Dan Breslin: Welcome to the REI diamonds show with Dan Breslin. Your source for Real Estate Investment Jewels of Wisdom. Welcome to the REI Diamond Show. I'm your host Dan Breslin and this is episode 124 with Joe Fairless, and I'm discussing raising private money for single-family flips. If this is your first time with us here checking out the REI Diamond show. I'd like to take this moment now to welcome you to the show.

This is the no fluff, no BS, real estate investing show dedicated to digging out the real estate investment jewels of wisdom from our guests.
There is no sales pitch, no coaching, and no other products to buy here.
Just real-world, money-making ideas for you to implement into your real estate investing business.

Today's show is a bit different than usual. Instead of me interviewing a guest you're about to hear me being interviewed by the world's longest-running daily podcast host, Joe Fairless. The topic? Raising private money for single-family real estate investment Fix and Flip deals.

This interview focuses on the most important pieces of information that you absolutely must know on both sides of the private money equation.
Whether you are the lender who is funding a deal, or you are the borrower/rehabber who is buying the project and completing the renovation. My goal here is to paint a picture for both private lenders and Real Estate Investors listening right now by covering the highlights of funding a Single Family Flip.

So whether you are considering being a passive private lender and funding another Real Estate Investors, Fix and Flip deal or you are a Fix and Flip investor thinking about approaching somebody, you know to potentially fund your deal. You are in the right place. At the end of the 20 minutes or so interview, I will share specific contact information where you can get in touch with me directly if you're interested in discussing the details of funding a deal yourself.

Now is the time to grab a pen, a pad, sit down and get ready because this one is a very fast pace as Joe and I raced through this topic.

Audience member: Anyone buying and selling houses needs to be at 70% of the ARV minus the repairs so that in the event something goes wrong, there's plenty of equity for me to pay off my investor. Even if I have to fire sale the property and make no profit or breakeven.

Joe Fairless: Best ever listeners, how are you doing? Welcome to the best real estate investing advice ever show. I'm Joe Fairless. This is the world's longest-running daily real estate investing podcast. We only talk about the best advice ever. We don't get into any that fluffy stuff. And first off, I hope you're having the best ever weekend because today's Sunday.

We got a special segment for you called skillset Sunday. And today, you're gonna like it. Especially you single-family home investors who are looking to scale. We are going to talk to Dan Breslin who's been on the show before about how he's raising money for single-family home purchases. How are you doing, Dan?

Dan: I am doing good. How about you Joe?

Joe: Same my friend, and a little bit about Dan. In case best ever listeners, you need a refresher. He is the host of the podcast titled REI Diamonds podcast. One of my favorite names for a podcast, by the way, REI Diamonds podcasts. He's the founder and president of Diamond Equity Investments, and he focuses on quick flips and it has yearly revenues of over 3 million buckaroos.

He's been on the show twice, once as a normal episode, so you can hear his best-ever advice episode 449, that's 449 titled "Why you should pretend that every deal you set up will be a Fix and Flip," and holy cow I'm looking at the date that aired November 25th, 2005. It's been three years almost since that aired and then the other episode is episode 739 much more recent September 11th. 2016.

And this is a fun story. You got to check this out if you haven't already. And upscale Land Development deal gone wrong and wrong is in all caps. That's a situation Saturday upset. So today we're going to be on more of a positive note. Not talking about things going wrong. Although maybe I'll pepper in some questions about that.

We're going to talk about how you're raising money for single-family homes. So with that being said Dan, we give the listeners a little bit more of your background just as a refresher and then we'll roll right into it.

Dan: Cool. So I do a large volume of deals in the Philadelphia area, Chicago area, Atlanta, Miami, and Tampa area. Moved from Philadelphia to Chicago about three-four years ago to be a more present father in my daughter's life at the time and that led to us expanding into these five markets that we're in today.

I am a regular listener of your podcast show. Like many of your listeners, probably can relate. I get lost in the number of episodes. It's like an outrageous number of guests and episodes. I forget where I'm at. They're all great, and I get a ton of good content. So, thank you for consistently getting that up for more than what 1,400 shows now?

Joe: 1,400 shows and counting.

Dan: Nice.

Joe: Well, thank you. I appreciate that and you've been a contributor as well as a consumer of the content. So you're buying in a lot of different markets. What's your primary business model right now?

Dan: We do about 20% Fix and Flip where we actually do the construction and then sell to a retail buyer. And then the other 80% is going to be split somewhat where we close on and just wholesale it out. Sell it for either cash or conventional, somebody who's going to flip the house or do the HGTV thing to their own house and live there, or straight wholesale to other investors for assignment fees.

Joe: Okay, and you mentioned prior to us recording that you're raising money for your single-family houses. So what single-family homes, are you raising money for? Which part of this?

Dan: For both. Some of the deals I'll offer to my investor network are going to be very short term like 90 days or less. Typically with like a three-month prepay, so I might have money for two weeks. I might have money for seven days. I might have money for 45 days and in those instances, we calculate three months' worth of interest for those lenders.

May be some points depending on how small the loan amount is and then the other loans that we raise and use in our business are going to be Fix and Flip Loans, which are typically going to be six to nine months or even 12-month term projects where the investor's money will be tied up for that length of time.

Joe: So the first one you're describing is where you're going to turn it around quickly, so a wholesale or whole tail, right? For the investor, if you're wholesaling a deal, you just need equity for the down payment and any fees associated with getting it to contract right or you buying all cash or what?

Dan: Yeah, we're typically going to buy all cash. That's part of how we get the discount. We will sometimes sell to mortgage buyers, but in my experience, Joe, if anybody's listening right now and you're interested in raising money, you've raised a little bit of money, you want to raise more, you haven't raised any money yet, you think this is going to open the doors to your business.

Partially it will but number one, you got to have deals before you can raise money. But there are four things that I found, Joe, that investors are going to be interested in and as to how much money does it take to participate in a deal. How long will my money be with you until it's returned to me? How much return will I receive in addition to the money that I give you?
And how am I secured in a deal? Those are the four basics that most people have to know at least that much.

Of course, we have to know who the team is how the money's going to be working in the deal and a lot of other details, but those are the four main chunks that we have. So I'll talk to us about how my deal is sort of fit in there in the conversations go with investors and how much category compared to some other investment vehicles out there or even with other Fix and Flip investors.

We have 40 or 50 deals per month cooking in any of the five markets. So sometimes our benefit to our investors is that we can offer smaller loan amounts for people to get started. So I met with the guy today and he was kind of wanting to tiptoe in and he has a lot more money than he'd be willing to offer a deal number one, but for anyone looking to raise money if you have an opportunity with a smaller amount of capital to raise upfront, so I'll have deals where $25,000 is the purchase price with the title insurance closing, etc. an investor can give me 25,000 and feel like that's a relatively small amount of money to place with me.

To test me out, see if the deal goes as I said it would see if I actually returned their money, see how long ago it goes, see if they can sleep at night while they have my money. So any investors just getting started if you can you'll have, I think an easier time cutting your teeth and getting a track record if you can offer like a smaller loan amount to get started. So a lot of the same people who started with 25, 35, 55 thousand dollar deals. They have no problem putting in 200 or 250 thousand dollars on a single deal with me today.

But your investors got to know how much money they're going to put on the table in order to participate in your deal. A side note for me, and I think for a lot of single-family investors who are not set up with a fund structure. You typically want to have one investor per deal. So I'm not collecting 25 from this guy, 25 from that lady, 25 from this person, and adding it all together to do a $200,000 deal, Joe.

The deals 200,000 there's got to be one investor that's participating or if somebody only has 125,000, I may let that person participate but I'm going to put the other $75,000 in my cash. A couple of reasons I do that is number one, I just think it's the right thing to do. If I'm not set up in the fund structure, I think you can get into a little bit of hot water by combining and pulling money without setting it up the correct way, you'd know more about that to me.

Number two, if I were to get hit by a bus or if me, and one of my operating partners, we both died in the same crash or for some reason to deal goes wrong, it's going to be an unfair immoral position that you place several people if you've combined money on that deal instead of just keeping it one person per deal. So on the how long piece like I had mentioned earlier the shorter term investments are attractive to some investors, especially as they tiptoe in and get used to Diamond Equity Investments and get used to the investor or get used to you who are listening to the show.

And doing your first couple deals with that investor. And doing your first couple deals with that investor, the faster you can get in and out, that's the less time that that investor might be losing sleep, wondering how their deals are doing. Updates would be important throughout that period. Emails, photos of the project if in fact, you're doing a renovation. For us, a lot of our investors love to get in on the wholesale deals where we're going to close on the deal for that 25,000. We're going to resell that thing for 45,000 within 60 days. We're closed contract to contract and they're paid back.

They get a taste of that, they want to put that money right back to work and kind of keep it in play once they've seen how that works. I typically... On how much return to offer investors, I typically do a 10% annualized interest rate. That's much stronger than a lot of investors are going to see at least the people who are in my audience by circle of influence, if they were to put that same money in the bank at one or two percent. So a lot of the people that's where I'm going to compete with.

There's going to be better opportunities for a lot of people's money with higher rates of return and maybe not the same amount of predicted return that I'm going to offer. So what I'm going to say 10% I'm going to have the money for six seven or eight months. They may find something else with a longer lockup period of 2,3,5 years that potentially is projected to payout at a much higher rate, 10, 12, 15, 18%. I know in some of the deals that you talk about, Joe, you have very strong returns for investors that come with that additional lockup period, and it's a great reward for having the money working for that length of time.

And that works for a lot of investors who don't want to have to, like in our instance, run down to the bank or call in a wire every three or four or six months to keep that money work and a lot of people would rather set that and forget that. That's not necessarily what we as Real Estate Investors who are fixing and flipping properties on a one-off, or a two-off, or five-off basis where we're putting the money to work in one deal and then paying it back. That's not going to come with that same level of convenience in our deals.

And then how are investors protected, you definitely got to get into this and understand it if you're going to raise money for your own personal projects, at least I give my investors the first position mortgage and the only mortgage. I did mention that we don't put several people and have a first, second, third, and fourth mortgage on the property. If two people, a husband and wife or brother and sister or cousins or business partners wish to invest together their capital in one of my deals, I asked them, look, it's got to go in one person's name or you're gonna have to set an LLC up and the LLC can loan me the money but there's going to be one mortgage on this property.

The last thing I want to be in is in a partnership dispute or a divorce proceeding as a result of the loan being made against my property, my project. Investors are typically protected anyone buying and selling houses needs to be at 70% of the ARV minus the repairs so that in the event something goes wrong, there's plenty of equity here, even if the market takes a hit. There's plenty of equity for me to pay off my investor, even if I have to fire sell their property and make no profit or break even.

And I've had cases because I guarantee to my investors show where I've had to cut a check. I got the repair construction budget went over the length of time on the market was 15 months, instead of nine months, the investors got the additional interest for that time that we were late on paying them back and it cost us a few $1,000 to get out of that project. And a final piece for protecting people when it comes to these types of deals on single-family is to make sure that you have your property insurance in place. If you're going to have a vacant property and you're going to do renovation, you need a special vacant policy that is underwritten by a select number of insurance companies.

One being Lloyd's of London, they do all the crazy rock stars ensuring their right hand that plays to Qatar and things of that nature. So there you are. You're going to need this specialized property insurance, but you're going to want to name your investor or whether their investor who's in funding your deals and LLC or personal name. You're going to want to name them as the mortgagee as if they were Wells Fargo when you're setting up on a standard 30-year mortgage for a house. They need to be in that position that's additional protection so that if there is a loss.

They're being notified that a potentially substantial check is going to be issued and they need to be aware of that because it's going to have to go to them as the mortgagee who put up whatever percentage of the money to get this deal done. And a final piece of protection that I'm going to mention here in this piece is going to be an additional title policy, the lender's title policy to protect the lender for that amount in the event that anything crazy pops up on the title from the previous ownership.

Joe: The special vacant policy for the insurance. If the place burns down you said there might be a pretty large check relative to what they put into it for them. What is the amount that that policy should be insured for relative to the house value?

Dan: That's a great question. So the real answer to that is at a minimum the amount that the investor is putting into the property plus their interest. So if it's a hundred thousand dollars for the loan that this investor is making let's just say the numbers are 70,000 acquisition, $25,000 renovation, this person's getting 100% of all the money, including the carrying costs, or utility bills and things of that nature. So 100,000 is to project costs, including construction at 10% interest for one year, we're going to keep it simple as $10,000.

So the payoffs 110,000, at a minimum, it should be 110,000. Although the insurance broker who's handling that can suggest depending on the construction style, the values in the area, you may be able to insure for even higher than that amount in the event that you decide to rebuild there, it may cost more than the $110,000 that you'd be looking for. So they can really answer the question with more detail, but never just the purchase price of the property. If you're buying it for 70 and you're putting $30,000 into it. You absolutely without a doubt must protect that additional investment capital. It's coming into play to participate in your project with the insurance to the property insurance policy.

Joe: What paperwork is involved in receiving a loan from a private lender. Can you just name the documents?

Dan: We have a couple on the front end when the deals being funded. I send out an email to my list of lenders who already raised their hand. This is something that I wish I would have started earlier. I'm sure you have something similar, Joe. If you're listening and you don't have one yet get a money list. A shortlist of e-mails of people with who you at least had the conversation with the intention. Maybe you had coffee with them, maybe a phone conversation.

Maybe they just sent you an email and Linkedin and said they were interested in maybe participating in funding some deals, but get them money list going. So I send that out to my money list. Somebody will call me back, email me, text me, and then when they commit verbally I'm going to send to them a mortgage for the property written out to their name and also a note spelling out whatever details. If there are points if there's interest and those kinds of spell out how much money.

Joe: Promissory note?

Dan: Promissory note. So those two documents go off for review before settlement, before funding, we send off the insurance binding documentation showing them as the additionally insured a day or two before settlement. Some investors like to see the title policy. If I'm investing personally in another person's deal, which I do sometimes too, Joe. I'm also going to look to see the title. I just want to take a look at it have my attorney review everything and make sure we're protected. The deal funds, the money is wired a week or two later, I believe the mortgage and the note are recorded.

And then they're actually mailed to the investor who put the money out, they hang on to those documents in their file until we go to settlement on the retail side. And then at that point, we have like a standard form payoff statement that we do some calculations. We send it to them via email. They verify our interest calculations. They send it back to the title company and then right around that same time there's going to be a mortgage satisfaction document that the investor is going to need to get notarized and then sent back to the title company to release that mortgage once the money is wire backs to them and paid off.

Joe: How much of a passive investment is it for an investor who invests with you all?

Dan: Well, there is that running to the notary and getting that satisfaction document and there is organizing the wire so in the front end an investor probably has to invest, I don't know a half hour to an hour if they're pretty familiar with us, give or take and sort of being on standby for when the settlement is going to take place. I typically will have the money wired in maybe a day in advance but usually the day of especially with the new investor.

We're going to settle at one o'clock. I just want you to kind of hang tight make sure that we have everybody at closing before we send the wire.
I don't want to just have to send it back, want to do it all at once.
So they're a little bit on call. We've literally had surgeons in the operating room calling in our wires on our deals, that's happened more than once. I think he was a brain surgeon too that investor believe it or not.

And then there's also once we're getting ready to go to settlement, you're having to pay attention and be somewhat available to go to the notary so people who are traveling out of the country it can be a challenge sometimes and we'll have to appoint like attorneys with power of attorney or pre complete the satisfaction document, and then place that in escrow with their attorney if they're going to be traveling around the world and like not quite in contact potentially when we get to pay them off.

Joe: Did I hear you earlier say that you personally guarantee each of the loans?

Dan: Absolutely. So if I'm borrowing money, and it's in my name, this is personally guaranteed. If that deal loses money, this is not, Oh, well, sorry. It's not a guaranteed investment, because we're not allowed to use the word guarantee. But the thing about it, there's some certainty here, whereas there are a lot of other deals with potentially greater upsides, Joe, the upside here is going to be spelled out, you know what you're going to get. The only other variable's the length of time that we have the money for, but you know that your money is earning 10% interest the same way that it would be earning that money in the bank. It's just not FDIC insured. So it makes sense?

Joe: It does make sense. Yep, and I heard 40 to 50 deals at a time. Is that what you're considering or is that what you're working on? You're actively in a deal 40, 50 at a time?

Dan: Well, right now I have 83 properties on the board. A portion of those, if I look up, I guess 30% are sold under contract with buyers, some are renovated already waiting to be sold. We own... Actually have a deed to about another 20% of those and then the remaining 50, 60% or so are properties we have under a contract which we potentially would fund.
Or we would potentially just assign and wholesale to somebody else. So of all of the 83 deals, it's about 40 or 50 per month.

Joe: That's mind-boggling. I couldn't imagine that.

Dan: Thank God for my team. I have a great team around the country. It's about 15 of us now spread out in each of those different markets a loose organization of me as a central partner with partnerships and each of those markets in a sense. So it's not like one big conglomerate. Everybody's getting paid for what they bring to the table, for what efforts, and what results that they create.

Joe: I love it. Is there anything else as it relates to raising money for single-family homes that you want to mention that we haven't discussed?

Dan: There is. The question burning on everybody's mind is Dan, where do I find lenders? Where do I find the first person to lend me money and the answer is number one your network. Obviously, if you know somebody who's got some money, that's going to be a good place to start. But for me the place where I found my first private investor was at a real estate investor Association, I paid five points and 15% interest. This was in 2008, it was a lot more expensive to get hard money.

He was in a sense doing the hard money loan, but he was doing that out of his IRA, and to this day that same gentleman still a partner of mine. We're doing a lot of business together. But as a side note try to add value to people first so that same investor. I met him at the Real Estate Investors Association. I did a deal, I made six grand. That was my first deal. The second deal I did was at that association. A month later, I'm bragging about my six grand he says what other deals do you have [?], this guy has a burned down house in Chester he's trying to sell.

That's what I said. He says, oh, I have a buyer. So $13,000 later on in another deal. We sold this burned-out house in Chester, which is like a crime-infested drug-dealing block type of neighborhood. By the time we got to the third and fourth deal. The third deal I brought him in as a 50/50 joint venture partner on a deal that he funded and then my fourth deal was the first one that he lent me money.

So add value first. Some people business is loaning money, but a lot of the lenders that I work with, especially in real estate investor associations, there are occasions even to this day where we'll do some joint venture 50/50 stuff and then we'll do some 10% interest stuff and we try to allow them to participate and keep the money working as much as possible and try to provide opportunities for everybody that we work with.

Joe: So many tips and I loved how specific the tips are and how you walked us through the entire process of borrowing money from private lenders and investing them into our deals if we're doing single-family homes and the paperwork involved, the process, the things to look for. How can the best listeners get in touch with you?

Dan: I have two ways, Joe. First, I drive a supercharged Range Rover. I'm into fast cars. I wish I could get the Ferrari.

Joe: That is no surprise to me. Absolutely, not surprised at all. I would pick that on a multiple-choice test that your podcast is called REI Diamond. I saw that coming.

Dan: Where I'm going with that is then you can check out the podcast. It talks about a lot of cool stuff there. You've been a guest your episode again returning guests is coming up here shortly and that is Reidiamonds.com real estate investment jewels of wisdom.

Joe: Awesome. Well, this has been just such a helpful conversation for Real Estate Investors who are looking to bring in private money. You offered some tips for just getting started. Start with some smaller loans, maybe shorter terms. Then send them email updates with photos maybe some video of the project, have one investor per deal for multiple reasons do that and from a paperwork standpoint, you talked us through the entire process.

So go back rewind listen to that and you'll hear the entire processor. Just look at the show notes that are in their best show.com and you go to this episode. So thanks so much for being on the show. Hope you have the best weekend, and we'll talk to you soon.

Dan: Thanks, Joe. And thank you for tuning in to this episode of the REI Diamond Show. If you're interested in reaching out directly, please do so by using the contact and Link found at REI diamonds.com. I personally monitor and reply to all requests through that site. That's www.reidiamonds.com. for Real Estate Investment Jewels Wisdom. Also at that site, you can check out the other 124 content-packed episodes on a variety of real estate investment topics ranging from flipping houses to new construction, to flipping land to buying hundreds and even 1000s of multifamily apartment units and so on.

The most common feedback I receive from my listeners is an appreciation for my direct interview style delivered from my perspective as CEO of Diamond Equity Investments, a real estate investment company with more than 3 million dollars in yearly gross profit. And if you're interested in taking a peek at upcoming private mortgage investment opportunities we have, coming down the pike exactly the type of deals just discussed on this episode. Go to www.fundwehavedeals.com. Once you sign up you'll occasionally receive emails offering you the opportunity to earn 10% interest on your investment capital.

By participating passively in our rehab deals the houses that We Fix and Flip in Atlanta, Chicago, and Philadelphia. And if you see a deal you like come across the email and want to talk more about how it works or want to talk more about how it works in events just reply to that email and I'll personally reach out and set up a time to talk. Again the website to get more info on these private mortgage investment opportunities is www.fundwehavedeals.com.

And finally, I am always buying houses, and I am always looking for more deals in Atlanta, Chicago, and Philadelphia. So if you have a deal, preferably one I can Fix and Flip for a profit. Please send me the details using the contact and link @reidiamonds.com this concludes this week's episode. I appreciate you once again for tuning into the REI Diamond show. Dan Breslin here. I'll catch you on the next one.

Announcer: Thank you for listening to this episode of the REI Diamonds Show with Dan Breslin. To receive email notifications of new weekly episodes sign up at www.reidiamonds.com.

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