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Double Your Revenue, Double Your Funds

**Earn income from both sides of the transaction
by pointing investors to private lenders**

With traditional lenders in a financial gridlock, private money — aka hard money — is playing a more prominent role in the capital markets. As a result, the number of private-money transactions taking place in the mortgage market today is growing.

As a commercial mortgage broker, you should become familiar with the private-money landscape and consider marketing to hard-money-type borrowers. With hard-money transactions, you can generally expect your commission to be larger than with a traditional transaction.

The problem is that as a mortgage broker, you still only make one commission. It's well-known that Realtors can make two commissions from one sale when they secure a listing and then also find a buyer for that listing. For mortgage professionals who can think outside the box, there is an equivalent opportunity available.

As a hard-money mortgage broker, you can double your revenue by selling on both sides of a transaction as opposed to just brokering loans. Here's how.

Where the funds come from

Let's assume that your borrower is the equivalent of a Realtor's "seller." You take the listing — i.e., the loan — and market it to find the best taker. With any luck, you find a lender, which is the "buyer" in this transaction. It would appear that you've put together both sides of this sale, so why do you receive only one commission for doing so?



Illustration: Dennis Wunsch

The simple reason is that the lender isn't really your buyer. The investors behind the lender are the ultimate buyers, and that's why the lender is compensated in fees at closing. Those fees represent a commission for finding the sellers and bringing them to the table.

The lender also is responsible for sorting through state and federal regulations, obtaining licenses, performing due diligence and servicing the loan, among other things. The process of becoming a lender can be painstaking and costly, which is why most mortgage brokers never consider working this side of the transaction. But it doesn't need to be that difficult.

There are a few things that you should understand about private-money lenders.

First, they generally receive their funds from private individuals or entities. This means that when their funds run out, there aren't any more. Their loans generally aren't sold on the secondary market. Private lenders are only successful if they can continue to raise capital for future loan transactions. Many even use funds from their own pockets.

In addition, they often pursue additional funding through financial fiduciaries, such as financial planners, money managers and others. As a mortgage broker, you should consider yourself an important financial fiduciary.

Finally, all private lenders are structured differently. Some are structured as mortgage pools, while others operate as private security entities. Some specialize in fractionalizing mortgage notes and selling them to institutional investors after closing. Either way, they've usually spent many hours and thousands of dollars to become eligible to lend money. The legal implications behind private-money lending are deep and often complicated.

The bottom line is that most private lenders need money to fund deals, and most are willing to compensate anyone who links them to new sources of capital. And this is why you should consider teaming up with private-money lenders to find investors.

Brokers' qualifications

When considering helping private-money lenders find investors, remember: You're

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already an expert in the mortgage industry. You understand its procedures and loan structures. You're better suited to tell a potential investor about a new mortgage-investment product than a typical accountant. You know which private lenders are too loose with their clients' money and which make wise, conservative investing decisions.

Also, your clients likely already trust you with their financial well-being and have given you all their financial information. Forget about sorting through leads. You already know which of your clients have money to invest and could benefit from alternative assets and which don't. Your job may be as simple as making a few phone calls to some of your existing clients.

In addition, this can help you create a new stream of passive income. When you broker a loan, you get paid one commission on a deal and may not receive another until your clients need to refinance.

When you refer funds to a private lender, however, most will pay you a commission each time the funds are used in a new loan transaction.

As such, if the average hard-money loan term is 12 to 18 months, then you may earn 1 or 2 points from the money you place with a lender every 12 to 18 months for the foreseeable future.

Assuming you refer \$1 million worth of business to a private lender that you trust and that pays you 1 point on that money every 12 months, you will create a \$10,000 annual income stream for yourself without any additional work. At the same time, you still will be able to collect regular

commissions from your normal mortgage-brokering business.

Getting started

If you're interested in pursuing this opportunity and essentially doubling your revenue, here's how you might get started. First, find a conservative private-money lender with an appropriate investing philosophy. Remember, you don't want to refer your clients' money to the first private lender that will pay for it. You want to ensure that their money will be safe and that it will earn appropriate returns.

Take the time to get to know some private lenders and how they mitigate lending risk. Not only will you be better positioned to recommend investments to your clients, but you'll also gain a better understanding of the hard-money industry and the types of deals lenders seek. Your mortgage-brokering business will directly benefit, as well.

Next, determine which lenders are willing to work with you. Some may not be flexible or willing to work on this basis, but most will be. You will develop an ongoing working relationship with these private lenders. As such, it is important that you are comfortable with the relationship.

Also, begin speaking to clients about the benefits of alternative assets. Start with clients who have money in individual retirement accounts (IRAs) and other types of retirement accounts. Most won't know that they can invest that money outside of the stock market in alternative assets that provide a way to build passive income safely. Providing them some simple information and taking the time to explain how

safe and secure some private loan investments can be will go a long way.

Be careful not to give financial advice of which you are not qualified to dispense. When in doubt, have your clients consult with their certified financial advisers, as well.

Considerations

There are a few things to consider when referring capital to private-money lenders. First, make sure you aren't inadvertently violating any state or federal securities laws when referring clients to private-lending investment opportunities. Consult an attorney to make sure that the method in which you're receiving compensation does not require you to be a licensed broker-dealer. If you find that your new line of business will be profitable for you, however, securing an additional license might not be a bad idea.

Second, take care to avoid any conflicts of interest. When you refer investment funds to a private-money lender, you will want to avoid accidentally creating any circular loan transactions that could be scrutinized by a taxing authority or the U.S. Securities and Exchange Commission. Take extra-special care with clients who use funds from their IRAs to invest.

Finally, disclose the fact that you're pursuing this relationship to your sponsoring mortgage-brokerage company. Discussing the idea upfront will alleviate the need for any questions of internal conflicts of interest down the road.

If you're lucky, you'll come across colleagues who like the idea and can help you and your new profit center. ●