How to Raise Private Money Report ©

A Comprehensive Guide for Raising Money

from Private Individuals and Funds

for any Business

From Real Estate, Energy, Technology, Biotech/Healthcare, Internet/Software, Etc.

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HOMEFRIEND PROPERTIES, INC.

Contents

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Why this Report is Different

You will find this report on how to raise private money is fundamentally different from the whole gaggle of seminars, webinars, online memberships, and others promising "hedge fund" money, and the chance to "get private money in 7 days".

The fundamental difference is that all these other programs give you all kinds of information and misinformation, that won't tell you how to realize their promises in real life with real private investors. So, you spend your money joining, and you spend your time learning the wrong things. Then you spend your money again hosting luncheons or putting up money for an investment you never get. And in the end, what do you have to show for it—Nothing!

However, this report is going to pull back the curtain on how actual private money deals are done.

First, you want to find private lenders? Well, what if you got a list of 100 names from one of those private lender databases you paid a pretty penny for. You think you'd end up with a check? Ha. Ask anyone whose tried that—they got nada.

Why? Because no one has explained to you who private investors really are, how they think, what they want and don't want, etc. It would be just like you picked a date online because he or she looked good. But one person believed women should be seen but not heard, and other felt that woman should be leaders and not blocked by the male chauvinist system. I'm willing to bet that relationship wouldn't last through lunch.

However, in this report, I am going to explain to you in detail who private lenders are, their attitudes, values, hot buttons, etc.—everything you need to establish a mutually respectful and productive relationship.

The next complaint I hear is "I don't know anybody with money". Well in this report you will learn what to target, who to target, and special knowledge that is rarely revealed so that you know how to approach an investor and his money. And this will be a big boost to your credibility.

Now, once you "find" a private investor, you are going to want them to write you a check. So, first we need to cover the legal and illegal ways of contacting them, so that you can stay out of trouble with the SEC. Most of those form letters you are advised to send out…well, you'd better hope no one contacts the SEC about them or you could be facing a legal disaster.

Next, I going to show you what you have to do (and tell you how to do it) to prepare for meeting with potential private investors. For the courses and trainings out there, I've never seen even one of them explain this in detail and showed how you do this successfully.

And yes, it is going to take some work on your part. But if you think that a total is going to write you a check for $100,000's just because he opted in to your landing page… well let's just say, that kind of fantasy doesn't even come true in Lala land.

But, never fear. In this report, I will lead you step by step in creating a plan that will both resonate with investors and address all of their concerns. And after presenting it the way I will instruct you, your chances of getting that check become a real possibility.

Now, there are reasons that investors may say no to the best of plans. However, in our "follow Up" section I will reveal some secrets that have the power to produce yes's from even those no's and establish a private money pipeline that will feed your deals and enhance your wealth and confidence for years to come.

So, whose ready to learn the right way, the real world way to raise private money?

You?

THEN READ ON…

How to Find Private Investors

Hidden in Plain Sight

Hi, I am Dr. Richard Odessey (or "The Professor" as my students call me).

Today we I am going to lift the curtain on one of the most perplexing problems entrepreneurs have when they need cash for their deals. That is how to find private lenders.

If you are reading this I'm guessing that despite all the private lending webinars you've heard and the "hot" lists you've compiled or bought, that finding private lenders that will write checks for your deals still eludes you.

Don't feel bad. It is not really your fault.

First of all, they are called private lenders, not simply because they are private individuals (as compared with institutions like banks), but because they jealously guard their PRIVACY. And wouldn't you. If you were wealthy would hang a sign outside your door saying "Hey, world, I'm really rich. In fact I have so much money that I can afford to lose a million and not worry about it. So heck, why don't you come and bother me and ask me for money incessantly or even try to con me or rob me?..."

So real "private lenders" let's just say maintain a very low profile.

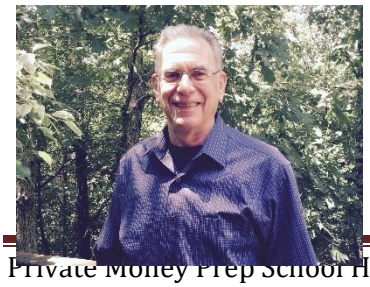
Secondly, private lenders are generally not "ostentatiously wealthy. So one of the first things we are going to talk about in this training is who private lenders are, and how to recognize them. And then I am going to teach how to approach them in a way that will attract them to you.

We will discuss some advanced techniques that all entrepreneurs who have successfully raised private money follow, but won't tell you about.

So, you're not going to find any lists of clever elevator speeches to break the ice with. They are usually embarrassing and mainly they accomplish nothing except to show you up as an amateur.

Instead, I am going to give you an in depth understanding of who private lenders really are, how to approach them, and what to do to get them to consider opening their wallets to invest in your deal.

Who is Professor Richard Odessey



Now, you might be asking who the Professor is, and why is he qualified to teach an advanced course on finding private lenders.

Well first let me say, that I got this moniker, because I actually was a Professor of Physiology at University of Virginia and LSU Medical Ctr, for

many years. This didn't qualify me for real estate investing, but it did give me some good experience in explaining complex topics to students

My real estate training started back in 1999, when I heard an infomercial touting the benefits of working for oneself, and how you could get people to actually "give you their houses". (sound familiar).

Well to make a long story short, I have been investing in real estate, teaching real estate investing, and raising money for my deals and other peoples deals for the past 15 years.

Over this time, I have done almost every type of real estate deal including subject to, lease option, rehabs, new construction, single and multi-family...

Now as I moved into bigger properties (as you might be doing), I began finding that the best deals with the biggest equity and fewest problems were going to entrepreneurs with money. And that was not bank money, which takes a tediously long time to get (when you can get it at all), and they would never fund more than 75-80% of the purchase price.

So, that's when I heard about private money. So, like you, I went to the seminars, bothered the heck out of my friends and family, spent an awful lot of money on investor luncheons and dinners, and almost got in trouble with the SEC, and in the end had nothing to show for it.

Well, that's not quite true. I learned a lot about what didn't work when trying to raise private money, and why it didn't work.

Since that low point, things have turned around. By mainly trial and error, and analyzing private money deals that entrepreneurs have asked me to work on, I've developed a unique approach to raising private money, that you won't hear discussed in webinars, but it is always used in successful private money transaction.

In fact, I have been both an Entrepreneur and a Private Lender. So I've been where you are and he's been where your Private Lenders are. And in this training , I am going to show You How to Raise Real Money from Real People.

Private Money Opens the Door to Buying Any Asset

The benefits of Private Money are very great. It opens the door to buying any property or asset with:

- No cash, No credit and No proof of Income Needed
- Money On Demand
- Flexibility on Terms
- No $ Limit
- 100% Financing
- Investor Loyalty
- High Value Relationships

Secrets of Finding Private Money

Finding Private Lenders is challenging because you've never been told who private lenders really are and how to approach them correctly. This is one of the really inside secrets of raising private money.

You see, the mistake most entrepreneurs make when thinking about finding private lenders, is to believe that all they need is a list of names and phone numbers of private lenders and they're all set.--
WRONG!

Look, suppose I had access to "the machine" in "Person of Interest" and I could give you list of all the private lenders within a 50-mile radius of where you lived (I'll define who they are in just a minute). Then what would you do? Would you write them or call them with your "elevator speech"? Do you think that would be enough to get someone interested in opening their wallet? Tell me, what would you do if you got a call from a total stranger asking you for money...

I hope this little "thought experiment" shows you that finding private lenders is a process, that begins with some serious preparation and planning before you even begin the process of identifying individuals. You must:

- Know Who Private Lenders Really Are
- Know What Private Lenders are looking for (hint it's not just Return on Investment)
- Know how to get them to even pay attention to you
- Know what to avoid doing that will get your deal permanently "deep sixed"
- Know what and how to present to them, to get them to consider your project favorably.

To go and contact or meet with a potential private lender without these things is to guarantee failure.

Who is a Private Lender?

So, first, who are these private lenders. It's not just rich folks. So listen carefully, because here's the definition:

He/she has Liquid Assets to Invest. An asset is something of value that has the potential to produce income like cash, stocks, free and clear property, a business, etc.

People who have been successful in accumulating these types of assets, are themselves successful entrepreneurs who developed a business and sold it, and generated a large amount of cash that they don't need for their living needs and desires. And as steward of their money, they choose to invest it to passively generate income.

These individuals are known as Asset Rich as opposed to Income Rich (see below)

1) The Income Rich -

these are the "Rich" people you see on TV and in the movies. They have High Income, but...

They spend it on Fancy Toys: Boats, Jewelry, Cars, Etc.

These are the people that everyone thinks of as "rich". However, they may be just One Paycheck from Financial Meltdown

2) The Asset Rich

These are the Successful Entrepreneurs I mentioned who have learned how to

Create Assets with their money

and put Their Money to work for Them--just as you are trying to accomplish

So who do you want to go after? The ASSET-RICH of course.

Now just to be contrary you could go after the income rich, but you will be disappointed. Why? Because they want their money to give them immediate gratification. If by some miracle they invest with you, they will not have the patience to wait until the exit, and if there is any hiccup in the operation, they will be bugging you to get out.

The second important characteristic for you, the Real Estate Entrepreneur is to identify individuals that are INTERESTED in Real Estate Investments -

This is because private lenders don't invest in any random opportunity no matter how good it sounds. They only invest in areas in which they have a personal interest and knowledge.

So, Who Has the Money?

So, the next question is where do I find these asset rich people? Well, it is not that easy, because these folks value their privacy. So, you can either join organizations where these kind of people are also members, or you can look them up in public records by searching for mortgages held by private individuals.

Accredited Investors

Under the Securities Act of 1933, a company that offers or sells its securities must register the securities with the SEC or find an exemption from the registration requirements. The Act provides companies with a number of exemptions. For some of the exemptions, such as rules 505 and 506 of Regulation D, a company may sell its securities to what are known as "accredited investors."

1. The federal securities laws define the term accredited investor in Rule 501 of Regulation D as:
2. a bank, insurance company, registered investment company, business development company, or small business investment company;
3. an employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of $5 million;
4. a charitable organization, corporation, or partnership with assets exceeding $5 million;
5. a director, executive officer, or general partner of the company selling the securities;
6. a business in which all the equity owners are accredited investors;
7. a natural person who has individual net worth, or joint net worth with the person's spouse, that

exceeds $1 million at the time of the purchase, excluding the value of the primary residence of such person;

8. a natural person with income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year; or
9. a trust with assets in excess of $5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

As you can see, the definition of people who could qualify as Accredited Investors is not a very high bar. It's an important definition to keep in mind since less sophisticated investors may not know they qualify.

And restricting yourself to only accepting accredited investors for your offering removes a huge amount of red tape and expense. But there are some restrictions (see Legal Chapter).

Financial Advisors

Financial advisors usually have high net worth clients for whom they invest their money. However, these advisors are usually quite Conservative in their financial choices which are often circumscribed by law.

Also, they are only allowed to earn commissions on certain types of transactions such as the purchase of publicly traded securities. They are subject to Regulatory Constraints and generally will not take a fee to recommend your opportunity.

If you are friendly with one, you can talk about a referral, but it is unlikely because the advisor will probably not be able to financially benefit from the transaction.

Angel Investor Profile

Angel Investors are asset rich individuals who choose to invest their excess wealth in alternative high return investments like start-up companies, and real estate. A survey of these individuals found that a majority of these individuals shared the following characteristics.

- Average age: 47
- Post-Graduate Degree
- Has Previous Experience with Startups
- Invests 20-50K initially
- Invests approximately every 2yr
- Participates with others
- Invests close to Home (within 300mi)
- Expects and Requires Legal Paperwork

Private Funds

Many high net worth individuals, choose to participate in private funds rather than making their own investment decisions. By choosing a fund, they are delegating to the fund, the expertise to find the right investments, diversify their portfolio, and perform all the due diligence necessary to make an investment decision.

Like individuals, these funds have specific areas in which they invest. They are either asset backed investments (e.g. hard money lenders) or Venture Capital that take a large equity stake in the investment. And since they have fiduciary responsibility for investing other people's money, they usually have Stringent Requirements including

- Proven Track Record
- Strong Financials

Family Offices

Family Offices are set up by one or more wealthy families to give the families professional help and advice in investing large sums of money to minimize risk and maximize return. While some family offices are fully set up like a financial institution with support staff, and professional managers, many of the offices consist of a single family member and perhaps a secretary.

One of the most frustrating things about the family offices is that it is secretive and hard to learn about, and many entrepreneurs feel like they cannot get that initial foot in the door. They feel that it is kind of a closed network of professionals who work with each other, and if they cannot get initial momentum, then they can never raise capital or form partnerships to gain momentum in the industry.

However the good news is, that because these offices lack resources they are usually hungry for good investment opportunities. You can start by searching Linkedin, as many offices have an account there.

Now once you've contacted a family office, it will take time to build up their trust before they will consider investing with you. So, this is not a quick fix to your private money funding needs. Also, please note that while many offices are interested in investing in real estate, the minimum investment they will even consider for any investment is $1 million.

The reason is simple. They have large sums to invest. So the work, time and effort involved in many small projects is simply not worth it.

IRA's - the Biggest Pot of Gold of them all

There are literally Trillions of Dollars sitting in IRA's. Most IRA holders think that they can only invest these funds in a limited number of big investment funds. The truth is, that IRA's can be invested in almost any type of investment as long as it is held with a US Treasury approved custodian who oversees the disbursement of what are called "Self-Directed" IRA's.

Just like any other IRA, Self-Directed IRA's can be traditional IRA's or Roth IRA's. To refresh your memory of the difference between the two, see the table below:

Feature	Traditional IRA	Roth IRA
Money Invested	Pre-Tax	Post-Tax
Money Earned in IRA	Not Taxed until withdrawn	Not Taxed
Money withdrawn at retirement	Taxed as income	Not Taxed

The ability to earn an unlimited amount of money "tax-free" or at least "tax-deferred" is an enormous benefit. For example, if you invested your IRA at 10% interest compounded annually, you would have a return of 159% in 10 years. If you took that same amount of money from your savings account and invested it, but had to pay a 40% tax rate on it, you'd only have a return of 79% after 10 years. In other words, you'd have double the amount of profit by investing with an IRA vs. ordinary income.

And this is a persuasive point to make with potential borrowers (especially friends and family [who are not disqualified persons!-see below]).

The most important thing for you to know is that IRA's can be used to invest in real estate deals of all types, as well as start-ups and other types of business ventures. However, there are certain rules you must follow. Specifically, you cannot use an IRA to engage in a "Prohibited Transaction".

Prohibited Transactions

Prohibited transactions are governed by IRC § 408(e)(2), which disallows most transactions between the IRA (or an entity in which the IRA is an owner) and disqualified persons. “Prohibited transactions” and “disqualified persons” are defined in § 4975(c)(1) and § 4975(e)(2):

1. General rule: For purposes of this section, the term “prohibited transaction” means any direct or indirect—
    - sale or exchange, or leasing, of any property between a plan and a disqualified person;
    - lending of money or other extension of credit between a plan and a disqualified person;
    - furnishing of goods, services, or facilities between a plan and a disqualified person;
    - transfer to, or use by or for the benefit of, a disqualified person of the income or assets of a plan;
    - act by a disqualified person who is a fiduciary whereby he deals with the income or assets of a plan in his own interests or for his own account; or
    - receipt of any consideration for his own personal account by any disqualified person who is a fiduciary from any party dealing with the plan in connection with a transaction involving the income or assets of the plan.

Definitions

1. Disqualified person: For purposes of this section, the term “disqualified person” means a person who is—

    - a fiduciary;
    - a person providing services to the plan;
    - an employer any of whose employees are covered by the plan;
    - an employee organization any of whose members are covered by the plan;
    - an owner, direct or indirect, of 50 percent or more of—
        - the combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of a corporation,
        - the capital interest or the profits interest of a partnership, or
        - the beneficial interest of a trust or unincorporated enterprise, which is an employer or an employee organization described in subparagraph (C) or (D);

- a member of the family (*limited to one's spouse, ancestor, lineal descendant, and any spouse of a lineal descendant*) of any individual described in subparagraph (A), (B), (C), or (E);
- a corporation, partnership, or trust or estate of which (or in which) 50 percent or more of—
  - the combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of such corporation,
  - the capital interest or profits interest of such partnership, or
  - the beneficial interest of such trust or estate, is owned directly or indirectly, or held by persons described above;
- an officer, director (or an individual having powers or responsibilities similar to those of officers or directors), a 10 percent or more shareholder, or a highly compensated employee (earning 10 percent or more of the yearly wages of an employer) of a person described in subparagraph (C), (D), (E), or (G); or
- a 10 percent or more (in capital or profits) partner or joint venturer of a person described in subparagraph (C), (D), (E), or (G).

"Disqualified Persons" are further defined by § 4975 (e)(3)-(8).

Penalty for Prohibited Transactions

You really must avoid engaging in a prohibited transaction with your lender's IRA at all costs. If the lender's IRA carries out any transactions with a disqualified person, the whole IRA will be considered to be disbursed as of the first day of the current fiscal year, and your lender would have to pay tax on the entire amount in his IRA account. In addition, a 15% penalty tax may be levied against the disqualified person, and if the transaction is not corrected within the taxable period, the disqualified person could face a penalty under of the full amount of the transaction (IRC 4975(a)-(b)).

This is why we recommend you consult with an attorney before accepting an investment from your lender's IRA.

UBIT

There is another penalty on IRA investments especially for real estate. It is the Unrelated Business Income Tax penalty (UBIT). The most common example is:

Suppose you purchase a house for $100,000 by borrowing $80,000 from a bank, and getting the down payment of $20,000 from your investor's IRA. Now let's say in about a year you sell the house for $150,000. Without worrying about closing costs etc., your net profit is $50,000. However since the IRA only invested $20,000 (i.e., 20% of the total cost), only 20% of the profit ($10,000) is tax exempt. The rest ($40,000) would be taxed.

How to set up an IRA investment

Making an investment with a self-directed IRA is pretty simple.

First, money can be "rolled over" from any IRA or 401K (if you control it) to the custodian of a self-directed IRA at any time. It takes anywhere from 2-6 weeks depending on the slowness of the institution currently holding the funds. Unless one is rolling over a traditional IRA into a self-directed

Roth IRA, there is no taxable event. However, under some circumstances (e.g. planning to actively invest in high return investments, for a number of years), it may be worth paying the tax penalty to get the money into a Roth where all future gains can be withdrawn and used tax-free.

Next, the IRA holder fills out a "Direction of Investment" form which tells the custodian what the money will be used for and who is getting the check.

And then, the custodian must be provided with the transaction documents (e.g. promissory note, Private Placement Memorandum (PPM), subscription agreement..) and verification of the recipient entity (incorporation papers, operating agreement...).

Once these are submitted and are in order, the custodian will mail a check in the amount as directed to the investment entity.

Liability Protection

A number of attorneys recommend setting up an LLC owned by the IRA with you as manager. The advantage of this is that if any liability should be incurred by the investment only the funds in the LLC would be at risk, and not the entire value of the investor's IRA. However, there would also be the additional expense of setting up the LLC and having a specifically crafted operating agreement by a tax attorney. And remember the LLC must still follow all the rules regarding prohibited transactions.

Private Lending is Personal

Unlike a bank, private lenders generally don't require credit check, income qualifications or job history. However, they do generally have high expectations of the character and ability of the individuals that will be responsible for the success of their investment.

For them, private lending is Personal. To hold their interest in investing your opportunity, they must:

- Like You
- Trust You with their Money
- Respect and have Confidence in Your Expertise and Experience

This is why it is so critically important that you be prepared, and have the right paperwork when approaching these individuals or fund managers. And while fund managers, and Angel investors have clearly spelled out criteria for making an investment, even friends and family are going to be judging you on the criteria I just mentioned even if they are not explicitly aware of it.

Therefore, you need to do the same preparation before approaching friends or family, as you would if you were presenting to an Angel investor.

This is a key secret. Friends and Family are the easiest people to raise money from, because they presumably know you and like you. But most entrepreneurs fail miserably because they think because their friend or uncle likes them, they are going to uncritically write them a large check.
However, if you take the time and effort to prepare you case, answer the objections and demonstrate that you know what you are doing, friends and family can the goldmine the gurus talk about and a giant stepping stone to obtaining even larger amounts of capital from them and other potential investors.

Marketing for Private Lenders

I'm sure you've encountered home study courses, webinars and seminars purporting to show you how to use the internet or the public records to find private investors. However, all of these approaches suffer from 3 problems:

1) They are impersonal

2) SEC (Securities and Exchange Commission) prohibitions on "general solicitation" (advertising)

3) Some of them are just covers for Internet scams

Impersonal

Since private lending is personal, direct solicitation individuals who don't know you, and through impersonal means is has little chance of success. There is no such thing as a "motivated" private lender. And most private lenders wish to remain "private". And this applies to all marketing methods including:

- Mailing Postcards & Letters
- Networking Meetings - you will only meet people who want something from you. Private Lenders do not go to these meetings looking for investments.
- Searching the Internet for Private Lenders - you will find sites saying they have private lenders. However, these sites are filled with scam artists or professional lenders who charge enormous fees. Stay away.

The best you can hope for is to:

1) Target private lenders who have
    a) Invested in a similar area to your investment previously
    b) Invested an amount of money similar to the amount you are looking for
    c) Invested in the same geographical area as your project
    d) Actively invested as a private individual within the past 2 yrs.
2) Unfortunately, anything you can do to contact these people (short of meeting them personally) will be viewed as "general solicitation" by the SEC. You must make sure you understand and follow the new SEC rules, that now allow general solicitation if you meet certain requirements (see below).
3) Be prepared to spend the time and effort to cultivate a relationship with them

Scams

It is an unfortunate fact that there are scams by unscrupulous individuals posing as private lenders, but are actually intending to get money from you. And these scams can occur even on legitimate sites. The scammers pretend to offer large sums of money, then after finding out all the information about you, they ask you for a large fee to cover various specified or unspecified transaction costs.

Here are some clues on how to Detect Them:

- Origin - these "so called investors" are almost always located in foreign countries where you cannot seek redress once you are ripped off. Africa and the Mideast are the commonest.

- A Front - You rarely talk to the investor. Interactions occur with their "attorney" who also is located abroad
- The Story - there is always a story about why the investor is motivated to invest large sums of money in your company. It may involve some family conflict, an inheritance fight, strange government regulations, etc. (remember, there is no such thing as a motivated private lender, so once you hear a story like this - head for the hills!)
- They do not behave like typical lenders - they often wish to invest more than you are asking for (often way more). They do little to no due diligence.

Bottom line - if you encounter one or more of these characteristics, STAY AWAY.

Networking: Angel Groups

Angel investors are the perfect fit for private investment in your company or real estate project. These are High Net Worth individuals, who enjoy the excitement of investing in companies with great ideas, being a part of bringing something valuable to society, and making a lot of money doing it (they also have a healthy aversion to risk). Angel investors find out about investment opportunities in only 2 ways:

1) Recommendations from other Angels

2) Presentations at their Angel Investor Group

- Angel Investor Groups

Members of the Private Lending Insider have access to a list of Angel Investor Groups all over the US and Canada. (Join at http://www.InvestorWealthNetwork.com).

Even though you may not be an Angel Investor, you can still join these groups (nobody checks your net worth). However, act like an angel investor and carefully observe the meeting etiquette.

The benefit for you is to get know these angels, how they think, and what investment opportunities excite them. Ultimately, you may want to ask the group leader if you can present your investment opportunity.

Crowd Funding

Non-Equity Crowd Funding

Crowdfunding can be defined as raising funds from the general public usually through internet platforms in order to support a project started by an individual or an organization. Social media websites play a primary role in this regard, as individuals or organizations looking for funds use these websites to reach out to the general public.

Crowdfunding allows entrepreneurs with great ideas to appeal to the "crowd" for support for innovative projects and companies. Members of the crowd (online social networks) support these projects by donating (and one day, maybe investing) small amounts of money to help get the project funded.

Instead of asking a small number of sophisticated investors for large amounts to fund a business, crowdfunding allows an individual or organization to reach out to a large number of people for smaller amounts of money. Incentives such as free products and samples or just being on a list that allows you to be one of the first to buy the product, can also be associated with crowdfunding activity.

[Important Note – the participants in this type of crowd funding are DONATING money. They are NOT INVESTING, and are expecting no return on their investment,]

There are several examples of web portals that do this type of crowd funding. The most well-known is "Kickstarter". Some others that are popular are Propel Arizona, Indiegogo, Fundable, Offbeatr, InvestedIn. While many types of start-ups with exciting products have been funded this way, real estate deals, no matter how well constructed, generally do not do well.

Equity-based Crowd Funding

Until now, there has been no legal mechanism for raising money for start-ups and new ventures by selling a security (shares, promissory notes, etc.) without filing for an exemption with the SEC. And even then, those exemptions came with a restriction prohibiting "general solicitation" (e.g., advertising) (see above).

As part of the JOBS act, the CROWDFUND Act, has made it possible to raise money from the general public by filing with the state, subject, of course, to certain rules.

The CROWDFUND Act will allow entrepreneurs to raise capital by offering to sell interests in their businesses over the Internet. Under the CROWDFUND Act, a small business will be allowed to raise $1 million in a 12-month period by selling its securities to investors without registering that offering with federal or state securities regulators. However, the Act places limitations on how and to whom a small business can sell its securities. The act also requires that:

An investor will be limited to investing:

1) The greater of: $2,000 or 5% of the lesser of the investor's annual income or net worth if either annual income or net worth is less than $100,000; or
2) 10% of the lesser of the investor's annual income or net worth, not to exceed an amount sold of $100,000, if both annual income and net worth are $100,000 or more.

An issuer would only be able to engage in an offering through a registered broker-dealer or through a funding portal, and an issuer can only use one intermediary for a particular offering or concurrent offerings made in reliance on the exemption.

The Crowd Funding act is available to all issuers (entrepreneurs) except

- issuers not organized under the laws of a state or territory of the United States or the District of Columbia;
- issuers already subject to Securities Exchange Act of 1934, as amended (the "Exchange Act") reporting requirements;

- investment companies as defined in the Investment Company Act of 1940 (the "Investment Company Act") or companies that are excluded from the definition of "investment company" under Section 3(b) or 3(c) of the Investment Company Act; and
- any issuer that the Commission, by rule or regulation, determines appropriate.
- The final rules also exclude:
- issuers disqualified from relying on Section 4(a)(6), or "bad actors;" and
- issuers that have sold securities in reliance on Section 4(a)(6) and have failed, to the extent required, to make required ongoing reports required by Regulation Crowdfunding during the two-year period immediately preceding the filing of the required new offering statement; and
- any issuer that is a development stage company that has no specific business plan or purpose, or has indicated that its business plan is to engage in a merger or acquisition with an unidentified company or companies.

In addition, several states on their own initiative have enacted laws based on this provision that allow selling securities to raise investment money. However, these laws necessarily restrict eligible entrepreneurs to those whose:

1) Whose business is registered and located within the state, and
2) whose employees and revenue come from within the state[1]

As of May 2016, thirty (30) states have enacted Intrastate crowdfunding exemptions (or have enacted amendments to their existing blue sky laws to permit some type of Intrastate crowdfunding) and another eight (8) states are in various stages of enacting/considering such legislation[2]. You can find a matrix that gives the states and the details of the criteria here.[3]

Friends and Family – 75% of the Capital

I'm sure almost everyone you've heard has recommended going to friends and family to raise investment capital for your deals. There is some truth to this, because friends and family account for 75% of the investment capital raised by startup companies (including real estate). So, here's a short list of the people in your "circle of influence" that you should consider.

Your Relatives	Parents, siblings, Aunts &Uncles, cousins, nephews & nieces, children, step-children, divorced spouses & their families
Friends	Childhood, high school, college, clubs, service organizations, churches, mosques, synagogues, sports teams, little league & other parent-child activities, fraternity & sororities, current& former teachers, your students
Organizations	REIA, trade associations, toast master, self-improvement groups, spiritual groups, community volunteers, your doctors
Work	Colleagues, boss, boss's boss, (do not solicit customers, vendors or any individuals with whom the company has a relationship).

[1] A more complete explanation can be found in the White Paper on Crowd Funding by Dr. Richard Odessey.
[2] http://www.crowdfundinsider.com/2016/05/86096-intrastate-crowdfunding-the-often-overlooked-option/
[3] https://crowdfundinglegalnews.files.wordpress.com/2015/01/int-summary-enacted-full5.pdf

Service personnel	Postal & delivery services, plumbers, contractors, repair people, bankers, other business owners, people you do business with
Referrals	Any and all of the Above

Investments from Friends & Family

Why approach friends, family and people within your "circle of influence"? Well, remember, private lending is personal. When you start with friends, family and people within your "circle of influence, they already "like" you. So, they are more likely to Invest. However, this is only the first criteria.

You Need to Know the Right Techniques or you may end up in the NFL ("No Friends Left") Club.

Your Mindset

Before you start off looking for private lenders, you need to make sure you have the right attitude and mindset, because this will be communicated to everyone you contact whether you intend it or not. Here are the key things you should keep in mind:

- You are Offering an INVESTMENT
    - Buying Shares/Promissory Note
    - Earn x% Interest over next x years
- Banish your Fear
    - through good Preparation
    - and knowing that you are Providing a Benefit for your friend or family member
- You are a professional
    - You have invested in specialized Training in the area in which you are seeking an investment
    - You may have a Background in business and management
- Service
    - Networking meetings generally are failures because most to the individuals there are "takers", not givers.
    - If you want to succeed in getting people to invest money with you, you need to come from wanting to Serve Your Clients.
    - The question to ask is: "How May I Serve You?"
    - and Appreciate the Person you are talking to.
    - Your Deal must have a High Return with a Low Perceived Risk
- Character
    - Integrity
    - Attracting Wealth

What is Your Relationship?

The reason most entrepreneurs fail in raising money from friends and family is that while they may know and like you as a friend, acquaintance or family member, but...

Do they know you at all as an entrepreneur, business person and CEO of your company? Probably not. And remember the 3 keys to success in getting the attention of a private investor:

Keys to Success

- Like You - Yes
- Trust You with their Money?

- Credibility: Respect and Have Confidence in Your Expertise?

You must address these 2 important issues in a serious and structured manner to convince even (or especially) a friend or family member to trust you with a financial investment. We cover this in another 2 day web training session for members of the Private Lending Insider.

3 Questions You Must Answer

When you start talking about your investment opportunity to any prospective private lender, keep in mind, that before they feel comfortable investing with you, they will need you to answer, to their complete satisfaction, the following 3 questions.

- How Will You Make Me Money?
- How Will You Protect My Money?
- When Will You Return My Money?

The Private Lender Insider Answers

Here is how we recommend you create the answers to these questions.

- How Will You Make Me Money?
  - Have a Plan (an Executive Summary)
  - Assemble a Team
- How Will You Protect My Money?
  - Know Your Space
  - Have contingency plans for anything that could go wrong
- When Will You Return My Money?
  - One or More Exit Strategies

[Note, for a more complete discussion, members of the Private Lending Insider, have access to live web training how to present your opportunity to Private Lenders.]

Leveraging Your Social Relationships with Cooperative Networking

Since private lending is personal, you may be asking, how do you find private lenders, once you've worked through your friends and family. Or your friends and family may not be sufficiently asset rich (although they may have "hidden money" you can discover. Check out the Private Lending Insider for details), to make the size of the investment you need.

So, where do you go? The answer is that you must leverage your referral network. We call this "Cooperative Networking". What this means is that while your friends and family may not be able to invest, they may know individuals who can.

Therefore, the most valuable thing you can do, after presenting your opportunity to a friend or family member, is to ask them for a referral to someone they know who might be interested in your opportunity.

However, remember, to get the referral, you still need to impress them with your ability to responsibly handle their money, and that you have the skill and expertise to make a successful investment out of it.

Your Entity

If you are going to raise private money, you need to have a business. That is a legally organized entity that is registered in a US State with articles of organization. A limited liability company (LLC) is the simplest to set up and maintain and does provide some liability protection for its members. BUT you should consult a corporate attorney about what is appropriate for your particular situation and business.

Please don't try to raise money in your personal name (or anybody else's) or do it through a "DBA" (Doing Business As) or Schedule C (IRS form) entity. First of all, doing business with any of these formations will mark you as an amateur. And worse, they will leave you personally exposed to any liability the arises in connection with funding, or the ownership of any assets or the actions of or injury to any employees, contractors, etc.

Once that is done, you should set up a Corporate bank acct. Why? Well first, as mentioned above, not doing so marks you as an amateur. It also raises the suspicion of fraud when investors see corporate funds going into your personal (or another entity's) account. In addition, you are going to have some issues with the IRS. And of course you should have an accountant advising you.

You should also discuss with your accountant or attorney setting up an escrow account for investment funds that have not yet past the rescission period.

In addition, you should have the appropriate investment documents that spell out the terms and conditions of the investment and give the investor full disclosure as required by law (see Legal).

These documents are:

- Promissory Note and/or Shareholder agreement
- Private Placement Memorandum

Be Prepared

Yes, that's the Boy Scout motto, and it should be yours too, before you start contacting potential investors. Your business or project (potential investment) is not something you should talk about casually or without knowing <u>all</u> the details. All you would accomplish is probably embarrassing yourself or failing to attract anyone's interest in investing (seem familiar?). And even though this seems obvious when pointed out, it is probably the major reason entrepreneurs fail to get investments for their project or business.

In fact, before you get near any potential investor you should have a fully fleshed out plan of how the project is going to proceed, what is the endgame and when are you going to reach and how are you going to address any concerns your investor might have. As I just illustrated above, you are not going to "wing it" if you want to have any hope of getting an actual check from somebody.

So, how and what should you prepare? Well, let's put ourselves in our potential investor's shoes (see "7 Rules of Raising Private Money"), and consider all the information they may want to know before deciding to commit their funds to your project or business. Here's a list:

Information Needed for Presenting an Investment Opportunity

1. Specific Project or Business Goals	location timeline milestones
2. USP	Benefits to the World Benefits to the Investor
3. Valuation	How will the value of any assets be measured What are the assets to be acquired worth What assets do you currently have What will be the future value of the assets
4. Exit Strategy	How does the investor get his money back? How & When will he realize his ROI (return on investment
5. Financials	Source of Funds Use of Funds Pro forma (financial projections of income and expense
6. Terms of Investment	What is the invest going to get & when Debt/Equity/Both
7. Risk Assessment	What are all the conceivable risks and how can they be reduced or avoided

Goals

The first thing a potential investor is going to want to know is:

"What's this all about, and why should I commit my valuable time finding out?"

Sounds a bit harsh, but when you "have the gold", you can make the rules. And the one thing most active investors cherish almost as much as their money is <u>their Time</u>. So the most important thing you have to think about is:

How to explain what your investment opportunity is about and why your investor should invest in1-2 sentences. So, spend some time thinking about this. It's important that you describe your project precisely so the investor has a clear and accurate idea of what you intend to do. For example,

"We are going to purchase an undervalued 50-unit apartment complex in Chicago, IL and bring it to profitability with infrastructure improvements and increasing occupancy and rents."

Or

"We intend to take advantage of federal and state financial incentives to build a solar field in the Arizona desert, and sell the electricity onto the grid at profitable rates."

USP

The next thing the investor is going to want to know is "What's in it for Me?" Now there are 2 things to consider when answering this question:

1. The money: what kind of profit Is the investment going to return over the course of the project?
2. What is the benefit to the world, humanity, personal health, a particular group, etc. In fact, could be your personal why for doing what you are doing.

Valuation

No investment is worth pursuing unless you have an accurate idea of the value of things. If you are purchasing an asset like a piece of real estate or an oil field you need to know the real world value (the amount an interested buyer would pay for it) less the costs of recovering or delivering that asset to the point of sale. If you are in a retail or wholesale business you want to have accurate information on what your buyer will pay for your product(s), and costs of the raw materials and the manufacturing.

This is no place for a WAG (wild-assed guess). You need to have credible back up for your valuations—e.g., professional appraisal, or actual sales market data and price lists, etc. You need to prove to investors you are not paying too much.

Exit Strategy

This is probably one of the most important issues you must address when discussing your investment. And here is the KEY point:

You need to focus on the Exit Strategy FOR THE INVESTOR!

This breaks down into 2 parts:

1. How and when is the investor going to get his money back
2. How and when is the investor going to realize the return that you have promised.

You must have a clear cut plan, and data, real world information, calculations, etc. to support it. After all, this is what any investor will be the most interested in. And unless you can convince him or her in the believability and high certainty of you exit for them, you're never going to get the money. This is where the line from the movie "Jerry Maguire" was never truer:

"SHOW ME THE MONEY"

The Financials

Ultimately, the evaluation of all the investments come down to the numbers:

- How much is needed
- How will it be used
- How will it generate a profit
- How much profit

- When does the investor get his capital back
- How do you justify your assumptions

Now, there are certain terms and data presentations that are expected by investors. This is no place for creative writing. You must (with the help of your accountant) put together these charts and tables and make a creditable case.

Not "knowing your numbers" will get your proposal rejected in a flash.

So, here's what you need:

1. Your offering – How much money do you need (make sure you account for reasonable contingencies. However, be aware that gross over-estimation can look as bad as under estimation).
2. Source of Funds – where are you getting the money from, and where will the investor's investment sit in the capital stack (in other words, what will be the order of priority in paying back investors.)
3. Use of Funds – what are you going to do with the money (be detailed and accurate)
4. Pro Forma – this is an accounting term for a table showing the projected income and expenses from the start of the project to the time the investor realizes his return. This table will also show the investor the NOI (net operating income) aka EBITDA (an acronym standing for Earnings Before Interest, Taxes, Depreciation, and Appreciation),

Assumptions

A wise colleague of mine once remarked that he's never seen anyone lose money with a spreadsheet. What he meant by that is that financial projections can be easily manipulated to show a rosy outcome by making the appropriate assumptions.

So a key factor in getting your proposal funded, must be the justification of your assumptions. This again must be based on real world information from creditable sources like governments, government organizations, accredited or widely recognized respected organizations, and information gathered from various professionals that are certified in their field of expertise.

Risk Assessment

Contrary to what most entrepreneurs think, ROI (return on investment) is not the most important or "make or break" factor that influences their decision of whether to invest or not. The KEY DEAL BREAKER (or Maker) is

"How much Risk is my money being exposed to?"

Or as Kevin O'Leary likes to remark on Shark Tank: "Why should I risk my children's inheritance on your project?"

So, the key part of your planning, before you ever contact an investor is to:

1. Research and List ALL the potential risks to the successful outcome of your exit strategy, AND
2. How you will reduce or eliminate all of those risks.

I've found that this is often a challenge to entrepreneurs, because they like dwell on the positive outcomes and how great their idea is. That's perfectly understandable. But again remember the Golden Rule of Investing:

"He who has the gold, makes the Rules"

So, you need to not simply rely on your experience to make a list, but do a "deep dive" into the potential risks with research, and contacting experts in areas where you do not have the expert knowledge.

Remember, your private lenders did not become wealthy by making careless mistakes and not thoroughly researching and planning before they went ahead with the activities that made them wealthy.

For example, in real estate if you are planning to get a bank to fund the majority of a purchase and use funds you raise from private investors to make up the difference, you are putting your investors at huge risk. Because this kind of structure while having the potential of generating huge returns from the leverage, puts your investor at risk for a total loss if the bank has to foreclose on the property.

Or when it comes to promoting a startup whose founder says "This is a totally new product and there is no competition, because nothing on the market at all like A, B, and C. Well, clearly this is a ridiculous statement because customers are buying something to satisfy the needs that the product is meant to fulfill, or if not, the question arises of whether there really is any need for the product!

Spend some time on this. Rest assured your investors will.

Delivery

So, OK. You've gone through the preparation. You have a USP, got your valuations, your exit, financials and risk analysis. You're ready to impress your investor. So, have you thought about how you are going to deliver it.

Well, you might be thinking you'll just sit your investor down, and start talking. And not stop until you covered all the points. Not a good idea.

First this would be a long and complicated lecture with facts, figures, citations, etc. Nobody can digest it all in one bite. Second, most investors are not going to allow you to take up that much of their time until they are convinced that your proposal might be something they would like to invest in.

If they might be interested, they will probably ask you for an Executive Summary of your offering. This is simply a written explanation of your project that covers all the points I've outlined above. So after you've done your research, all you have to do is write it down in a logical sequence and you're done. It should only be 5-10 pages total.

Now I'm going to tell you how to do this.

The Executive Summary

As I've mentioned, the Executive Summary is the preferred way of delivering your proposal to a potential investor. The first 2 pages are critical because they are what will determine whether your investor will take the time to read the rest of it.

Remember, investors have other deals coming across their desk. So, they are not going to clear their schedule just to read your proposal. They triage and prioritize the time they spend looking at new investment opportunities. So when they pick up a new proposal (like yours) the first question that goes through their mind, is how quickly can I eliminate wasting my time on this proposal. To do this, the first thing they're going to look at is the cover sheet.

Cover Sheet

They are looking for a clear concise presentation of just what this proposal is about. Here's what it should look like.

Title

Subtitle

Offering Amount

(Minimum Investment)

Location of the Project/business

Company Name

Company Contact

CEO or company leader

Company Contact Info

Product/Assets

Time to Complete the project

Expected Profit at Exit

Publication Date of this document

Title/Subtitle – This should give a concise description of the project so investor knows exactly what he or she is investing in. If this is an area they are not interested in investing in, they will stop right there and be grateful you didn't waste any more of their time. However, if they are interested in this type of project, you now have their full attention.

Offering Amount – this is how much money you want to raise. If this is much higher than what they wish to invest, they may pass. That's why it's a good idea if you are raising a very large amount of money (>3 million), you may also want to include a minimum investment. If this is too much for them, then they pass, and you don't have to waste your time pursuing someone who doesn't have the means to help you.

Location of the Project or Business – This is very important for several reasons. First, some investors only like to place their investments in areas they are familiar with. In other cases, the economic/demographics etc. of the area may be an attraction or a non-attraction for the investor or your particular business or project.

Company Contact/CEO – Raising Private Money should be the top job in the company since its survival and future growth depend on it. Therefore, the contact person should be the top person in the company. That's what I recommend.

Company Contact information – You should have all the bases covered: email, phone, skype, website, physical address, linkedin, etc. So the investor can use whatever means is convenient for them.

Product /Assets– if the company is going to make something, the investor should know what it is. If the company is acquiring assets, put those here.

Timeline – when Is the investor going to get his money back with milestones.

Expected profit – should be large compared to the amount of the investment offering.

Publication Date/version # - this can be in the footnote

Summary/USP

You've got the investor's interest. Now you've got to reel him in. Point here is to tell the investor why your project or company is special and deserves an investment over all the other projects out there. Now there are only 2 things investors may care about.

1. Making money with high returns AND Little to No Risk
2. Investing in something that will improve the public good or reduce suffering (healthcare, renewable/clean energy, saving the environment, improving the life of the disadvantaged-e.g. better housing, food, water, etc.), especially if it is something the investor cares about.

For reason #1, I want to make sure you are clear that the "Little to No Risk" is the most important part. As I've emphasized, return OF investment is key otherwise your deal is dead no matter what the return ON investment.

For reason #2, this may also be your reason why. Now the best rationale is a reason why that, because it helps the world/humanity, your product/service/asset creation is going to be in great demand and therefore stimulate fast and profitable business growth.

However, remember in this section you are writing a quick summary that the investor can digest in a few seconds. So, your job is to convey this rationale in 1-2 sentences (ok, maybe 3 if they are relatively short and well-written). You don't need references here or operational details. That will come later.

You only job is to get the investor to turn the page and read more.

Project Description

Ok, congrats, you made it to page 2. Here you are going to give the investor the essentials of your project. Here you have about 2-3 paragraphs to convince the investor that:

1. You have a well-thought out plan that looks like this:
   start→acquire/produce product→manage operations/development→market&sell→ reap profit and come home rich.
2. The reasons why this plan has a high probability of success. For example
   a. Good location
   b. High demand
   c. Government mandates or incentives
   d. High profit margin
   e. Expertise and experience (note this and back it up in the company description section)
   f. Economic climate
   g. Demographics
   h. Etc.
3. The Exit strategy – why it was chosen (will be described in detail in a later section)

In short, your investor should come away from this section with a knowledge of

- what you are going to do
- why you are going to do it
- how you are going to do it
- and when you are going to do it

So, he or she can describe your plan to a colleague or spouse without confusing them or leaving big gaps.

Acquisition/Product

If you are in a business that acquires assets (e.g. real estate, natural resources (oil, gas, gold…), art, reseller (pre-owned cars, antiques, etc)), correct valuation will make or break the deal. And here you really need to have a professional valuation (unless you have the ability to acquire all the necessary data, and analyze it correctly).

Every investor knows this, and it should be obvious, that paying too much, or over-valuing the asset is a sure path to financial ruin. And not only that… If the investor gets the impression that you are pulling numbers out of "your rear end", it will totally destroy any credibility or trust that you've built.

Now, I understand that getting professional evaluations and reports can be expensive. A commercial property appraisal can run several thousand dollars, and a 43-101 report on mineral deposits or an estimate of oil deposits from a reputable engineering can be a lot more. If the seller of the asset has a recent professional valuation you may be able to use that. If not, you are going to have to raise some "seed money" (usually from friends or family) to get it done.

In fact, this executive summary can be tailored for this purpose with very little modification and will vastly improve your chances of success.

Alternatively, you can try a traditional crowd funding platform like kick-starter or indegogo (see above). However, as I have pointed out, the projects that are most successful at raising money on these sites, are "cool" projects that the crowd will enjoy using (e.g. go camera, VR goggles, etc). Otherwise you are going to have to work pretty hard to come up with an appealing rationale. In any case, if you choose the crowd funding route, you are going to have to create a social media campaign to drive people to your offering page.

If you are producing a product, you need to know all the costs from raw materials to point of sale. You also need to have sales data that your selling price is in line with or are cheaper than similar products that are already on the market. If your price point is higher, you need real world marketplace data that would support your sales at the higher price. However, know that this could be a tough sell for investors because it introduces an enormous level risk it you are wrong.

Operations

Every business needs a working guide detailing what it has to do to make/create it product or service and prepare it to produce a net positive income stream. For a business plan, this section could be quite lengthy and detailed. However, for the executive summary the investor just wants to know that you have a good knowledge of all the moving parts, and know how to manage operations efficiently and cost-effectively.

For example, if you are acquiring a piece of real estate that requires some work before you can sell or lease it, detail the kind of repairs required (e.g., deferred maintenance, curb appeal, facility modernization, etc.). You will also want to describe the expertise, and systems you have in place to get the work done, over a specified time period, and the overall capital costs, and working expenses.

You will also be describing how your operations are going to increase the value of your assets or your business so that you will be generating profit for your investors.

This section will be the rationale for the numbers to gather for the pro forma – your financial projection of profit and loss through to the exit strategy.

Sales and Marketing

Here's where the "rubber meets the road". Unless you have a bullet proof plan to sell or refinance your business, assets or product, the business and the investment in it is at risk. So this is a section that your investor is going to read pretty carefully. Therefore, you need a carefully thought out marketing and sales plan with data to back up your statements.

For example, with a real estate asset, you want a "comparable market analysis" for the "after-repair" value of your asset. Again, while you may think that you have the means to do this yourself, a more objective analysis by a realtor or appraiser would increase your credibility.

You also need to identify and describe the demographic of your most likely customers/buyers, and back it up with citations of studies, sales data, local and national economic trends, buying habits, time on market, etc. to convince investors that you can sell at the intended price point, and sell it quickly.

You also need to analyze the competition, and show how you will thrive (your market advantage) despite it.

Based on these data, you need to describe your marketing plan of how you are going to reach the specific demographic you have researched as your most likely customers. Online you have lots of tools available to you based on google searches and other software you can purchase that can give you detailed information about your most likely customers.

This will be way better than simply having some generic plan to advertise in the newspaper or online. And this will go a long way in convincing your investor that his investment dollars are going to be spent wisely rather than be wasted reaching people who have no interest or intention of buying what you have to offer. For example, if you were selling a camera, you would want to target people with an interest in photography rather than the general public.

Reading Like an Investor

Remember, the purpose of this executive summary is to convince an investor to write you a check. Therefore, in every section, you should be looking for ways to reduce Any Potential Risk, and increase return on investment.

In traditional business plans, entrepreneurs are encouraged to do a "SWOT" analysis. This acronym stands for Strengths, Weaknesses, Opportunities, Threats. Now, in a summary for investors, you do need to address these issues, but not in a separate section. Rather you will address them in each of the sections above as part of your rationale or plan.

For example, instead of saying, there is a risk of people not wanting to rent in the "run-down" apartment house that you intend to purchase, you simply describe in the plan that you intend to carry out some specified renovations that have been shown to be desired by the likely renters in that local area.

Doing it this way, addresses your investors' concerns as they arise, rather than letting them build up until you get the SWOT section. In fact, when your investors' concerns go unanswered, they may stop reading before they even get to a SWOT section.

So, with the summary for investors, you want to always be in their shoes consciously or unconsciously asking "what could go wrong?" and addressing it on the spot. Remember, the "1-strike" rule: once the investor sees something they don't like, they are probably going to drop your proposal and go on to the next. So, you must avoid letting any concerns build up, by addressing them as they arise.

The Company

Remember, I told you that private lending is personal. This means that your investor knows that he or she is not simply investing in a company, but investing in the people making sure the plan is carried out, and challenges are overcome.

And this is only logical. You are not a public company whose operating history, financials and business practices are publicly available and have been scrutinized and analyzed in detail. In most cases, the "Company" consists of a founder, and may be a few partners or key advisors.

So, the description of the company is pretty simple, especially if it has no operating history. You simply describe when and where the legal entity was registered, and what its mission is.

Next you want to describe the key personnel have a picture of each. Now, these descriptions should only be a paragraph or two. The investor is not interested in their whole life story. Only those parts that support their experience and expertise in carrying out the mission of the plan that is to be funded.

If you are buying a property, your real estate background is relevant. The best is when you have experience and expertise in the specific type of asset. For example, if you are buying an apartment complex, and you have a history of owning other apartments, that is a big plus. Better yet, if you've own apartments of similar size and complexity (e.g. owned a 150 unit, and now buying a 200 unit) that's a double plus.

Alternatively, if you've been a manager of a large sized apartment complex, that helps or if you've owned or managed large numbers of single family homes, that is also relevant experience.

Indirect credibility can also come from

- successfully owning a selling other types of real estate
- being the CEO of a successful company
- being a profitable serial entrepreneur
- being a highly respected management or business consultant.

Describing your background should be brief or ignored unless it is particularly impressive in supporting you character, intelligence or experience. For example:

- graduating from a widely respected university

- having an advanced degree
- experience showing your go-getter attitude and ability to overcome obstacles
- military service
- other experiences that highlight your character or entrepreneurial abilities

But what if you don't have a lot of specific experience in your business area for which you are seeking an investment? This is a serious issue that you must address. It is very unlikely an investor and maybe even a friend or family member is going to write you a check for starting a business that you know little about or have little experience in. (after all, would you?).

So, in this case, the easiest solution is to find yourself a partner who has the relevant experience in the specific area of your requested investment. Now, I am not talking about someone you can call up occasionally and chat with. This has to be someone who has got a significant financial stake who is going to be available on a daily basis (if necessary) and taking the initiative with you in facing any challenges that might arise.

So, this is a major decision for you because:

1. You should be sure your partner's expertise and experience is exactly what you need to secure an investment
2. You will be sharing the equity/ownership (less for you, but as they say, 50% of something is way better than 100% of nothing)
3. You will be working closely with this person, so you'd better have the same values, vision for the company and work ethic.
4. You should like each other

Make sure you focus on point #1.

a) You need to do some serious due diligence to verify that your potential partner is who he says he is, and has done what he says he has done. That means paying for a subscription to one the databases that has that kind of information, and following up on leads and speaking directly to people who know and have done business with him/her. If your potential partner objects to this or refuses to cooperate or clear up any questions you might have…walk away. I guarantee you'll be glad you did.
b) Second, it is not worth giving up your equity and potentially some of your control, unless you are quite sure the partner's expertise and experience is going to restore the missing piece that gets you an investment.

So how can you be sure? Well there is no easy answer to that. Best answer would be to find a partner who has actually gotten his own investments funded, and the investment turned out successfully. Of course in that case you would have access to the ideal investor.

The next best would be to find a partner who has actually gotten any kind of investment funded, and the investment turned out successfully. In this case you will still have access to an investor who has

invested with you (you and your partner), and probably knows other investors that might fund your deal, it not them.

Third, if you know some potential investors, discuss your potential partner's expertise and experience with them.

Fourth, send out a trial balloon. Give out your executive summary to one or 2 investors and ask them for feedback. Regardless of whether they say they are interested in investing, ask them whether the expertise or experience of your partner influenced their decision one way or another.

Fifth, ask other experts in the field what they think of your potential partner's experience and expertise and whether they think an investor would be satisfied with it. You may actually get a referral out of it.

Financials

All the work you've done putting together this investment proposal boil down to this: the numbers.

Often after reading the cover sheet and investor will flip right to the financials to determine whether the investment "makes sense" to him. So, you need to make these financials as accurate and realistic as possible.

In general, the financials consist of 3 separate tables:

1. Source of Funds
2. Use of Funds
3. Proforma

Source of Funds

Source of Funds show where you are planning to get the money from. This is often referred to as the "Capital Stack".

The capital stack table lists each funding source, the amount invested and the repayment priority. For example, if you are buying a property and you get a loan from a bank for 80% and go to investors to put up the additional 20%, the bank will be in first position. That is if anything goes wrong (or goes right), the bank will be the entity that must be paid off in full before any other funders in the capital stack gets paid a cent.

So in this case, if there was a foreclosure, the bank may get back some of their loan, but your investors would probably be facing a total loss. Obviously this is a risk, your investors would have to think about whether they want to put their money in that position. And instead of going through the fine print, the table lays it out at a glance.

Use of Funds

Of course, any investor is going to want to know how their money is going to be used. This table lays that out line item by line item. There are 2 reasons investors look at this table:

1. They want to know where their money is going.

2. They want to know if you are spending their money wisely and are using it most effectively to accomplish the goals of the investment.

So, this table should be fairly detailed. Rule of thumb, the bigger the line item, the more detail it should have. For example, if the investment was $1 million, and there was line item for "marketing" of $500,000, that would raise a lot of concern. You'd want to have enough detail in there to justify such a large amount for that activity.

Construction is also generally a large line item. However, this does not need a detailed budget. It should be broken down into the major construction categories from building materials to permits, etc.

The reality is that you should be very aware of how much money will be spent where, and be prepared to justify every single number. This of course means doing the research to find out and verify what each of these numbers should be. And you or your team should have the expertise and experience to evaluate whether these numbers are reasonable or not.

In doing this you will easily be able to identify which numbers if any would raise eyebrows, and address that with footnotes to the table explaining the rationale for the cost of that particular item.

Pro Forma

The pro forma is a spreadsheet going from project inception to exit for the investor that details the amount of income and expenses on a monthly or yearly basis depending on the time span of the investment.

Using these numbers, you will also calculate the EBITDA (Earnings Before Interest, Taxes, Depreciation, Appreciation). Also, if part of the funds is coming from a loan, you would also have a line item for debt service. In this case many lenders will also expect to see a calculation of DSR/DCR (Debt Service Ratio or Debt Coverage Ratio), which is the ratio of cash flow to debt payment.

Now, a wise colleague of mine is fond of saying he's "never seen anyone lose money with a spreadsheet." This means, that it is fairly easy to manipulate the numbers in a spreadsheet to make a rosy outcome out of what would really be a financial disaster.

So, it is good practice to have your accountant review your numbers, and to have foot notes to your table that present and justify your assumptions. For example, startup expenses may be underestimated by underestimating the time it will take to bring the project to income production.

In situations like this (and in general), you should be conservative about your assumptions. In other words, always assume things will take longer, cost more, and yield less, than you pessimistically think will occur. This is just another embodiment of under-promise and over-deliver.

Also, any investor who has experience in the area of the investment (and most do), will be able to see that you are making unrealistic assumptions. (And if you decide not to state your assumptions, they may not believe your numbers at all!).

And here too: YOU MUST KNOW YOUR NUMBERS. That is to say, you should be intimately familiar with all your assumptions, justifications, financial calculations, etc. so that if an investor asks you any (and I mean ANY) question about them, you can answer them quickly and accurately.

There is no quicker way to lose the trust or interest of an investor than to appear to waffle about your numbers, or make light of or trivialize the question.

Terms of Investment

The final part of your executive summary is the terms of investment. In other words, what's the investor getting for his investment.

There are several issues to decide upon. First, the biggy- Debt vs. Equity.

If you choose debt, you retain 100% ownership of your business or project, but you have to pay debt service on the loan. And often the interest rate can be quite high. Also, the lender will usually demand that the loan be in first position of the capital stack. So, if anything happens, they get paid off first. They may also not be willing to fund the entire project or fund it only if the debt to asset value ratio is significantly less than one (60% or less depending on the asset).

Now, if the project is not making a profit the question arises as to how you are going to service the debt. There are 2 possible solutions:

1) Interest payments are deferred (put off) until such time as the project is making a profit or the asset or business is sold.
2) Borrow enough to both cover the projects expenses and service the debt. The debt service portion is often part of what is called "working capital".

Of course, whether these solutions are viable depend on whether the lender agrees to it.

There are cases where lenders will agree to be in a second position in the capital stack (usually behind a bigger loan). This sometimes goes by the name of mezzanine financing. Mezzanine financing usually carries a higher rate of interest, and the combined loan to asset value is still significantly lower than one, or the loan is secured by additional assets.

The other option is to sell equity in the project. Many entrepreneurs prefer this option because

1) They can usually get 100% funding
2) If there is a loss, they don't owe anything

But they do have to give up ownership, meaning at the very least, they get less of the profit.

There are 2 aspects of ownership that are not necessarily linked together.

1) Financial ownership that dictates what percentage of the profit, income and loss that they share with the other owners
2) Voting Rights – the percentage of control (or say) they have in all the decisions of the entity.

For example, the investors on Shark Tank insist on both aspects of ownership when they invest. An investment for 25% means they get 25% of the profits and can vote 25% of the votes in any corporate decision.

However, many investors prefer a more passive role, and are willing to invest their money for a financial share, without any accompanying voting rights.

The upside for the investor is that if the investment is successful they usually get a much larger return than a debt holding investor would. However, if there is a loss or no profit, they also share that.

There is also a third option and that is, Debt with an equity kicker. What this means is that the investor is not only a debt holder and gets interest payments, and priority in the capital stack, but they also get a small piece of equity (for free). So when the investment pays off, they get a small share of the profit which boosts their overall return.

How much to Offer

There are 2 groups of private investors when it comes to setting terms of investment.

There are funds, and other sophisticated investors who will tell the entrepreneur what they want. There may be a little room to negotiate but not too much (The golden rule: "He who has the gold makes the rules"). So this removes the guess work and it boils down to take it or leave it.

Now personally in these situations, my personal preference is that you should be trying to raise money for any investment where you can't say that that the use of the money is more valuable than the cost of the money. So that's the equation you have to balance. You may not be able to get what you want, but can you get what you need. You are going to bust your butt to make your project or business successful. And if you achieve that goal, you want to enjoy the fruits of your labors. So, the question is, if you look down the road to when you achieve success, will you be satisfied with the share you're negotiating. Remember: x% of something is better than 100% of nothing. So will x% of your success satisfy you. If yes, agree to the deal. If no, keep on searching for another investment opportunity.

The other group is comprised of individual investors who basically want a "quote" for how much their money is worth to you. Here are the parameters:

a) You should offer enough so that they don't get insulted and walk away from you, and not take your phone calls.
b) You shouldn't offer so much that you leave yourself no room to negotiate.

The easiest thing to do, is ask the investor what kinds of return has he been offered for similar types of investments. If the number works for you, then agree to it and move on.

If the number seems high, negotiate, but don't stray too far. For example, if the investor wants 15% interest, see if he'll accept 12%. Expect to end up somewhere in between. However, if they are set on a number, see if you can negotiate other terms.

For example, equity with no voting rights.

However, what if you can't initially talk to the investor, and you are talking to a broker. First, this is not a good situation, because the broker is going to try to force you to make a commitment on terms without making any commitment that you'll get the money. Personally, my advice would be to inform the broker that you'll negotiate terms once you have a commitment (aka letter of intent) from the actual investor. If the broker refuses, find somebody else.

Addenda

The function of addenda is to enhance and expand the validity and credibility statements made in the body of the document. And sometimes, as they say, "a picture is worth a 1000 words".

Note: You want to keep your Executive summary as short as possible. So, in general things you can reference should be included only by reference unless they satisfy the criteria noted above. In other words, keep addenda to a minimum.

Illustrations, Maps, Floor plans

If there are physical objects that are intimately associated with your project or business, you should include illustrations of them. This would include

- Pictures of your product (s)
- Pictures of your assets (buildings (exterior, interior), landscape sites of a mine, oil field etc.
- Hotels, motels, etc – landscape pictures
- If location of the project is significant include maps (choose the most appropriate format: e.g. google maps at low & high scale, zoning maps, false color maps, etc.)
- If buildings are involved, floor plans might be appropriate.
- Before and after renovations (artist rendition or similar type project)

Data Dumps

For large amounts of data, access should be referenced with a link.

For small amounts of data (e.g. a table or a chart) could be included in the text if immediately relevant, or included in an appendix if more incidental/backup data

Examples of documents (e.g. contracts, specifications, etc.) should have their own appendix

References

You have a choice of putting references in footnotes, or in a separate section at the end of the document.

Text Visuals

The executive summary could be a straight text document. However, it is much more interesting or enjoyable to read a document that has illustrations. And after all, you don't want to give an investor any

reason to put aside reading your document, so, illustrations throughout the text will enhance readability.

How many illustrations? That's a bit of personal preference. I'd definitely put one on the cover page (or can use the company logo). Then I wouldn't put more than 1 per page. The reason is that you do not want to make the document too long (that also discourages reading).

The Presentation

Yes, for most private investors you are going to have to give a live presentation. And yes, I am aware of the statistic that most people fear public speaking more than they fear death. However, the presentation need not be the gigantic source of anxiety most people make it out to be.

So, let me share a few secrets with you that will hopefully reduce your anxiety and give you the confidence that you can do a great job at this.

1. Giving a presentation to get funding for your project IS NOT like public speaking.

First of all, investors are NOT interested in being entertained. They don't need to hear jokes or cute little catch phrases. They don't judge you based on how smooth your delivery, how much you smile, etc.

2. Investors are meeting with you to make a financial decision about whether to commit their funds to your investment opportunity.

So, they don't want their time wasted with irrelevant information. They want the facts they need to evaluate your offering. They want to hear about:

- Specific Project or Business Goals
- USP
- Valuation
- Exit Strategy
- Financials
- Terms of Investment
- Risk Assessment

Does this list look familiar? It should. It's the same list of the information needed to create your executive summary! So, here's secret #3:

3. Your Presentation is merely a review of the highlights and key points of your executive summary.

So, all that work you did thinking, planning, organizing and describing you plan and addressing an investor's concerns, is now going to be repurposed into an oral presentation. In other words, because you now have a clear, concise and to the point executive summary, your work on creating a presentation is 90% done.

4. So to prepare your presentation, here's what you need to do.
    a. Open up Powerpoint, select a light blue or gray (or other non-distracting light colored) template, and
    b. start pasting the key points and sentences from your executive summary onto the slides.
    c. You do not need anything but the words, charts and tables from your executive summary.
    d. And for easy readability, each slide should have no more than 3 sentences or points.
    e. Your presentation should be no longer than 10-20 minutes. Now, you can't simply paste your entire executive summary. That would make the presentation too long. So you will have to make some decisions about what to leave out.
    f. REMEMBER, your investor SHOULD ALREADY HAVE a copy of your Executive Summary before you meet.
5. To present, all you have to do is READ what's on your slides. You should read in a conversational voice, and practice reading it out loud.
6. That's basically it. If you like, you can add some visual interest by pasting some graphics on the slides. But this is not strictly necessary.
7. Remember the purpose of giving a presentation is for the investor to meet you, and hear your pitch, and get any concerns he might have from reading your executive summary or hearing your pitch.
8. So, <u>don't worry if you are interrupted</u>. In fact, you should feel good if you are interrupted. It means the investor is engaged and listening to what you say.

And last but not least, one of your high priorities at this presentation is build rapport with the investor. Therefore, before you launch into the presentation, start a little personal conversation

- Thanking the investor for meeting with you
- How much you admire his or her accomplishments
- Explore if there are any interests you have in common
- Explore if you have any common background: growing up location, college, military, company employment, etc.
- Common values
- Mimic the tempo and tenor of the investor's speech.
- GOAL – to move the investor toward liking you and trusting you.

The Follow-up

After the presentation, it's time to find out whether he or she is interested in investing or not. Sometimes the investor might take the initiative and tell you what he or she thinks of your proposal. If they don't, you are going to ask them some direct questions about their level of interest like:

- Do you have any more questions?
- What do you think of my project/proposal?
- Do you think this something you would like to invest in?
- If you get a positive response, ask
    - How much would you like to invest?
    - Are you satisfied with the terms?
    - Negotiate mutually satisfactory answers.
    - Arrange to get the check and deposit it an escrow account.
    - Congratulations
    - Discuss with the investor what the next steps will be.

If you get an equivocal response (not a direct yes), explore what is holding the investor back.

- Are there issues, concerns or uncertainties about the plan that the investor needs addressed.
- Are there actions you can take to address those concerns?
- Are there uncertainties in the investor's situation? If so, can you get clarification on what they are and establish a timeline of when they will be resolved?
- Ask for permission to stay in touch
- Develop a follow up plan

If you get a negative response, FIND OUT WHY. This is critically important for you because it is key information in improving your proposal or presentation to make it more likely to be funded. Don't be shy about this. After all, you've spent your time and effort to present and pay for the meal. The least the investor can do, is tell you why he or she doesn't want to invest.

So, start the conversation and continue it until you are very clear in your mind about what you need to do to improve things.

Now, sometimes you are going to get a "no" because of the investor's situation, not yours. The investor may have all of his funds committed to projects already. Or the investor may have family or personal matters that are holding him back from saying yes. Or he may be concerned about macro factors such as the economy, the political situation, etc. that is holding him back from making an alternative investment.

In these cases, you should express understanding, and ask for referrals. Because if the investor actually liked your proposal, but other considerations are preventing him from investing, he shouldn't be that reluctant to give the contact info of some friends or colleagues that may also be interested in your type

of investment. And if you used your personal time with the investor to build up a rapport, you have a good probability of getting a positive response to your request.

In fact, no matter what the outcome of your presentation meeting, you want to come away with referrals. Getting good at this will do more than almost anything in sky-rocketing your success and banish your funding worries.

Private Investors almost certainly know other private investors (high net worth individuals interested in investing in startups and growing businesses with high potential). And these are exactly the people you want to talk to in order to raise capital for your project.

Imagine having a group of 10 to 20 individuals you could call on to fund your projects. It would be like having your own private bank. And with the success that their investments bring to you, you can become one of them.

And that's what you want, isn't it?

Legal Aspects of Raising Private Money

Despite what you've heard from gurus and non-gurus (none of whom are securities attorneys), if you wish to raise money from private individuals (or their IRA's), you must register with the SEC (Securities and Exchange Commission) and comply with the appropriate regulations in the Securities and Exchange Act of 1933 as amended.

And this includes any private individual whether they be a friend, your mom, a family member or any other living person. Registering is not optional. And although you might "get away" with not registering your deal (aka Offering), if anything goes wrong and your investors complain to the SEC, you will be a heap of trouble. And no one who has ever been in that position, will tell you that not filing was worth it.

I am going to cover 2 issues here:

1) What is the process of how to file with the SEC and
2) What are the regulations are and how to comply with them

[Please note: I am not an attorney and I am giving you one layman's view of the regulations. I strongly advise you to have your documents reviewed and your strategy discussed with an attorney experienced in working with the SEC and is familiar with the new regulations and any related case law.]

Registering with the SEC

When you are filing or registering with the SEC, what you are doing is requesting an exemption from the requirement to go through the underwriting process of being listed as a public company on one the stock exchanges. This process known as an IPO (initial public offering) or other types of public filing can be a 6 month to year long process that will cost the company about a million dollars or so. Therefore, these exemptions allow "smaller" companies access to private capital. However, there are still rules and regulations that must be followed.

Actually, registering with the SEC is pretty simple. All you have to do is fill out a form and submit some documents. Filling out the form shouldn't take you more than 15min and you can even do it online now.

Now the document that must accompany this filing is called a Private Placement Memorandum (PPM). The purpose of this document is to disclose to the potential investor everything he or she could wish to know about the terms and conditions of the deal and most importantly to disclose or potential or conceivable risks to the investment prior to investing any money.

What the Regulations Are

Now to understand the regulations we need to start with a little vocabulary:

- Offering - the terms and conditions of your investment
- Offering Memorandum – a.k.a. Private Placement Memorandum (PPM)
- Issuer - Your entity that is trying to raise the money
- Purchaser - the Investor who may potentially invest in your deal
- General Solicitation - any form of advertising
- Accredited Investor - a legal definition of a sophisticated investor requiring a little less legal protection. To qualify Private individuals must meet at least one of the following criteria:
    - a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds $1 million at the time of the purchase, excluding the value of the primary residence of such person;
    - a natural person with income exceeding $200,000 in each of the two most recent years or
    - joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year;
- Bad Actor - someone that has been convicted or disciplined by the SEC for violating securities laws.

Regulation D

The most common exemption used by companies to raise private capital is known as Regulation 506D or Reg D for short. Reg D permits issuers to raise unlimited capital from an unlimited number of "accredited investors" and a maximum of 35 non-accredited investors.

As you can see this regulation is pretty broad in its scope and pretty much satisfies most issuers needs. However, there is one important caveat:

Issuers using the exemption in Reg 506D are banned from engaging in any type of General Solicitation. Basically this means that you, your entity and anyone you engage to help you raise money**, cannot advertise the investment** in print ads, on the internet, on social networking sites, radio, TV, any form of mailing, public speaking, elevator speeches, etc.

So how do you find investors under 506D? Only by personally talking to people you already know or that they know. And they have to be Accredited.

Now under Reg D, all that is required to establish accreditation is for the purchaser to sign a form where they've checked a box as to which qualification shows them to be accredited. Please note that if they aren't really accredited but still check the box and sign the form, you are still in the clear.

However, for many people probably including yourself, this ban on general solicitation definitely puts a roadblock in the way of your efforts to raise private money.

Well here's the good news: as a result of President Obama signing into law the JOBS (Jumpstart Our Business Startups) act, the SEC was directed to formulate new rules that would allow promoters to engage in general solicitation. On September 23rd 2013, the U.S. Securities and Exchange Commission (SEC) approved a new rule known as Rule (c) that lifts the ban on General Solicitation, but ONLY TO ACCREDITED INVESTORS. These rules are embodied in Rule (c) of regulation 506D[4].

Regulation D rule (c)

Basically the rule says that in addition to complying with all the other parts of Reg D, promoters may engage in general solicitation, but only to Accredited Investors (see definition above).

HOWEVER, before accepting funds from alleged accredited investors, the promoter must have "proof" that the individual writing the check actually meets the definition of accredited investor. The SEC lays out three general methods for satisfying this requirement:

1) facts and circumstances - for example, the investor has invested similar sums in private investments in the past; or the minimum investment could only reasonably be made by an accredited investor.

2) Direct method - the investor provides bank statements or tax returns showing that he/she satisfies the definition

3) Indirect method - letters from the investor's accountant or attorney stating that they have access to the investor's financial accounts and can attest that he/she meets the definition. This can also include a report from a certified third party verification service.

So, as long as you interpret and apply the rule correctly (this should be done with the guidance of a securities attorney), you can now engage in general solicitation for accredited private investors. However, this does not change the nature of private investors. Your goal should not be to get a check, but rather to build a relationship. It is necessary to earn the trust of any investor through making them familiar with the experience, expertise, and financial management abilities of you and your team, as well as building their confidence in you as an entrepreneurial leader.

To get more information about these rules, please sign up for our new training.

[4] The descriptions that follow are a summary and should not be relied upon when carrying out an investment strategy. Furthermore, the author is neither an attorney nor an accountant and nothing in this document should be construed as investment advice. Before proceeding with any investment, the reader is strongly advised to seek counsel from a securities attorney well-versed in the new regulations.

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