THE

Private *Lender* Starter Kit

How private mortgage note lending works, from the lender's side.

INSIDE 13 sections, one checklist, no pitch

INCOMEOVERWEALTH.COM
BY DAN WILSON

WHAT'S INSIDE

Thirteen sections, *one checklist.*

Read it front to back once. After that, the checklist on page 14 is the page you will come back to.

SECTION 1

Who this is for

This kit is for someone with savings, or a rollover IRA, who wants monthly income that doesn't depend on the stock market's mood, and who has looked at rental property and decided they'd rather not own the roof.

It explains one way of getting that income: lending your money against a house, secured by a recorded lien, and getting paid back with interest every month. People call it private lending, private mortgage notes, or being the bank. Same thing.

It is for you if

- You have money that can sit for years without being needed.
- You want a monthly payment, not a balance that moves every morning.
- You would rather evaluate a loan yourself than be told what to do with your money.

It is not for you if

- You might need this money back in the next couple of years. A private loan is committed for its term.
- Six months of a borrower not paying, followed by a foreclosure, would keep you up at night. That is a real possibility, and the kit spends more pages on it than on the upside.
- You want to trade in and out.
- You want someone to tell you what to do. This kit teaches you to evaluate a loan. The decision is always yours.

> *I buy affordable rental houses in Ohio with private money and sell them on payments, and I lend private money myself, so I've sat on both sides of the note. Nothing in this kit is an offer of anything, and nothing in it describes my own loans. It's how the category works, written the way I'd explain it to a friend at the kitchen table.*

SECTION 2

How an amortized note works, on paper

Let's start with the money, because the money is the reason anyone reads past page one.

Say a lender puts out $50,000 at 9% over four years, fully amortized. Every monthly payment includes interest and a slice of principal, so the loan is paid to zero on the last payment with no lump sum waiting at the end.

The payment is about $1,244 a month. In month one, roughly $375 of it is interest and $869 is principal. By month 24 the interest share has dropped to about $200 and the principal share has risen to about $1,044, because interest is charged on a shrinking balance. Over four years the lender receives about $59,700: the $50,000 back, plus about $9,700 of interest.

THE PAYMENT

$1,244/mo

48 payments on $50,000 at 9%, fully amortized

INTEREST OVER FOUR YEARS

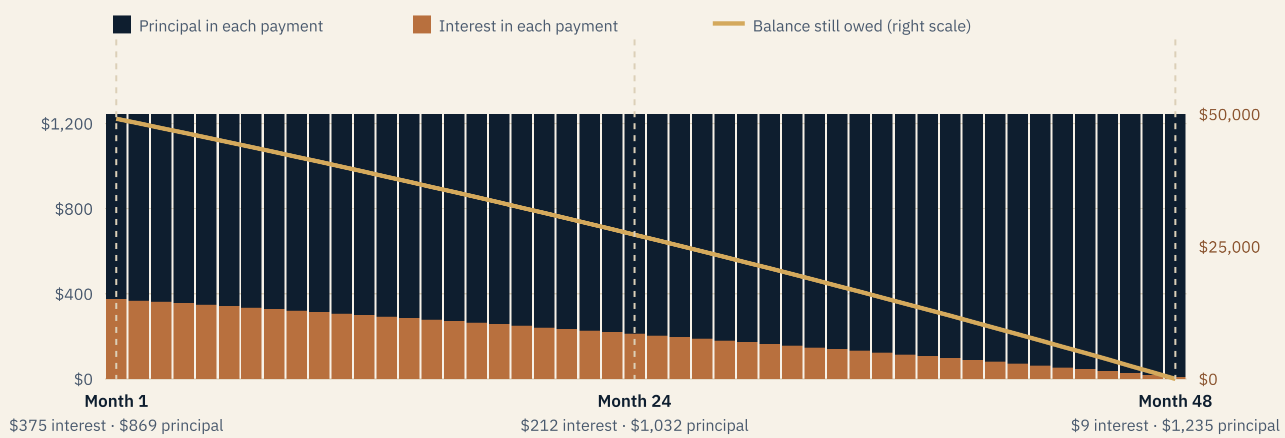
$9,700

The price the borrower pays for the money

BACK IN THE LENDER'S HANDS

$59,700

The $50,000 returned, plus the interest



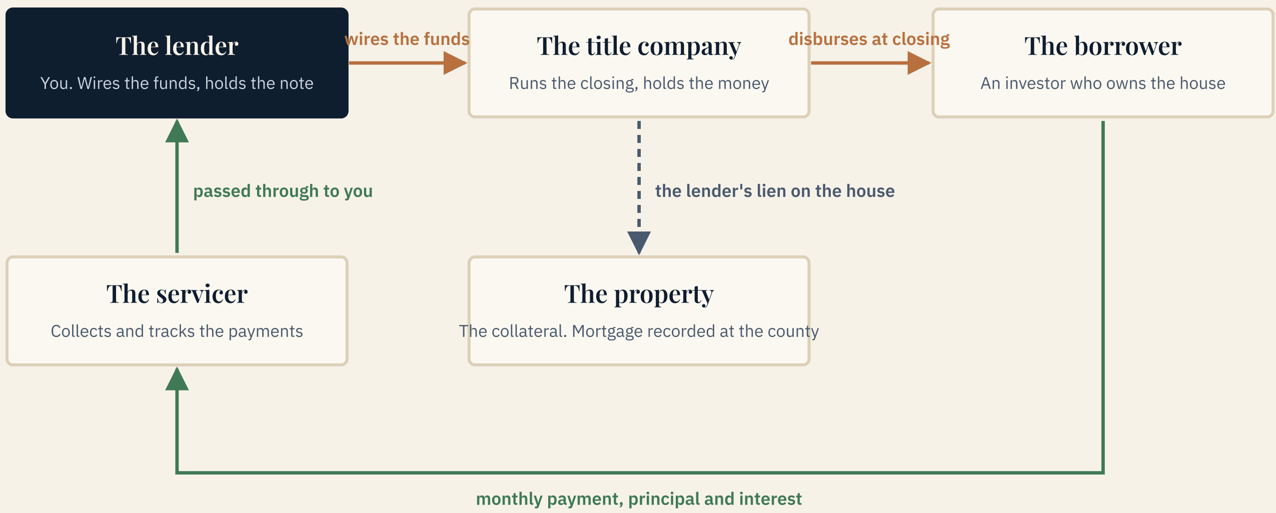
The lender's exposure falls every month. After two years, close to half the principal is already back in hand. That is the quiet advantage of an amortized note over an interest-only one, where every dollar of principal comes due on the last day.

The rate is the price of a risk. Industry sources put private lending on residential real estate at roughly 8 to 14%, depending on lien position, loan-to-value, and term. The Entrust Group cites 8 to 12% for mortgage notes; NoteInvestor.com describes 10 to 14% on performing notes. That is what lenders charge in the market, not a promise and not anyone's particular deal. Here is what can go wrong that justifies those rates: the borrower can stop paying, and then the lender is looking at a foreclosure that takes months, during which the money earns nothing and cannot be sold on a Tuesday. Section 7 names the risks. Read the two sections together.

SECTION 3

How a private loan works

Five parties, one house. Money never goes from lender to borrower directly. It goes through the title company, and that is not a formality.



The borrower is usually a real estate investor who owns, or is buying, a house and would rather borrow from a person than a bank. Speed, certainty, and the fact that a $60,000 house doesn't fit a bank's box are the usual reasons.

The lender is you. You wire the money at closing and hold the note.

The property is the collateral. If the borrower stops paying, the lender's claim is on the house, not just on the borrower's promise.

The title company runs the closing: searches the title for existing liens, insures the lender's position, holds the money in escrow, records the mortgage at the county, and disburses funds.

The servicer collects the payments, tracks the balance, sends the year-end tax forms, and sends notices if a payment is late. A third-party servicer typically charges a flat monthly fee for a small private note.

THE SEQUENCE, IN ORDER

1. Borrower and lender agree on terms.
2. The title company searches the title and prepares the documents.
3. The lender wires the funds to the title company, never to the borrower.
4. Closing: the note is signed and the mortgage is recorded at the county.
5. Payments begin, monthly, through the servicer.
6. On the last payment the mortgage is released at the county.

SECTION 4

The four documents

A private loan is four pieces of paper. Each one protects the lender from a different bad day.

The promissory note

The IOU. Who borrowed what, at what rate, over how many years, and what counts as default. On its own it is a personal promise. If the borrower breaks it, you can sue them, and that is about all.

The mortgage, or deed of trust

Pledges the house itself as collateral for the IOU, recorded at the county where the property sits. In mortgage states a default goes through the courts (judicial foreclosure). In deed-of-trust states a trustee can sell without a court (non-judicial), which is faster and cheaper. Recording puts the world on notice that your claim exists, and recording order generally sets lien priority: first recorded, first in line.

The lender's title policy

Insurance that your lien is valid and in the position you were told it is. The title company searches the chain of title before closing; the policy covers the lender against what nobody found. The Consumer Financial Protection Bureau is blunt: a lender's policy protects the lender's lien, not the owner's equity. That's fine. You are the lender.

Hazard insurance with a mortgagee clause

The borrower's property insurance, with the lender named as mortgagee. If the house burns, the claim check has your name on it. Without the clause, it doesn't.

> *The test: ask a borrower to explain all four and what each one does for the lender. Someone who has done this answers without reaching for notes. If they can't explain all four, walk. The paperwork is the deal. Everything else is conversation.*

SECTION 5

Lien position and the cushion

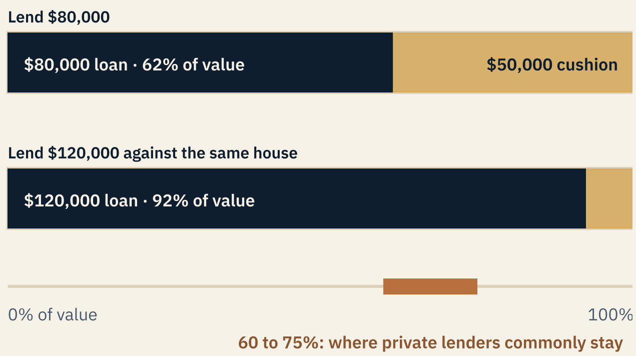
Position is who gets paid first if the house is sold at a foreclosure sale. The proceeds run down a list: the costs of the sale, then the first-position lender (principal, missed payments, interest, legal costs, money advanced for taxes and insurance), then any junior liens in their recorded order, then whatever is left to the former owner. Property-tax liens sit above everyone regardless of recording date.

A first-position foreclosure wipes junior liens off the property. The junior lender's debt survives as an unsecured claim, but the house is no longer behind it. Second position behind a bank is common in private lending and is not automatically wrong. It is a different risk, and it should be named out loud before you say yes.

WHO GETS PAID FIRST AT A FORECLOSURE SALE

1. **Costs of the sale**
   and property-tax liens, which sit above everyone
2. **First-position lender**
   principal, missed payments, interest, legal costs, advances
3. **Junior liens**
   in recorded order, only from what is left
4. **The former owner**
   whatever remains, often nothing

THE CUSHION ON A HOUSE WORTH $130,000



Ink is the loan, gold is the room between what you are owed and what the house would bring. That room absorbs a soft market and the cost of selling.

The cushion is loan-to-value: the loan divided by what the house is really worth. Say a house is worth $130,000 and the loan is $80,000. That is about 62% loan-to-value, and there is $50,000 of room between what you're owed and what the house would bring. That room absorbs a soft market, the cost of selling, and the missed payments that accumulate before a foreclosure completes. Lend $120,000 against the same house and the room is mostly gone before anything goes wrong.

Private and hard-money lenders on residential property commonly stay in the 60 to 75% range overall, tighter for construction and looser for a finished rental. Three lender sources converge on that band.

Which value? Banks lend on as-is value. Private lenders on rehab deals sometimes lend against the after-repair value, which flatters the ratio. Know which number you are looking at, and get it from evidence you trust: an independent appraisal, a broker's opinion, or comps you can run yourself. The borrower's number taken on faith is a fake cushion.

On an amortizing note the cushion grows every month. On an interest-only note it moves only if the value does.

SECTION 6

Where the monthly payment comes from

Ask this before anything else: how is this loan actually being paid back? You'll get one of three answers.

Rent that's already there

A tenant is in the house, paying, and the note payment comes out of that rent. This one you can verify. Ask for the lease and the payment history. Then check the rent against every expense, not just the loan. A house that rents for $1,200 with a $700 note payment sounds comfortable until you subtract taxes, insurance, management, and a reserve for vacancy and repairs. It can still be a fine deal. You just want to know going in whether the rent covers it or the operator does.

The operator's own income

They're covering the payment out of cash flow from somewhere else. That works, and plenty of solid deals look like this early on. Be clear about what you're leaning on: a person's cash flow rather than a property's.

A future event

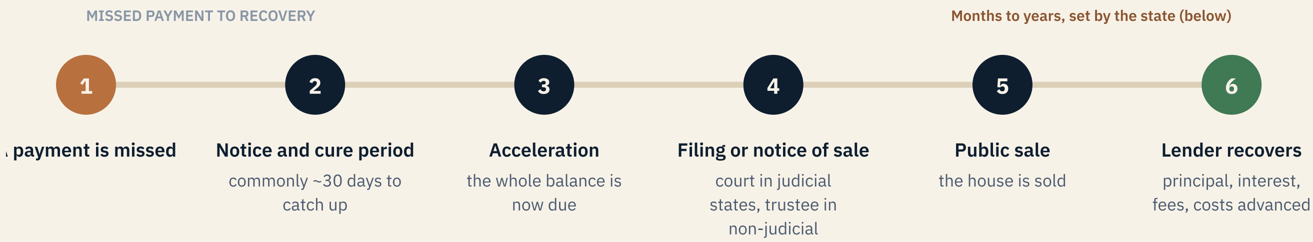
A sale, a refinance, a construction project that finishes and rents. The payment depends on something that hasn't happened yet. Some of those are good deals. Ask what happens to your payment if the event runs late, because construction runs long and refinances fall through when rates move.

> *Whichever answer you get, ask for the evidence behind it. Somebody with a real answer hands it over without much fuss.*

SECTION 7

What happens when a borrower stops paying

This is the honest section, and it is longer than the upside section on purpose.



The sequence. A payment is missed. A notice goes out and a cure period starts, commonly around 30 days in the loan documents, during which the borrower can catch up. If they don't, the lender accelerates the loan, meaning the whole balance is due, and the foreclosure starts: a court filing in judicial states, a notice of sale in non-judicial states, then a public sale.

What the lender recovers. Unpaid principal, accrued interest, late fees, legal and court costs, and anything the lender advanced for taxes or insurance. Made whole, and no more. If the sale brings less than that, some states allow the lender to pursue the borrower for the shortfall; others limit or bar it, especially after a non-judicial sale. Legal costs commonly run a few thousand dollars on a flat-fee basis, more if it drags.

The cost nobody puts in the waterfall. Time. For however long the process takes, your money is tied up and earning nothing, and it can't be sold on a Tuesday. That is the real price of private lending, and it should be priced consciously: only money that can sit for years belongs in a note.

SECTION 7, CONTINUED

The wait is set by the state

ATTOM's report for the first quarter of 2026 puts the national average at 577 days for foreclosures completed that quarter. Texas ran about 165 days. New York about 1,900. Louisiana over 3,000. Same missed payment, wildly different wait. Those averages include old, tangled cases, so a clean private note will usually move faster, but the spread between states is the real lesson. Question 7 on the checklist exists because of it.

AVERAGE DAYS TO COMPLETE A FORECLOSURE, Q1 2026 (ATTOM)

Same missed payment, wildly different wait. Averages include old, tangled cases; a clean private note usually moves faster.

THE REST OF THE RISK LIST

Borrower quality

The house is the collateral, but the person is the deal. No track record, no skin in the game, and a smooth answer for everything is the risk no lien fixes.

Property damage and insurance lapse

A house can burn, flood, or sit empty and deteriorate. If the insurance lapsed and nobody checked, the collateral is worth less than the loan overnight.

Title problems

A lien you thought was first, sitting behind one nobody disclosed. The lender's title policy and a real closing exist for this.

Valuation

A bad appraisal is a fake cushion.

Paperwork and servicing errors

A payment misapplied, a tax bill unpaid, a notice not sent. Boring, and expensive.

No reliable default statistic exists for private notes

This market is opaque and self-reported. Anyone who quotes you a precise default rate is guessing. That opacity is exactly why the lender's own diligence matters.

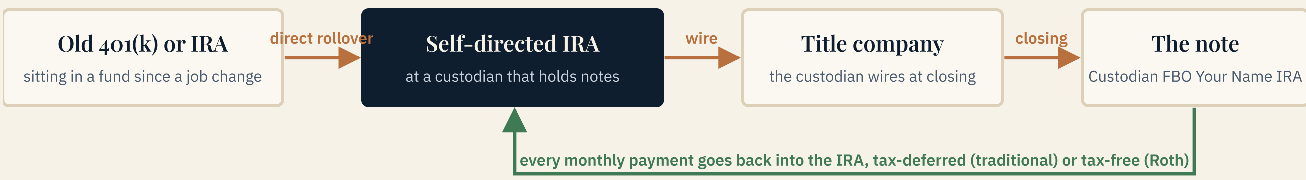
> *None of this means don't lend. Every one of these has a known protection, and the checklist in section 10 is the list of them. It means lend like someone who has read this section.*

SECTION 8

The IRA path

Most first-time private lenders do it from a rollover IRA or an old 401(k) that has been sitting in a target-date fund since a job change. The money is there, it isn't doing much, and it has years before it's needed.

HOW THE MONEY MOVES



Never to a disqualified person:
you, your spouse, parents, children and their spouses, any business you control, or a house any of you use.

1

Open a self-directed IRA

A regular brokerage IRA holds stocks and funds and nothing else. A self-directed IRA at a specialized custodian can hold a private note, because the custodian's job is to hold and report on assets it didn't sell you. The custodians in the table all list private notes as a permitted asset.

2

Roll the money over

A direct rollover from the old plan to the new custodian. The money never touches your hands, so there is no tax and no penalty. Two to four weeks of paperwork is typical. The rollover isn't the hard part. Deciding is.

3

Direct the loan

You find and vet the borrower. The custodian wires the money at closing and holds the note, titled "Custodian FBO Your Name IRA." Every payment goes back into the IRA, tax-deferred in a traditional account and tax-free in a Roth.

> *The rule that matters most: an IRA cannot do business with you or your family. The IRS calls these prohibited transactions, and the disqualified persons include you, your spouse, your parents, your children and their spouses, and any business you control. Your IRA can't lend to any of them, and it can't lend on a house any of you use. The penalty is severe: the whole account is treated as distributed as of the first day of that year. Lending to an unrelated operator on a house you'll never live in is the clean version. Keep it clean.*

SECTION 8, CONTINUED

Custodian comparison

These custodians list private notes as a permitted asset. The dollar figures are the ones I could read on the custodian's own fee page in September 2026; where a custodian publishes its schedule as an image or behind a form, the pricing model is described and the figure is left for you to check.

Checkbook control. Some custodians offer an IRA-owned LLC where you hold the checkbook and can fund a closing without a custodian's review cycle. Faster, more responsibility, more ways to make a mistake.

CUSTODIAN	PRICING MODEL	ANNUAL FEE	SETUP	CHECKBOOK LLC OPTION
IRA Financial	Flat, regardless of account size	$495	Not published	Yes
uDirect IRA	Flat plus a small per-transaction fee	$275, then $10 per transaction after the first six	$50	Yes (IRA-owned LLC)
The Entrust Group	Flat base plus 0.17% of value over $50,000, capped	$219 (one asset) or $329 (two or more) under $50,000; capped at $2,299	$50	You form the LLC yourself with your own counsel
Alto IRA	Quarterly, by invested capital	$0 until you invest; $150 a year under $30,000; $400 a year above; $75 per private investment	None	Not published
Rocket Dollar	Monthly subscription	$360 to $600 a year by tier	$360 to $900 by tier	Yes, included in the top tier
Equity Trust	Tiered by account value (rises as the account grows)	See fee schedule at trustetc.com/fees	$50	Yes
Directed IRA	Flat	See directedira.com/pricing-and-forms	See site	Yes
Madison Trust	Quarterly, per asset held	See madisontrust.com fee schedule	$50	Yes

> *Fees change, and some of these change every year. Check the custodian's own page before you open an account, and ask one specific question: what does it cost to hold one promissory note for its full term, including the wire at closing and each monthly payment coming in. A custodian that charges per transaction can cost more on a monthly note than one with a higher flat fee.*

SECTION 9

Questions a borrower should be able to answer

Use these on anyone who wants you to lend on a house. Including me.

1. Can I verify your track record on my own? (A good answer is a list of closed deals with the title company that closed them, and permission to call.)
2. What keeps you committed if this gets hard? (On a cash-flowing, amortizing deal, the borrower builds equity with every payment. On a construction deal, ask what they've put in.)
3. What is this house worth, and how do you know?
4. What position am I in, and what sits ahead of me?
5. How is this loan actually being paid back?
6. What's my cushion, and which way is it moving?
7. What state is the house in, and what does foreclosure look like there?
8. Which title company is closing this, and will I get a lender's title policy?
9. Who services the loan, and how do I see that taxes and insurance stay paid?
10. What's my exit if I need out early? (The honest answer is usually "you don't." Make sure you hear it.)

> *Someone with real answers hands them over without much fuss. Vagueness on the third question is the answer.*

SECTION 10

The Private Note Due-Diligence Checklist

Ten questions to answer before a dollar moves, in order. If any layer fails, there is no deal.

LAYER 1 · VET THE OPERATOR

- [ ] 1 **Can I verify their track record independently?** Closed deals and references from title companies and past lenders, not their own highlight reel. Run a background and litigation check. A legitimate operator expects this.
- [ ] 2 **What keeps this operator committed if things get hard?** Skin in the game matters most when the property produces no income and walking away is cheap. On a cash-flowing, amortizing deal, the operator builds equity with every payment. Know which kind of deal you are in.

LAYER 2 · VET THE DEAL

- [ ] 3 **Do I know what the property is worth, from evidence I trust?** An independent appraisal or BPO, or your own comps if you can run them. The borrower's number taken on faith is a fake cushion.
- [ ] 4 **What position am I in, and what sits ahead of me?** Second position behind a bank is common and not automatically disqualifying, but a senior foreclosure can wipe a junior claim off the property. Know every senior lien.
- [ ] 5 **How is this loan actually being paid back?** Rent already in place, the operator's pocket, or hope? If construction: has this operator done this scale of work in this market? If rental: market rent against ALL expenses, and who manages.
- [ ] 6 **What is my cushion, and which way is it moving?** Loan-to-value against a stressed value and real selling costs. On an interest-only note the cushion only moves if the value does; on an amortizing note it grows with every payment.
- [ ] 7 **What state is the property in, and what does foreclosure look like there?** Timelines and costs vary enormously by state. Understand the process where the property sits before you lend, not after.

LAYER 3 · VET THE PAPERWORK AND TERMS

- [ ] 8 **Is every document in place?** Promissory note, recorded mortgage or deed of trust, closing through a licensed title company with a title search, hazard insurance naming you, and a lender's title policy. The documents are the deal.
- [ ] 9 **How will I see proof the property's bills stay paid?** Payments tracked, and receipts showing taxes and insurance stay current for the life of the loan. A servicer is optional; verification is not.
- [ ] 10 **What is my exit?** Private notes are illiquid, so never lend money you might need back sooner. Prefer notes with no balloon. If there is one, know exactly how it gets paid and what the backup plan is.

If the deal found you first: an unsolicited pitch from a stranger ("guaranteed returns," a cold message) fails this checklist at question 1. Legitimate private deals either cannot be marketed to strangers at all, or must verify an investor's finances before accepting a dollar. No qualification process means walk away. When in doubt, check the person and the deal with your state securities regulator.

SECTION 11

Risk checklist

Before you wire a dollar, every line is a yes.

- ☐ The money can sit for the full term without me needing it back.
- ☐ I have independent evidence of the property's value.
- ☐ I know my lien position and every lien ahead of me.
- ☐ I know where the monthly payment comes from and have seen the evidence.
- ☐ The loan-to-value leaves real room for a soft market and selling costs.
- ☐ I know the foreclosure process and typical timeline in the property's state.
- ☐ The closing runs through a licensed title company with a title search.
- ☐ I will hold a recorded mortgage or deed of trust and a lender's title policy.
- ☐ The hazard insurance names me as mortgagee, and I will see the renewal.
- ☐ Someone is tracking payments, taxes, and insurance, and I will see the proof.
- ☐ I have verified the borrower's track record from sources they don't control.
- ☐ I can name the three things that would make me lose money on this loan, and I have priced each one.

SECTION 12

Glossary

Amortized
Each payment includes interest and principal, so the balance reaches zero on the final payment.

Balloon
A lump sum of principal due at the end of a loan, usually on an interest-only note.

BPO
Broker price opinion; a real estate agent's estimate of value, cheaper than an appraisal.

Cure period
The window after a missed payment in which the borrower can catch up before the lender accelerates the loan.

Deed of trust
The security instrument used in some states in place of a mortgage; a trustee holds title and can sell without a court on default.

Default
Breaking the terms of the note, usually by missing payments.

Disqualified person
Someone an IRA may not transact with: the owner, spouse, ancestors, descendants and their spouses, and businesses they control.

FBO
"For the benefit of." How an IRA-held note is titled: Custodian FBO Your Name IRA.

First position
The lien recorded first, paid first from a foreclosure sale.

Hard money
Short-term private lending, usually for a purchase and rehab, at higher rates.

Judicial / non-judicial foreclosure
Through the courts, or by trustee sale without a court. Set by state law.

Lender's title policy
Insurance that the lender's lien is valid and in the stated position.

LTV
Loan-to-value: the loan amount divided by the property's value.

Mortgagee clause
The line in a property insurance policy naming the lender, so claim proceeds protect the loan.

Points
An upfront fee charged as a percentage of the loan.

Promissory note
The IOU: amount, rate, term, and default terms.

Recording
Filing the mortgage or deed of trust with the county, which creates public notice of the lien.

Self-directed IRA
An IRA at a custodian that can hold assets beyond stocks and funds, including private notes.

Servicer
Whoever collects payments, tracks the balance, and sends notices and tax forms.

Skin in the game
The borrower's own money at risk in the deal.

SECTION 13

Where to go from *here.*

You now know more about how a private loan works than most people who ever make one.

KEEP LEARNING

I write one short letter a week on retirement income, and the private-lending lessons rotate through it. It's free at incomeoverwealth.com.

TALK IT THROUGH

Some questions depend on your situation and can't be answered in a PDF: whether the money you'd use can really sit for years, what the IRA path looks like for your specific old plan, what to ask an operator when every answer sounds smooth. If you want to learn what it takes to be a private lender and figure out whether it fits your situation, apply for a Private Lender Fit Call at incomeoverwealth.com/call. It's a conversation, not a pitch. Bring this checklist and ask me every question on it.

SOURCES

Where the numbers *come from.*

Every figure in this kit traces to one of these. Check them yourself; that is the point of the kit.

- Promissory note vs. mortgage / deed of trust; judicial vs. non-judicial states: Bankrate, LegalZoom, PropLogix.
- Recording and constructive notice: county recorder guidance (Santa Clara, Los Angeles, Dallas counties).
- Title commitments and lender's title insurance: American Land Title Association; Consumer Financial Protection Bureau, "What is lender's title insurance?"
- Foreclosure payoff order and junior liens: California Civil Code § 2924k (as an example of the standard shape); Nolo on junior liens and surplus proceeds.
- Loan-to-value conventions in private and hard-money lending: West Forest Capital, TaliMar Financial, Jaken Finance Group.
- Market rate ranges: The Entrust Group, "Mortgage Note Investing" (8 to 12%); NoteInvestor.com, "Interest Rates and Yields" (10 to 14% target on performing notes); American Association of Private Lenders market reports.
- Foreclosure timelines: ATTOM, Q1 2026 U.S. Foreclosure Market Report (national average 577 days; state figures).
- Servicing and tax forms: IRS Form 1098 instructions; 12 U.S.C. § 2605.
- Self-directed IRAs and prohibited transactions: IRS, "Retirement Topics: Prohibited Transactions"; custodian pages listed in the comparison table.
- Unsolicited investment pitches: SEC Investor.gov alerts; North American Securities Administrators Association advisories on private placements.