

# Private Lending ED

## Why You Should Consider Private Lending for Real Estate Investments

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In Lewis Carroll's *Through the Looking-Glass and what Alice Found There* the two characters Tweedledum and Tweedledee agree to have a battle but never have one. In fact the two brothers compliment each other's words and never contradict each other. We have been hearing an awful lot about those huge government programs designed to save the real estate market. Are we the Tweedledee to the government's Tweedledum? Or are we just being played? Where has all the money gone and how has it affected the real estate industry recovery?

The Home Affordable Refinance Program (HARP) was one of the major pieces of the housing rescue plan launched in February. It was crafted for borrowers of Fannie or Freddie loans whose mortgages are worth 80% to 125% of the value of their homes, their real estate investment. It was offered to borrowers who pay on time but lost equity in their properties due to falling prices and couldn't get them refinanced. So far it hasn't worked as well as expected. A very small percentage of home owners qualify for these funds.

How about the Troubled Asset Relief Program (TARP)? TARP allows the United States Department of the Treasury to purchase or insure up to \$700 billion of "troubled" assets. "Troubled assets" are defined as "(A) residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008, the purchase of which the Secretary determines promotes financial market stability; and (B) any other financial instrument that the Secretary, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, determines the purchase of which is necessary to promote financial market stability, but only upon transmittal of such determination, in writing, to the appropriate committees of Congress."

How many "troubled" assets have been purchased so far you ask? As of February, 2009 only 300 billion was spent of the 700 billion allocated. Much of that went to purchase bank equity shares through the Capital Purchase Program (\$200 billion). \$40 billion went to American International Group (AIG) from a preferred stock purchase and \$53 billion went to Citigroup and Bank of America by way of stock purchases and loan guarantees. Oh, yes and \$25 billion went to bail out automakers and their financing arms.

Has this helped bring the country out of recession? Has it been easier or harder to get money for what you need? Have these programs assisted your bank or credit card company in lending their money? If the answer to all of these questions is no, then what's going on?

It's true, some of the banks that were given funds have repaid them already. Those were mostly credit card banks like American Express and Capital One. So, shouldn't credit be expanding not shrinking with all of that cash being doled out? Everyone says the same thing: wait, be patient its coming!

Many banks used the funds to wipe their toxic assets off the books. They plan on selling them in the future at a profit and then repaying the funds. That is if everything goes to plan. The numerous "what if's" scenarios are mounting as we write this: the tumbling commercial real estate market, more unemployment and poor consumer confidence numbers.

All of these will shrink real estate values when they get worst. How much and for how long no one knows. So, it may take longer for the banks to eliminate those toxic assets than they think.

A Congressional Oversight Committee just released a report that shows it is concerned: "It is likely that an overwhelming portion of the troubled assets from last October remain on bank balance sheets today". They say "likely" because they aren't sure what the banks really own. Some banks classify assets differently. One may classify it as troubled another not. There are so many variables and valuations that in most cases nothing is being resolved.

Fear and predatory lending by some, by raising credit card rates, have ruled the day. How many of you private lenders out there have kept to the sidelines because of your uncertainty? But, there are still many with cash who are taking advantage of an incredible opportunity to pick up troubled assets and turn them into gold! As always cash is king.

The time for creating wealth is here. Real estate remains the universal source of generational wealth. Start collecting it today through private lending and investing in real estate.

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