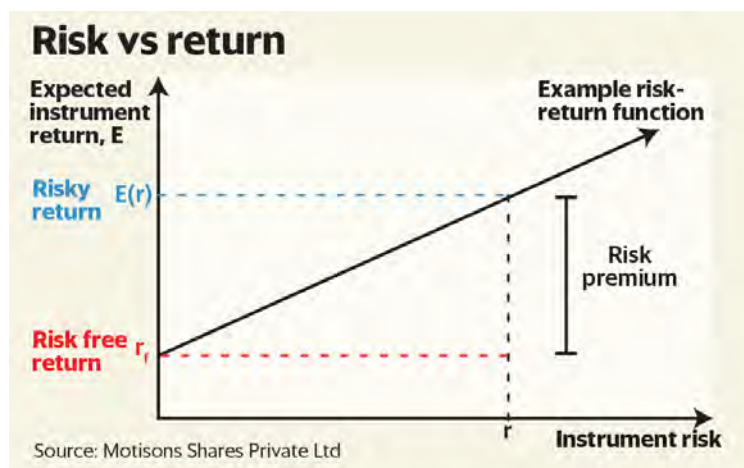
“WHAT IS YOUR MONEY WORTH IN THE CONTEXT OF YOUR BROADER FINANCIAL SITUATION AND GOALS?”

The point is, nothing's set in stone with regard to base pricing. Still, let me give you few factors worth considering:

- **What geographic market are you planning to lend in?** The prevailing local interest rate varies a fair bit from market to market. Before setting your pricing in your primary geography, you may want to ask around or “secret shop” your competitors and find out what they're charging. From there you can consider going higher depending on what you believe your money is worth, but generally I wouldn't go any lower. Trying to be the cheapest capital source means you're competing on price, which commoditizes you. You want to compete on speed and reliability of service, and your ability to be a *consultative* lender (not just a source of capital).
- **What are your other investment options?** This gets to the concepts of *opportunity cost* and *risk premium*. As of this writing, you can buy 10-Year Treasury Bonds guaranteed by Uncle Sam and get a 4.5% return. Money market accounts are currently paying around 5%. Those vehicles are essentially zero-risk, so the question becomes: how much *additional* yield do you need in order to justify deploying that same money in private lending, where the risk is low but not non-existent? That additional yield is known as your “risk premium”. Personally, I'm always looking for double-digit returns in any investment I make. I just can't justify accepting 5% on a money market when I get 14%+ (and often a lot more) through private lending without much additional risk.

PERSONALLY, I'M ALWAYS LOOKING FOR DOUBLE-DIGIT RETURNS IN ANY INVESTMENT I MAKE.

I SIMPLY CAN'T JUSTIFY ACCEPTING SINGLE DIGITS ON A MONEY MARKET ACCOUNT WHEN I GET 14%+ (AND OFTEN A LOT MORE) THROUGH PRIVATE LENDING WITHOUT MUCH ADDITIONAL RISK.



Look, if you can consistently generate 14%+ returns in some other asset class — and you view that market as low risk — it may not make sense for you to redirect money from that strategy into private lending. But if that vehicle exists, I haven't found it. Stocks, crypto, oil and gas, even real estate...all these strategies carry a lot of risk right now, either because they're at all-time highs or because you can't control the outcome. Or both.

- **How replaceable is your capital?** Are you using money from a Self-Directed IRA that's really tough to replace? If so, you may want to set your base pricing higher to account for that added layer of risk. If, on the other hand, you're using cash that would otherwise sit in the bank, and you're great at generating active income from your business or job, you might not feel *quite* as protective of it. (You still need to feel plenty protective, however. As Warren Buffett said, "The first rule of an investment is don't lose money. And the second rule of an investment is don't forget the first rule.")

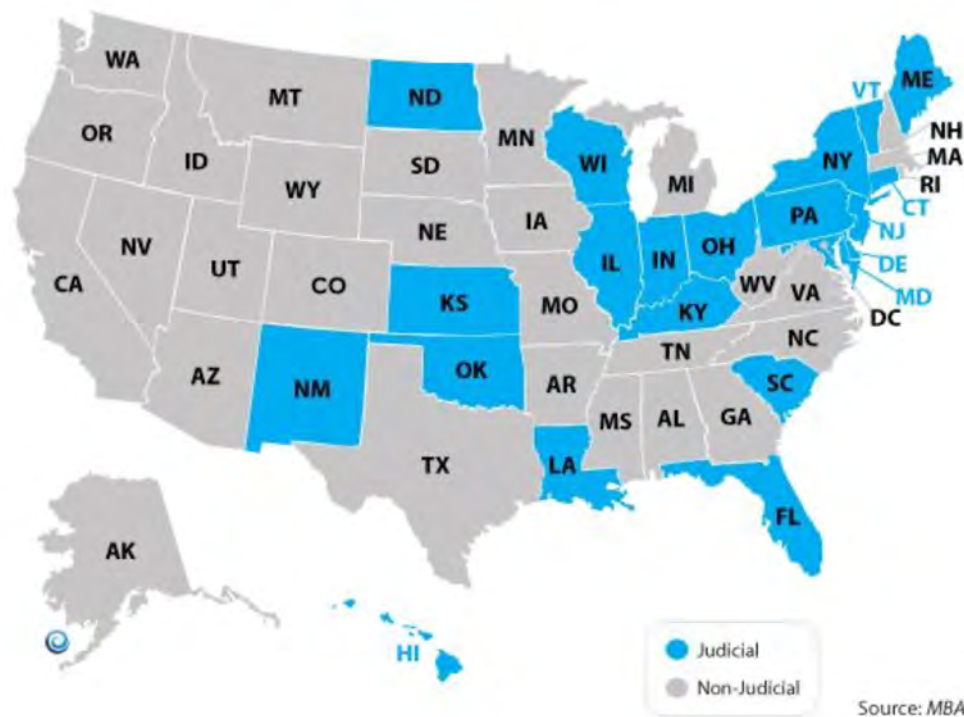
NOW, DON'T GET THE WRONG IDEA
FROM ALL THE DISCUSSION OF RISK ABOVE.
DONE RIGHT, **PRIVATE LENDING IS PROBABLY
THE LOWEST-RISK INVESTMENT STRATEGY CAPABLE OF
CONSISTENTLY GENERATING DOUBLE-DIGIT ROI.**

In more than 9,000 deals, I've only had to foreclose 8 times. That's less than a 0.1% foreclosure rate. And on 5 of them, I actually made MORE money than I would have as the lender. When you vet the deal and the market intelligently, a borrower mishap isn't the end of the world. Yes, you'd *prefer* to stay in the passive lender position, but if you have to, you can often take over the project from a wayward borrower and come out with more profit than you otherwise would have.

OK, once you've firmed up your base pricing numbers, you then want to think about what *rate add-ons* you want in your arsenal.

Rate add-ons are upcharges we use on a case-by-case basis, for specific deal elements that increase risk for the lender. Things like:

- **Extensive rehab projects** — the longer and more complex the rehab, the greater the chance that something could go wrong. You might want to tack on 0.5%-1% extra to mitigate that risk.
- **Judicial Foreclosure states** — as we said earlier, the foreclosure process simply takes longer in states where the courts get involved. Sometimes a lot longer. And while the chances of actually having to foreclose are remote (assuming the deal was well-diligenced and well-structured)...a potential drawn-out foreclosure in a judicial state is still a risk to your ROI and your principal. I'd add another 0.5%-1% for deals in any state in blue on the map below:



- **Past credit issues** — if a borrower has a spotty credit history, there's always a possibility that history repeats. So we charge extra. Another 0.5%-1% is appropriate.
- **Loan to Cost** (we'll get to that in the next section)

Finally, as with “Loan Term,” I suggest you make it a point NOT to disclose your base pricing numbers (especially right out of the gate). They're really just for your own internal purposes. And they're your *minimum* numbers after all; it puts you in a poor negotiating position to essentially low-ball yourself by blurting these out. If a borrower starts a conversation asking about your pricing, just say, “It depends on a number of factors. What interest rate are you able to pay?”

When you wait until the borrower shares *their* price expectations, you have leverage, and can better steer the conversation toward your desired outcome.

7. Loan-to-Cost and Loan-to-Value Ratios — how much borrower “skin-in-the-game” will you require, and what’s the minimum “cushion” you want between your loan amount and the after-repair value of the property?

Earlier we talked in depth about *Loan-to-Value* — what I consider the “golden ratio” in private lending. This simple equation of *Acquisition Price + Renovation Budget ÷ After-Repair Value* does two things for you:

1. It tells you what percentage of the property’s fixed-up value your loan represents
2. It allows you to gauge whether you have enough of a gap between the two to properly mitigate risk

I won’t spend time rehashing LTV here, but I do want to give you a quick reminder: **my target Loan-to-Value is 60-70% in today’s market.** That is, I want my total loan amount to represent no more than 70% of what the property will be worth when it’s fully rehabbed and ready to sell to an end-buyer.

But there’s another ratio we need to consider as part of our analysis: Loan-to-Cost (LTC). LTC is even simpler than LTV; it’s the ratio of the *purchase loan amount* to the *purchase price* that the borrower is under contract to pay for the property.

LTC is important because it determines how much “skin in the game” the borrower has. This “skin” comes in the form of a down payment and represents the borrower’s vested interest in the deal; if they walk away from the project, they’ll be walking away from that cash too.

ESSENTIALLY, THE LTC RATIO GIVES US THE ANSWER TO THE QUESTION: WHAT CASH DOES THE BORROWER HAVE ON THE LINE FOR THIS DEAL?

Typically, my maximum Loan-to-Cost is 85%, meaning I want my borrowers to put down at least 15% of the property's acquisition price in cash. That said, I've gone up to 100% (i.e. no down payment) for my Tier 1 borrowers. It's part incentive for their continued business, and part reward for their track record; they've proven over many deals that they'll finish the project come hell or high water, so I'm not so worried if they don't have much skin-in-the-game.

However, I still charge them a higher interest rate when they request a higher LTC, as shown in the table below:

LTC + BORROWER TIER PRICING EXAMPLE

LOAN TO COST	BORROWER TIER 1	BORROWER TIER 2	BORROWER TIER 3
100%	12%	X	X
95%	11%	X	X
90%	10%	12%	X
85%	9.5%	11%	13%
80%	9%	10.5%	11.5%
75%	9%	10%	10.5%

So how do LTC and LTV fit together? Well, let's say for argument's sake that you decide your maximum LTC is 85% and your maximum LTV is 70%. This means two things:

- Your initial purchase loan (for property acquisition) will never exceed 85% of the purchase price.
- Your initial purchase loan + rehab loan (total loan amount) will never exceed 70% of the ARV.

If a given deal is “fat” enough (the borrower is buying at a heavy discount and the After-Repair Value is well above the purchase price), LTC and LTV won’t impact each other. But this isn’t always the case.

WHEN THE ARV IS TOO LOW AND/OR THE BORROWER ISN’T
BUYING AT A DEEP-ENOUGH DISCOUNT, YOU NEED
TO REDUCE YOUR LTC IN ORDER TO
FIT IT WITHIN YOUR LTV LIMIT.

This is a bit of an advanced concept, so let’s take a look at an example.

Say you’re looking at a deal with a purchase price of \$100,000, a \$50,000 rehab, and a \$185,000 ARV.

Right away you should notice that this deal is on the “thin” side. There’s only a \$35,000 spread between the acquisition + rehab cost (\$150,000) and the ARV (\$185,000). Such a margin doesn’t leave a lot of room for error; if the rehab goes over budget...or the real ARV turns out to be lower than estimated...or the deal runs long (forcing the borrower to make more interest payments than he’d planned)...there might not be a lot of leftover profit for the borrower when it comes time to close the resale. That “thinness” means the borrower has less financial incentive to see the deal through in the event of an issue.

But let’s ignore that for the sake of the example. First we want to establish your max loan amount on an *LTV* basis. You set a maximum of LTV 70%, so what is 70% of the \$185,000 ARV?

Answer: \$129,500. From a pure LTV standpoint, we’re comfortable lending \$129,500.

But that doesn’t tell us how much down-payment cash the borrower needs to bring to the table. It doesn’t tell us whether our default max LTC of 85% makes sense in the context of the other numbers in the deal.

To get those answers, we need to subtract the \$50,000 rehab from the maximum total loan amount we just calculated. That will give us the maximum loan amount we can provide to finance *just the acquisition*, and tell us how much the borrower will need to come up with in cash.

$\$129,500$ (max total loan amount at 70% LTV on ARV) - $\$50,000$ (rehab amount) = $\$79,500$.

$\$79,500 / \$100,000$ (contract purchase price) = 79.5% LTC

$\$100,000 - \$79,500 = \$20,500$ (required borrower down payment)

For this loan, your Loan-to-Cost is capped at 79.5%. You can't offer your normal maximum LTC of 85% (\$85,000)...if you did, you'd be offering a total loan amount of \$135,000, which is beyond your 70% LTV threshold.

If the ARV was \$200k, now you *could* offer a \$135,000 total loan amount — and therefore an 85% LTC — and still be below the 70% LTV mark.

In this case, the LTC issue arises because the rehab amount is so large relative to the purchase price. Essentially, because you're offering 100% of the rehab money (in fact, you're requiring it)...when the rehab amount represents a large chunk of the acquisition cost, the math tells you to reduce the percentage amount you offer for the acquisition itself, and require that the borrower put up more cash.

8. Origination Fee Schedule — how much will you charge in “points”, aka the fees that compensate you for the upfront work of originating a loan?

As with your base interest rates, it's important to establish your origination fee schedule before you start sourcing deals. There's no sense charging out looking for loan opportunities if you haven't first researched the prevailing market rate for origination fees...and established what your *time* is worth.

See, that's really what these fees are all about.

WHERE INTEREST RATES ARE A REFLECTION OF WHAT YOUR MONEY IS WORTH TO YOU, ORIGATION FEES ARE MORE ABOUT THE VALUE OF YOUR TIME AND Effort.

Because origination is where the lion's share of the work comes in. It's the point in the loan process where you do the *underwriting* — the upfront vetting of the deal, the market and the borrower. It's where you "paper up" the loan by memorializing a term sheet and completing the necessary documents for title and escrow. Finally, it's where you wire the money to close the acquisition and get the project underway.

Origination fees — which we call "points" for short — compensate you for that work. **We recommend you collect them during closing (i.e. the property acquisition), rather than upon payoff (i.e. the eventual resale of the finished property).** This way, you're getting a financial ROI on the deal right as your loan capital gets wired out. No matter how the deal plays out from there, you got paid for the initial work to make the loan.

JUST LIKE INTEREST RATES, POINTS SHOULD REFLECT BORROWER EXPERIENCE AND THE RISK YOU PERCEIVE IN THE DEAL.

Shorter deals and more experienced borrowers carry less risk and thus command lower fees. Of course, the opposite is also true: we charge higher origination fees for longer deals, and for borrowers with less of a track record. Here's an example matrix that illustrates the need to charge higher origination fees the less experienced the borrower and the longer the expected deal timeline:

Origination Fee (Points) Example Matrix:

BORROWER TIER	ORIGINATION POINTS ON A 6 MONTH LOAN	ORIGINATION POINTS ON A 12 MONTH LOAN
1	1%	1.5%
2	1.5%	2%
3	2.5%	3.5%

Remember, “points” are what allow you to boost your annual ROI well beyond the interest rate you charge. When you re-loan the same principal multiple times per year (because the duration of each loan is sub 6-months), you get to charge origination points on each one, which really adds up as loan terms get shorter and shorter. Given their incredible potential to amplify your return, origination fees are worth getting right at the outset.

9. Renovation Project Parameters — how big of a Scope of Work are you comfortable with? Will you focus your lending on light, medium or heavy rehab projects?

In any flip deal, the renovation is where the rubber meets the road. It’s the actual *project*, with more moving parts and people involved than any other point in the deal. Between that human element and the logistics of getting a rehab done on time, under budget, and in line with estimated ARV, it’s vital you establish the kind of rehab projects you will and won’t lend on.

I LIKE TO THINK OF RENOVATION PROJECTS IN TERMS OF
THEIR COST RELATIVE TO THE PROPERTY'S ACQUISITION
(PURCHASE) PRICE. THIS SERVES AS A PROXY
FOR PROJECT COMPLEXITY.

Generally, the higher the ratio of rehab-cost-to-purchase-price, the more involved the Scope of Work. And the more involved the Scope of Work, the more experienced you'd like your borrower to be — both with that specific level of project complexity and with flips in general.

As a loose rule of thumb, a *light rehab project* is one where the renovation cost is less than or equal to 25% of the property's purchase price.

We did a lot of these kinds of flips as a family shortly after the housing bubble burst, in Vegas from 2009-2011. We were buying up to 3 foreclosures per day at the trustee's sale (public auction), and because of the construction boom that preceded the crash, many of those foreclosed homes had been built in the last 5-10 years. There wasn't a need for any real "remodeling"; we just replaced the carpet, painted the interior walls, had it deep cleaned and then slapped it back on the market.



I call the flips we were doing in Vegas “cosmetic” or “lipstick-and-rouge” jobs. You’re applying “makeup” to a newish or well-taken-care-of home, with very little demo work or updating required. A couple nice things about these deals:

1. Even newbie flippers can handle them (though I personally still wouldn’t lend to a greenhorn), and
2. Because of the speed at which these deals can be done, you reduce your market exposure and increase your velocity of capital (i.e. do more “turns” per year and thus charge origination fees more often).

That said, an experienced borrower will know this, and may ask for a lower interest rate and/or lower origination fees as a result.

Now, if a borrower is budgeting \$60,000 to rehab a \$250,000 home (a 24% rehab-to-acquisition-cost ratio), it’s going to involve a fair bit more than paint and carpet. Now we’re talking about demoing whole rooms, replacing cabinets and countertops, replacing fixtures like toilets and tubs and faucets, painting the exterior, landscaping and so on. This is still largely cosmetic, and still a light rehab job in terms of complexity, but definitely more involved. You’d like to see more borrower experience here because there are simply more line items to get right and more subcontractors and vendors to manage.

The cost of a *medium rehab project* falls somewhere between 25-50% of the property’s purchase price. With this kind of project scope, the borrower is doing most if not all of the items from the “light” project, but also more complex stuff like:

- Larger-scale plumbing or electrical work
- Adding windows and/or closets to create a new bedroom
- Swapping out and upgrading flooring throughout the house
- Replacing whole shower/tub enclosures
- Adding built-in features like bookcases, built-in cabinets, or window seats

As you get into these more complex line items, borrower experience becomes increasingly important. Sure, anyone can read an inspection report and call an electrician or plumber or whomever, but do they know how not to get oversold or overcharged by those vendors? Do they know how to order supplies and building materials in the right amounts? Do they know in what order to make the renovations for maximum efficiency and minimum headache? (Laying new flooring and then doing the interior painting, for example, is a rookie mistake). Do they know which line items need permits and how to order those permits? Do they have a contact in the permitting department who can speed things along?

You get the point: the more fixes and upgrades the rehab involves, the more of a “contractor” the borrower needs to be. He/she needs to be at least somewhat savvy in many different disciplines, each of which is just one more thing to get right.

Finally, a *heavy rehab project* costs 50%+ of the acquisition price, and adds further complexity to the light and medium jobs. Here you’re looking at additional things like:

- Adding an entire bedroom or bathroom or other extension to create additional square footage
- Structural changes like opening up one or more load-bearing walls to create a more open floor plan
- Major roof repairs or replacement
- A garage or attic conversion
- Foundation repairs or replacement
- Changing the entire layout of a major room like the kitchen or master bed/bath
- Mold remediation
- Adding a swimming pool

A couple final thoughts here:

First, these percentage-ranges for light, medium and heavy rehabs are loose rules of thumb. Project costs can vary greatly depending on the size and location of the property and the quality of materials used. In some markets you may need to adjust significantly; that \$220K rehab on a \$1.3M property in California may equate to a 17% rehab-to-acquisition ratio, but there's no way that's a light renovation. So use your common sense and the Scope of Work to be sure.

These ranges can also vary somewhat as the housing market changes. If home prices rise or fall faster than material and labor costs, the ranges may not apply perfectly, so keep that in mind.

Really, my only hard-and-fast rule with respect to rehabs is that I don't let anyone other than Tier 1 borrowers do heavy projects. And even when I do lend on a heavy rehab, I require that the borrower have a bigger contingency allowance in the SOW, i.e. an "oh crap" allowance. For example, a rehab SOW might be \$100K total, but \$10K is a contingency allowance and the other \$90K is the materials+labor detail.

Beyond that, it's really up to you: what level of rehab project do you want to target? Do you want to target light projects that get done quicker, and thus be able to "turn" your money more times per year? These deals carry less risk, but with savvy borrowers you may not be able to charge as much in points and interest.

On the flip side, do you want to target somewhat bigger rehabs and charge higher interest, knowing your money will stay deployed for longer (so you can be more passive in your lending)? And if you're going to incur the higher risk of a complex rehab, what's the minimum borrower experience level you'll allow?

In either case, give some serious thought to your rehab project parameters before you charge out looking for borrowers. Your Credit Policy will thank you.

10. Borrower Credit Score and Background — what minimum credit score will you set for each borrower tier, and what “hard stops” will you have with respect to a borrower’s financial and criminal background?

Credit wise, you’ll make your life a heck of a lot easier if you first establish an absolute minimum FICO score for each of your borrower tiers. As in, a borrower either falls above the minimum and qualifies, or they aren’t and they don’t. Remember, the whole point of having these policies in place is to quickly filter out “NO” deals and free yourself up for the “YES” deals that truly deserve your time.

Naturally — as with interest rates, origination fees, LTV/LTC limits and so on — you want to set a *sliding scale* between minimum credit score and borrower experience. If a borrower has exited (resold) a ton of successful flips in the last year, say 15 or more, I’m less worried if they have a lower FICO. They’ve proven that they’re more than just their credit history, many times over. If instead they have very few recent flips under their belt, I simply don’t have that counterargument to their credit score and I want to set my minimum higher. Here’s how it might look in matrix form:

Borrower Tier + Minimum FICO Score
Example Matrix

BORROWER TIER	FICO MINIMUM
1	620
2	660
3	680

In terms of a borrower’s *financial* background, the main things I’m looking for are bankruptcies and foreclosures, as well as large collections or multiple late payments on debt. Things that suggest they have a history of reneging on their financial commitments and treating other people’s money as expendable. I set hard stops for these: for example, I simply won’t lend to someone with a foreclosure or bankruptcy in the past 5 years.

Their criminal background is even simpler: does the borrower have a felony on their record? If so, that’s a “No” for me, no matter how long ago the conviction may have been.

CHAPTER 3

NEXT STEPS: SO WHAT SHOULD YOU ACTUALLY DO WITH WHAT YOU'VE LEARNED?

You've made it to the end of this ebook, which means you're serious (not just curious) about exploring private lending as a powerful, alternative investment strategy. Congratulations!

But knowing the information is only half the battle. Now it's time to put what you've learned into action. So, what are your next steps?

1. Develop Your Own Bulletproof Credit Policy

The first step in any successful lending business is to have a clear set of guidelines that dictate how you'll deploy your capital. You've seen throughout this ebook how a well-crafted credit policy acts as your first line of defense against bad deals and how it helps you maximize profit while minimizing risk. Now it's your turn.

Take the time to sit down and develop your own bulletproof credit policy. Start by reviewing all 10 sections of Chapter 2, from loan amount ranges through borrower credit score and background requirements. Identify the parameters that align with your investment goals and risk tolerance. Your credit policy should reflect your unique perspective as a lender, acting as a compass that guides your decision-making. Remember, the goal is to get to NO as fast as possible for deals that don't fit your criteria, freeing up your time and capital for the "fewer, better" YESes that align with your strategy.

2. Watch the “Private Lending Masterclass” Webinar

Now that you’ve got the foundation, it’s time to take your learning to the next level. I’ve put together a comprehensive “Private Lending Masterclass” webinar that dives deeper into the concepts we’ve discussed here. In this masterclass, you’ll learn:

- **Advanced techniques for crafting an airtight credit policy** that protects your capital and maximizes your returns.
- **How to identify and evaluate “Tier 1” borrowers** to further minimize your risk.
- **Real-world case studies** of successful private lending deals that you can model.
- **Common pitfalls and how to avoid them**, saving you time, money, and headaches.

This isn’t just a recap of what you’ve read—it’s a deep dive into the strategies and tactics that separate successful private lenders from the rest. Whether you’re a seasoned investor or just starting, the insights from this masterclass will give you an unfair competitive edge in the market.

3. Take Action Now!

You’ve invested your time learning about private lending. Now it’s time to get a return on that effort!

Don’t let this be just another ebook you read and set aside. Turn knowledge into action. Take 10 minutes right now to outline your initial credit policy framework. Define your loan amount range, think about the type of borrowers you want to work with, and start sketching out the non-negotiable criteria that will guide your lending decisions.

Then, **register for my “*Private Lending Masterclass*” webinar** to take your understanding to the next level. The insights you’ll gain from this webinar will provide the clarity and confidence you need to start making profitable lending decisions immediately.

Ready to Get Started? Here’s Your Checklist:

1. **Create Your Credit Policy:** Draft a preliminary version using the guidelines from this ebook.
2. **Register for the Masterclass:** Click *here* to sign up now.
3. **Prepare Your Questions:** Bring any questions or uncertainties to the masterclass. This is your chance to get expert insights tailored to your situation.

Success in private lending isn’t about having all the answers—it’s about having a plan, the right information, and the willingness to take action. Let’s turn what you’ve learned into results. I look forward to seeing you in the masterclass and helping you take the next step toward becoming a successful private lender!



JUST BE THE BANK

Your Double-Digit Return Playbook:

Turn chaos into criteria—and every deal into a simple yes or no.

When markets feel frothy and rentals tight, guesswork is expensive.

Control is everything.

This field guide shows you how to build a **Credit Policy**—a written rulebook that defines when you'll lend, *to whom, on what, and on what terms*. It's how serious lenders protect principal, price risk, and decide in minutes—not maybes for weeks.



Inside, you'll lock in the pillars of a bulletproof policy:

- Your **loan range** that keeps capital safely, productively deployed
- **Borrower tiers** and minimums that filter for finishers
- **Risk controls** that stick: conservative LTV/LTC, real reserves, **draws—not dumps**
- A habit of “**NO fast**” so you can fund the fewer, better YESes

You'll also learn to model a loan in plain English and target strong returns—without tenants or ticker drama.

Read it. Draft your policy. Lend with clarity.

When the rules are yours, outcomes stop feeling random.