Voice over: Welcome to the REI Diamonds Show with Dan Breslin. Your source for real estate investment jewels of wisdom.

Dan Breslin: Welcome to the REI Diamond Show. I am your host Dan Breslin, and this is episode 189 on how to release home equity without a refi monthly payments or a mortgage with Matthew Sullivan.

If you are into building wealth through real estate investing, you are in the right place. My goal is to identify high-caliber real estate investors and other industry service providers, invite them on the show, and then draw out the jewels of wisdom. Those tactics, mindsets, and methods used to create millions of dollars and more in the business of real estate.

Matthew Sullivan is the founder and CEO of QuantmRE as well as the host of his own podcast, Hooked On Startups. He is originally from London and has a background working with Richard Branson's corporate finance team, and he was the director of the Virgin-sponsored London Air Ambulance.

Matthew joins us today sharing his unique business model of providing cash to homeowners without a refi mortgage or monthly payments. The conversation includes tokenization of real estate through blockchain technology, the underwriting process to obtain this cash, and a brief history of Matthew's background as a helicopter pilot and how that applies to running a business. Let us begin.

All right, Matthew Sullivan, welcome to the REI Diamond Show. How are you doing today?

Matthew Sullivan: Very well, Dan. Thanks for having me on.

Dan: Nice. So you have a bit of a history, which, I mean, maybe people already recognize the accent. But do you want to kind of talk about where you came from in your career and kind of how it evolved to what you are doing today?

Matthew: Yes, of course. So I am originally from England and I moved to Southern California about seven years ago. And before that, I had spent about the last previous twenty-something years and really running my own businesses in finance, telecommunications, and technology. I think back in the late 90's I had the amazing privilege of working closely with Sir Richard Branson as well for a few years and it was involved with a number of companies like Virgin Cosmetics, Virgin Clothing.

I was a trustee of the London Air Ambulance that was sponsored by Virgin, so that was a fantastic time. I moved here with a big changed in circumstances back in England, so fresh start over here. And the first thing I did was just launch myself into real estate, which is something that I always wanted to do when I was in the UK, but I got distracted by the internet and other sorts of platforms. So, it was really a great opportunity to explore this fantastic universe of real estate.

Dan: Nice. Okay, so a couple of things before we dive into some of our big topics here. But I am curious, I do not know a lot about UK real estate. I have heard that it operates a little bit differently, it is more constrained, there is not the type of supply of real estate that we have in almost all the markets in the US. Would you mind shedding some light on that assumption for me?

Matthew: Yes. Well again, I did not have any great exposure to the real estate markets in the UK, so all of my real operating experience comes from the US. But I can tell you from my experiences as an investor, as a business person in the UK, property there, obviously it is a much smaller country, so you have got far fewer people and the number of opportunities is nowhere near as numerous as they are in the US.

Real estate in the US is a multi-layered industry, which comprises everything from huge public company investments down to individuals that are fixing and flipping. There is a large private money universe. One of the things that you do not have so much in the UK, so you do not have that same depth to the private capital. And also there is just nowhere near the scale of real estate opportunities that you see over here. If you look at just California for example, the size of the Californian economy is not far off the size of the UK economy and so that just puts it into perspective. It is much bigger over here, much faster-moving, and is much more the bedrock of the economy as a whole.

Dan: Got you. California is no small economy, so I guess the UK is neither. I am curious why the US for you Matthew? What was the catalyst? Why did you make the decision and why did you pick California to leave the UK?

Matthew: Well, in reverse order it was primarily driven by sunshine. Having lived in the UK for all of my life, I think just some personal circumstances pulled me over here, and thankfully, I have not looked back, so that has worked out rather well. But now I moved to Orange County, which was the first stop. Orange County was and is a fantastic place and we moved as a family a few months ago to Utah just to explore different areas and get a bit more space, and it was just a way of breaking out wherewith COVID to actually do something where you are not constrained with the space in California. So that is something we have definitely done.

Dan: I am in Chicago. My daughter was here and I moved from Philadelphia to Chicago and believe it or not, I mean the weather is similar in both places and people probably would joke, I have mentioned the weather and I sound like I am complaining and probably hate it...

Matthew: No, no, yes.

Dan: That is not the case, I love it here in Chicago. But my daughter brought me here, I do not know, six years ago from Philly because she lived here. So I moved to be nearby her while she was still young and now she is back in Philly, going to college and I am in Chicago and I bought my place and you know, put down a lot of roots here. I love it here, you know, it is like the city and we have the beach and everything kind of attached to the city so it works well for me. I am surprised that there are a lot of people, I have heard recently about California to Utah exodus, I am sure the same exodus is going to Austin, Texas, and probably all over...

Matthew: Probably, yes.

Dan:... West there, right?

Matthew: It is funny actually so I read this morning that Utah has the largest house price appreciation in the US. I think, in the last of the last three or six months. It is funny how we thought we were the only people but apparently, there are more.

Dan: [laughter] Yes all the original ideas we get, right? So let us shift gears here. I think I saw somewhere that you are a helicopter pilot...

Matthew: Yes. [laughter]

Dan:... and one of the things that I personally have had to consciously develop, as you know, I went from 26-year-old to now 40, my understanding of the risk associated with whatever the investment thing or all things in life come with some risk and some kind of reward, right? And I think that selecting the right real estate investment, selecting the right stock if stocks are your thing. Even the right, you talked about the right kind of a marketplace or format, whether it was, I am getting into the Internet thing or I am doing this financial thing or I am doing the real estate thing, there is always kind of a risk profile. I am curious what being a helicopter pilot because to me it is much riskier than flying a plane. I have flown planes myself and you can glide to safety if the engines fail, but the helicopter does not quite offer that same level of added security, maybe. [laughter]

Matthew: They do fly without...so if the engine does decide to stop and then gravity tends to take over, but they do not plummet like a rock. They have this... if you have ever seen a sycamore seed? So the helicopter does that exactly. You have this phenomenon called autorotation where because you have got the air going through the helicopter blades that keep them turning, which means that you can have a controlled descent. Now it does happen rather quickly, so you do tend to fall... I remember when I was, I used to fly a plane as well, sort of Cessna's, and it would be quite dull because you would be up at sort of 1,500 feet or something and then your instructor would say, "Right, we are going to do an engine failure." So you would push the throttle in to tick over and nothing would happen and you would say "This is incredibly dull." You begin to glide down and you got time to sort of put the kettle on, have a cup of coffee and maybe a small sandwich, read the papers...

Dan: [laughter]

Matthew: And then and then finally, you are approaching the ground and you can land. But a helicopter is much more intense, you do have to do a lot of things very quickly to avoid an enormous amount of paperwork when you land.

Dan: Yeah, that is one way to put it. You are flying and take a level of risk, is there anything... maybe it is not from being a helicopter pilot. One of the lessons I have taken away from kind of the Virgin, Richard Branson type of business model is to reduce my risk as much as possible. An example they used was when he was buying these fleet of planes and I cannot remember who it was, but he ended up getting this kind of buyback or take back claws with the leases of the financing where it significantly reduced his risk compared to how perhaps another airline might have made the same asset purchases for their company and so I am always trying to apply these risk minimization strategies. Maybe this is a good lead-in into our topic on home equity contracts. But what, how do you view risk, especially coming from a background with Virgin, flying helicopters, and then now getting into real estate? Is there anything you have done consciously to kind of develop a lower-risk profile business model with what you currently have going on?

Matthew: Risk comes in various different forms. So there is a balance and then there is a very large simultaneous equation. So, the factors are you have got the risk profile of underlying investment and that is something that you can quantify. Then you have other types of risks, in other words, you have potential lost opportunity risk. In other words, the thing to do, if you want zero risks is to do nothing.

Dan: [laughter]

Matthew: That is one side of the scale and then on the other side of the scale, there is more risk where there are more unknowns. So in other words where you have more unknown elements, where there are more factors that you cannot quantify, you cannot determine what the risk is so then you are beginning to try and price in uncertainty. The very sort of opposite or the extreme end of risk, that is where maximum uncertainty equals maximum risk because you cannot make an informed decision, whether or not you should take this course of action because you do not know what you do not know. I think you have got to look at real estate in investing as a business. Unless you want to be a passive real estate investor where you enable other people to make those decisions for you. If like you, you are actively involved in real estate investing, and then you are really quantifying the risks in each investment. And those risks are what primarily is my risk of loss. So, the sort of the rule when you lend money, I just need to know two things: when are you going to pay me back? Second thing is when you cannot pay me back that way, how are you going to pay me back?

Dan: [laughter]

Matthew: When your plan A goes wrong, what is your plan B? And so really, my attitude to risk is somewhere in a middle way, in order to grow or build a business, you have to step into uncharted territories. You cannot be afraid to do that, but you cannot just leap in and there is that expression, "Falls leap in Where Angels Fear To Tread." So I think really it is always a case of somehow just continuing to push boundaries and just to keep sort of trying to expand what we are doing without stepping into territory where we simply have no idea what the outcome is going to be.

Dan: Yeah that makes sense. I can recall early on in my career, I was deathly afraid to flip a single house and I am sure there are people listening, we have a lot of single-family, fix and flip investors, agents, and residential. That is kind of the space of our audience and they are probably like, "Yeah, I remember that." Or maybe they are going through it now. I was definitely afraid like the numbers were not going to work out. It was 2006 when I had gotten into the real estate business, I am thinking, it is any day now that these prices are going to come down by 50-80% and I had no frame of reference because I was young to see the real estate prices, maintain a certain level throughout history. They did come down, there were areas where they did drop by 50% a few years later. So the fear and the uncertainty of whether or not the pricing was going to hold up, was not unwarranted. But even to this day, I have had deals where I have quantified the risk. I know I am going to spend 50-60 thousand dollars on a renovation. I have a really certain idea of what I am going to sell the property for, that I might miss by say 5% neither direction. And then I have other ones where we kind of went in a little bit on blind faith with the level of construction, maybe. We sort of had an idea that the numbers made sense, but there is this like stepping out on faith that we had to do, and the numbers did not work out for us. We had things go against so we lost a bunch of money, but I digress. Why do not we shift gears and we will talk about the current business model that has you excited right now? If you could define what are home equity contracts, I think it is a unique business. I do not understand it yet at all. I am going to be coming from it, totally...

Matthew: Of course, yeah.

Dan: I have no knowledge and no experience basically.

Matthew: I mean it is great. Before I give them in, I completely agree and understand everything you are saying before. Just this one thing, someone said once, that fear is a temporary lack of information and I think really a lot of that is because it is all about mindset and I will switch gears in a second, but the critical thing about anything that we do primarily comes from our frame of mind, our state of mind. I do not want to go on a long journey with that, but it is all about how adventurous are you? How willing are you to learn from mistakes? And what you were saying is important because you might have made some mistakes but you are not going to make those mistakes again. It is the same with when you are trying to build any business, you have to figure out that you cannot possibly understand where your business is going to go. You know what is that expression, "No business survives with the first contact with the customer."

Dan: [laughter]

Matthew: No plan, survives the first contact with the enemy. But home equity agreements are something that we stumbled across about, I stumbled across about five-six years ago, when I was at a crowdfunding conference. One of the first things I did was set up a real estate crowdfunding company. So, we were involved at the early stages, with these online investment platforms, hot on the heels of the changes in the jobs act. But one of the speakers at this conference was talking about shared equity or the ability to invest alongside a homeowner but without having any ownership in the home. So effectively you piggyback on the homeowner's ownership. The homeowner maintains all rights and privileges, they do not lose any rights but the investor shares in some of the appreciation of the home. So it is an equity-based funding model. It is something that is used every day in commercial real estate. As you well know, there are many different types of funding options for commercial properties. Commercial properties could be anything from strip malls, to multi-family homes, to you name it. But you have all sorts of different types of debt. You have the construction finance, project finance, senior debt, junior debt, and this mezzanine, which sits between debt and equity. Then there are lots of different types of equity.

You have those that come in for the long term, those who come in with preferred equity, shared appreciation mortgages. There are all these different types of funding mechanisms in the commercial world. If you look at a residential home, the homeowner has limited options for how they can fund their equity. So, in other words, when they begin to build up their equity, the only option they have today is to borrow money secured by that asset. Now, that might be fine in a commercial sense, but for most people, if they cannot borrow money, they may not qualify, they may have a low credit score, they may not have the income, the circumstances may have changed, or if they simply do not want to borrow money. If you spend your life paying off your mortgage, you are sitting on equity, but you just may feel reticent to actually go back into debt because of that feeling of having to make those monthly payments. It causes some people a lot of stress.

One of our programs is that equity-based instruments, they are option agreements, where the homeowner in exchange for an option fee, which is the lump sum that we invest. They give us the right to share in some of the current value of the home and some of the appreciation. So the return on investment that we get does not come from interest, which it would do as a loan, it comes from sharing in the increase in value when the homeowner decides to sell the home.

Dan: What is the average length of the option agreement? Is this a, 10, 20, 30 years? Is there a length of time where you compel the homeowner to actually sell the house and cash you out as an investor? I am trying to figure out again this is the risk that you take...

Matthew: Yes, there has to be a duration. So you have got to have a beginning and an end to these agreements, otherwise, the investors would not buy them because obviously, that is one of the biggest challenges that we came across a few years ago. Who is going to invest in this? Because even though the return profile looks really good challenges are, it does not throw off any cash because there is no rent, but also the duration of the agreements, and to answer your question, the agreements run for either 10 years or 30 years. So there are two different agreements that are out there at the moment. Now that means you can buy back or sell your home at any time during that ten-year period or during that 30 year period. But for a homeowner, the benefit is they get access to cash that is tax-deferred. They do not have an income tax or a capital gains tax liability on the capital when they receive it and they have got up to 10 years or up to 30 years to settle the agreement. And in the meantime, they do not have any monthly payments. So one of the real advantages of this, access to cash, very tax-efficient, no monthly payments. That works really well for people that do not meet the requirements for loans from a bank. Our minimum credit score is, we can go down to like 500 and something. So we really can look at people who have quite weak credit scores and the more equity they have then the less we would look at debts to income.

Dan: Got you. So there is a component of underwriting the borrower in these situations. What is the risk that you are trying to cover with that? Is this like this person's just going to be more cooperative in abiding by the agreement that we have with their option? Or maybe it is, they are going to load up other debt, and collect bad credit cards, and things that get attached to the property, and then maybe weaken your position? How does that come into underwriting?

Matthew: The underwriting primarily is on the property itself and the property's likelihood of appreciating. There are limits to the amount of equity that we will unlock. The homeowner in most cases is left with a minimum of 30% equity. After our transaction and factoring in the number of loans that they have secured against the property, the homeowner still has about 30% left so they are still invested in their home. They do not have a situation where we had in the early 2000s where they have had no equity. The second point is, we look at behaviors. So what is the likelihood that this homeowner is going to continue to be able to meet their current obligations? Now, the credit score is probably the best indicator of that. And also what is the person using the money for. In many cases, people use the money to pay off credit cards, to get rid of expensive debt, to put themselves back on their own two feet, improve their credit score, and then they can continue. Because a lot of people that we work with, who have built up that equity, may find themselves in a position where their credit score has deteriorated through no fault of their own and we know how our life throws us curveballs. The equity itself tends to be a good indication that this is a good customer because they built up that equity, they have been paying their mortgage for a number of years. Combined with the credit score, combined with the use of capital, combined with underwriting the property itself, that gives us probably the best indication that we can get off what the likely future behaviors are going to be. We do restrict additional moorings on the property, you cannot borrow more money without our permission. So that avoids you diluting our equity position and but matters are mostly people that we work with a pretty straightforward and pretty sensible people, as you would imagine.

Dan: Are your clientele mostly single-family like their homeowners, their owner-occupied homeowners?

Matthew: Put about 90% single-family owner-occupied. I would say, probably about 10% will be investment properties. So there are rental properties, people that have small portfolios. We will invest in multi-family up to four units. This is a good program for people that have properties that they may be renting out. Where they have got equity, where they can unlock that equity, and use that for a down payment on another property. There are used cases range from paying off credit card debt to using this capital as a way of investing in other things. So you can diversify into stocks or bonds or buy additional properties because it is not debt, you have not got that ongoing monthly servicing. For people that built up a lot of equity in their property, you think, "Well, I do not want to have all my wealth stuck in my house, I want to spread it across different venues.", there is that angle as well.

Dan: What are the interest rate fees? Let us run through an example deal that you might have done recently to kind of fill in the context here for someone who might be thinking about borrowing this way.

Matthew: The easiest example is, a 30-year agreement. You have got a property with, let us say it is a $300,000 property with a $100,000 mortgage. So the homeowner has $200,000 of wealth trapped in their home. Let us say they have got a credit score of 620 so they are not going to be able to get a HELOC. Maybe they do not have the income, so they are sitting there stuck with $200,000 trapped in their home. We will invest a maximum of 20% of the current value of the home. Now, in some states or California in particular, we can go up to sort of 35 to 40%. But on average it is about 20% of the current value of the home. So we can invest up to 60,000 in this scenario.

Let us say the homeowner only wants 35,000 something like that, so that is 10% of the current value of the home. So the agreement would be, here is $30,000 our minimum is actually thirty-five, but this works for these numbers. When you sell your home will take that 10% and typically we multiply it by 3, so that gives us 30%, so we would get our money back when you sell your home together with 30% of the appreciation. So from the investors' perspective, they do not just get back their share of the appreciation, they get an enhanced or a magnifying share. What that means is they get a better return than if they were just investing in that home, so it is attractive for the investor. For the homeowner, it is attractive because they get that lump sum no monthly payments and even though 30% of the appreciation is going to the investor, they keep 70% of the appreciation, so it is that sort of partnership idea.

There is one other thing, if the property does not go up in value, then the investor runs the risk potential of not making a return. In many cases, we will discount the value of the property. Start the clock running a lower figure. We build in some upside for the investor. If the property does not appreciate or goes down a little bit, there is still some upside for the investor and again all of this is really articulated very clearly at the beginning when we go through the process with the homeowner. This is the offer, their share electrocute of the appreciation does not move, so that does not change once the agreement is set. The only thing that really changes is the value of the home and our agreement, the amount that you pay back is directly correlated to the value of the home. That is what makes it very different to alone because alone, you can go underwater if your property goes down in value. With the home equity agreement, the investor runs the risk potential of getting a lower return, or even a loss if the property significantly falls in value so it is very different...

Dan: Interesting. Is it the option fee itself is not a taxable event until the sale of the property is that way...

Matthew: Exactly. That is quite interesting as well because it is a future, it is an option agreement, it is something that is settled at a future point. Now, the return on investment that you pay, can be offset against the capital gain. If you have a capital gain in the property and you unlock some capital through a home equity agreement, when you sell your property, the capital gain that you have can be reduced by the cost of the home equity agreement. So in other words, the amount that you pay by way of a return on investment to the investor can be offset against your overall capital gains. That means you can be, like in California, for example, it can work out to cost you a lot less because of the tax advantage that you get, because you can effectively write off the cost of this financing. If it was a loan, you cannot do that, with a home equity agreement you can.

Dan: I got you. If you were to turn around and, I do not know, I make the agreement for the $35,000, I do that now and then I turn around my life, plans change, I am going to move from California to Utah. I sell the house six months later, I pretty much, I am paying you off, net at the $35,000 option, or is there kind of like a built-in reasonable pre-payment penalty I guess?

Matthew: The good thing is, these are great programs for short-term capital needs. There are no prepayment penalties. There is nothing to stop you from using this as a way of adding value to your property and then selling it as you said, six months later. In fact, a lot of people do that, they unlock some equity and they know that it might cost them a few thousand dollars to access that capital, but they will make a lot more when they sell their home. So there are no prepayment penalties. You can buy these agreements back at any point. If you decide that you want to refinance the agreement, let us say we get you back on your feet, your credit score back up some sort of mid 700s, you can then get a HELOC. You might decide to buy this back with a HELOC, at which point we would send out an appraiser, we degree the value of your home, we calculate the increase in value, and that is the amount that you would pay on top of the original investment.

Dan: From your perspective, the investors' perspective on the deal, you are building in some original discount. So I think we were talking about, let us say that $300,000 property, you might give a value of $280,000 perhaps?

Matthew: It depends on the properties, but the other thing is that there is a cap. On one side, we build in that upside, but obviously, that makes it quite expensive for you as a homeowner, if you buy back the agreement in the first few months, for example. So we temper that or we put a ceiling on the amount that the investor can get as a return and the amount or that that cap on return depends on the investors depends on the agreements. But what that means is from a homeowners perspective, it makes it much fairer because then rather than getting hit for that full sort of equity share, the amount is capped, so makes it much more in line with a typical sort of hard money cost.

Dan: Yeah, that does make sense. It sounds like there is a lot of moving pieces here and it is not...

Matthew: You can see the helicopter thing you did, it in fact, in here. A helicopter's 5,000 life parts in search of an oil leak. This is the same sort of thing. The challenge is trying to explain how this works. One tends to take in and sort of, step by step and try to explain that this is how the program works, but this is the most you will pay. Our challenge is trying to articulate this to the homeowner in a way where they understand it.

Dan: It sounds a little bit beyond, I go down to the bank and they have a HELOC rate posted, and I kind of know what I am paying and it is simple and it can put in a brochure. Whereas because every one of these pieces of real estate that your company is looking at is going to have different market characters, it is really going to have a lot of that risk conversation were talking about. Really building situationally specific where these caps are different and the appreciations different and we are putting a certain value. There is a lot of moving pieces on every specific deal where it is not a one-size-fits-all.

Matthew: It is how you present that to the customers, the important thing. Even though behind the scenes, there are lots of moving parts. There is only really one or two critical pieces of information to the homeowner. First, is how much can I get? Second thing is, how much is it going to cost me? And the third thing is, how much do I have to pay now? In reverse order, there are no out-of-pocket expenses now and we can use technology to deliver these types of quotations to people with things like sliding scale, this is the amount that we can offer you. Now, slide your scale here, if your house goes up this much, this is how much you probably pay us back, it goes to that much. So that gives you an idea of what it actually means in real life. So that there is some great tools out there that present this in a way that makes it very digestible for the average homeowner.

Dan: This is what all fifty states are you select...

Matthew: Nineteen states at the moment. We work with our own capital sources. We also work with the other providers in this space, so we can offer a wide range of these programs, to the people we speak to.

Dan: And where do your clients typically come from? Are they listening in on the podcast, raising your hand there, or are you kind of doing direct outreach to specific neighborhoods and markets?

Matthew: It is all of the above. We have a direct-to-consumer, advertising strategy, so we use a lot of social media ads, a lot of stuff goes on Facebook. Funny enough, we get lots of conversations going on with these ads, lots of questions, and answers. And we also, again, have what we are doing today. so podcasts and videos and seminars. We also have a lot of channel partners, CPAs, attorneys, investment advisors. People that talk to customers who have equity in their homes and offer this as a solution. So we have a lot of referrals that come to us as well. And I think over the next few years, I think this is going to become much more of a mainstream product, so we are going to see more adoption. Your example, when you go into the bank, this will be the HELOC, but if you cannot qualify for a HELOC, can I talk to you about a home equity agreement? So I think this is a product that will become mainstream because there are 18 trillion dollars of equity in residential homes and there is not really a large-scale solution for that without paying a debt. There is a lot of demand out there to tap into this asset class. We will see a lot of growth and a lot of movement in this over the coming years.

Dan: It seems you are casting a wide net and it is not neighbourhood specific. In my mind, I am a direct-to-consumer, but I am kind of looking for certain neighborhoods. I am only marketing in five counties around the Chicago area because that is where we do business. I would have thought maybe you know there is a certain price point for homes. So I am selecting a cut of the homes that kind of fit that model if I am in your shoes and marketing to them. But I am surprised to hear your kind of have this like wider, fishing with the net philosophy and then pulling up a variety of properties, that anywhere in the value spectrum across the board, is there a value too low or too high that you do or do not get into?

Matthew: The minimum value is around human values around 200 the maximum is 5 million. Anything above 5 million becomes very difficult to price.

Dan: Yes you are right about that.

Matthew: Typically the sweet spot is around, as we do a lot of work in California, there around six to $800,000.

Dan. Got you.

Mattew: The average transaction size, again, 80 to 100 thousand, that sort of figure.

Dan: Let us talk about how these are funded. You had mentioned crowd venture funding as your platform that you put together out of...

Matthew: The money today to fund these comes from institutions, offices, hedge funds, long-term capital sources that have an allocation for an asset-backed investment that delivers that sort of leveraged return. It is effectively an inflation hedge but the returns are very attracted to this sort of long-term investment pool. Now, we are trying to change that because I think that pool is going to expand. So more and more people will want to get involved in this asset class as it becomes more available. The challenge, at the moment, is making it fast enough because there are lots of investors are they were saying, "We know that these do not really last thirty years." The average transaction probably will and pay off within sort of five to seven years.
That is a sort of duration that I can work with as an investor. There are hundreds and hundreds of millions of dollars chasing these types of investments today. And so the challenge as I said is how quickly you can originate them. Our plan though is to bring this to a more consumer or a more retail investment audience. And we are doing that through our platform is to we are working or we plan to work with regulated entities to enable us to slice and dice these investments so that people can build a portfolio and say whether you have the sort of portfolio behind you of direct investments. People will be able to use our platform and buy into fractions of these home equity agreements and then ultimately trade them as well. Once I have held a small interest in the property of Newport Beach, I might decide to sell that, so, we are building a secondary market to try and create trade ability and liquidity in what we believe is an incredibly exciting asset class.

Dan: Yes that is interesting because that answers my next question, which was whether these kinds of trade hands, you can buy a note, right? But you are buying a note, not in your specific business but you know, real estate note. There is an unpaid balance of $20,000, they are making $300 payments and I am buying it for $16,000, I have my upside building. However, I am taking 100% of the risk on that asset that borrower and that specific situation but you talk about slicing and dicing and I feel like, "Okay, I kind of get queasy about, I am going to put $35,000 of my money into this one specific contract that you had underwritten versus maybe it is seven different contracts at $5,000 per and now I have a little bit of mitigation. I have returns popping at different periods of times."

Matthew: Absolutely, that is exactly. At the moment the investment comes into a fund or a pool if the investor has that exposure across a diversified pool of assets. From a retail perspective though, you are right, what we do want to do is say "You can just invest in one." We want to be able to give you the opportunity to create a portfolio, different types of homes, different geographies, different return profiles, different MSAs where you can literally buy into it as you were saying a little bit here, a little bit there. Build my portfolio, based on what my views are about the real estate market.
Do I want to put all my money in California, or do I want to put it all in New York? I do not know, or somewhere in between. So that is coming down the turnpike in the next few months. So

we are pretty close to being able to launch a test version of this to accredited investors. And then once we get the regulatory approvals that we will need, will be able to roll this out to a much wider, non-accredited audience and have a much easier way of trading these securities as well.

Dan: That is a really cool direction that this is going into. Because of my own experiences, Philadelphia, Chicago, where I live and where in Atlanta and Atlanta's market, the appreciation I think was like 16% over the last twelve months the median price versus, it is probably 5 or 6 in Chicago and it maybe it is 7 in in Pennsylvania and Philadelphia. So you have this opportunity to buy into those specific markets, for whatever characteristic. I wonder if there becomes more of you know over time there is going to be this premium sort of like options trading and stocks.

Matthew: And that is the great thing about it is I think that in any market where you have got buyers and sellers if you have got more buyers than sellers when things do not happen to the price, so premium start developing. These Investments are all based on an underlying net asset value, which is the value of the home because the appreciation in the contract is driven by the value of the home. That is something that we can model using an enormous amount of data that is available to us. So try to figure out how residential homes move in terms of their pricing. That job is made easier because there is lots of information. There is Zilo, there is Redfin, all of these core logic, there is tons of information that is available. That gives you an indication of where that price in that house is today compared to where it was this time, six months ago. That means that price discovery is easier for this asset class than it would be for something like a commercial property where you have got to take into account what are the earnings and what are the expenses and the management costs. That means it is scalable and it also means that it is more attractive to smaller investors because it is an asset that they understand. I have always wanted to buy a house in Los Angeles or Hollywood or San Francisco. Here is my chance to buy into and tap into the appreciation with a couple of thousand dollars, and this asset class is not available anywhere else, you can buy into writ, but that is different. This way you are buying into homes that are not for sale, where the owner lives there, and your partners with them so when the property goes up you take a share of that profit.

Dan: Yeah. And like you said if you need to sell that share to free up the capital I mean it sounds like the platform might offer that opportunity to get out long before the thirty years, the ideal thirty years.

Matthew: Exactly and that is the liquidity of tradability that really unlocks the asset class. You can never predict what liquidity is going to be, but if you have got the ability to match a willing buyer with a willing seller, and that is something that we do not have today, so that is one step in the right direction.

Dan: Interesting. So, are there any questions I just did not know to ask that the listeners might be wondering that you would answer?

Matthew: A couple of things, first of all, how long does it take to get home equity agreements in place? And the answer is normally four weeks, that is the average time from the date of the application. Everything is done online. We start the process by pre-approving your home. We can do a soft credit pool, just to make sure that everything checks out before you sort of leap in.

There are no out-of-pocket expenses, so you do not have to pay for appraisals or anything. We or our investment partners, pay for that, and those costs, the direct cost come out of the amount that we invest. There is normally a once-off 3% fee. So there is a setup fee, a bit like points on a loan, but after that no more expenses, no more monthly costs, or any charges. It is very easy to find out whether you qualify because we do not have to do credit checks or on you because your property information is publicly available so we can give you a very good estimate out of the gate very quickly, whether or not we can work with you. I think that is it. The biggest challenge really is just people understanding and getting comfortable with sharing some of the potential increase in value. Some people just want to handle, hang on to this concept of appreciation, something that may happen in the future. They just do not want to share something that might never happen. So, that is one thing, but for the people that do, it is a great way of getting access to capital. I think those are the only sort of points I would have added.

Dan: All right, so people who are listening right now, if someone were going to raise their hand or listener, say okay, so how does this affect me or we are are we kind of looking for people who might want to borrow and be on that end of the spectrum or people who would want to invest and potentially want to participate or both?

Matthew: At the moment, we are still building out the investment side. So at the moment, our primary focus is working with homeowners who want to access some of their equity and that is something that we have been doing for the last couple of years. We have got a lot of people to come through the doors. And so we are able to help you, if you qualify we can get us started for you today.

Dan: All right, cool. So I have a couple of wrap-up questions here as we get to the end of our time, Matthew. Book recommendations are there one or two books, you recommend it real estate business, whatever. That maybe you found them impactful or maybe...

Matthew: Funny enough, my partner. Tom Braegelmann is a guy I worked with for seven years, B-R-A-E-G-E-L-M-A-N-N. He wrote a book published last year called "A Bank Free Blueprint", which is really just a summation of all of his experiences in investing in real estate. Working with developers, working with investors, sitting in the middle, trying to coordinate all these. The people that want to look at being an active investor, the "Bank Free Blueprint" is a great book. And I know that the guy that wrote it does know what he is talking about, so that is the first thing. The second book is really something that I picked up because I have become obsessed with this History Channel, series called Vikings.

Dan: [laughter]

Matthew: This is a complete, another side of the book. I am now just going back through all of my old history books, just relearning and rediscovering, how interesting and exciting, the world was thousand years ago. So that is, you know, completely off track, I am sorry about that. That is just funny how just going back to these things. When you look at it the first time, you think is incredibly dull. Now, wow, I can see how this guy here. The kingmaker, the politics and it is such a better understanding of how all of that worked. That has given me a sense of purpose and well-being let us put it like that.

Dan: Nice. It is interesting when I am in elementary school and I think it is because if we do not really have the context. Like, even when I got into college, I did not only have the context and I remember helping somebody write a paper and I was out of college for four or five years and she got on the Dean's list for insights into how real estate was taken. I forget which revolution happened. But one of the biggest problems in the revolution was that the private property lines got decimated and so they could not figure out who rightfully own of the real estate and it was the context that you gain as you live longer suddenly that is going to shed more light on to those historical situations. The kingmakers, the Vikings, writing the Constitution of the United States.

Matthew: Exactly.

Dan: These things are like, this is why they are teaching us, but we do not realize how monumental they were because we cannot put ourselves in their shoes especially maybe not old or young...

Matthew: This is the ultimate irony, isn't it?

Dan: It is.

Matthew: [laughter] Just to give us a clue. Hopefully, you can get back in and start relearning this before, it is too late. So that is the other thing I'm looking at.

Dan: Nice. So the crown jewel of wisdom, if you had to go back and start over at the beginning of your career, what would you tell yourself, or maybe how would you get started again if you had all the knowledge but none of the money in the context?

Matthew: I think it is... just find something that you really are good at and like doing that is not a me-too product and just stick with it. I did lots of things that were all related, telecoms, technology, funding platforms. They all helped because it was sort of like tessellated together. But I just remember, I had a telecoms company fifteen something plus twenty years ago that I sold, gosh, how time flies. And I was thinking if I kept that, I regretted it afterward because I had spent three years building it up. Someone came along made an offer and I just felt, you know, it is a real pat on the back. So, I took the money, but then, there is that sense of I have to build something all over again now. If I had just stuck with that, it would be a huge company by now. All of the things it would have been able to feed me all the things I needed in terms of growth and satisfaction and money. Just find something and just stick with it because becoming an expert in that field. Roll with the punches, ride the waves but just stay with it and just grow with it. And then ultimately, you become king of that business because no one else has been able to do for as long as you or know as much as you. Again, pick an industry, where there is growth. This does not work if you want to become a plumber, there is only so much you can do as a plumber unless you build a plumbing business. So in other words, I had great experiences, but my one thing was just find something and just grow with it and have the confidence in yourself in the faith that this will grow into something massive. If you applied determination, it does, that is the critical component.

Dan: Yeah, I would almost button on there. I think I read it in the Bible or a rabbi or a preacher said once along the way, like do not despise the small beginnings. When we are starting something, I can remember my business. It is like, I am not that guy doing this and that, my thing is so small and even today, like, little components of my own business still that I am running. These were like initiatives and in the beginning, it feels like, and then when I say the beginning, maybe it is something I am working on for 1-2-3 years with a team of three, four, five people, and we are not getting the results to justify maybe that time, but it is still that same kind of humble beginning that we are in the middle of and then like you said, we become king of this initiative if and when that thing finally gains that momentum and now it is that thing that people like looking from the other side saying, "I wish I had that specific little initiative or whatever it is."

Matthew: That just becomes the beginning for you because then you think I have done this bit now, now I can see the world is like what we were saying before. That gives you the perspective to be able to go on and build on that foundation. Whereas if you do not get there, you never have that breadth of vision.

Dan: Yeah, you are right about that. So where can listeners get more Matthew Sullivan or maybe some information on taking one of these home equity agreements?

Matthew: Everything is on the website. So it is QuantmRE which is Q-U-A-N-T-M-R-E.com. We have got all our contact details there. We have got podcasts videos as a free guide, you can download. Which explains how programs work as a calculator. We try and keep it fairly simple in terms of the amount of information that is there because our job is really just to pick up the phone and speak to you and explain to you how this works. And then we can take you on, take you on the pathway to get these, to get your home equity unlocked.

Dan: All right, sounds good. Hey, I appreciate you coming on the show. Matthew had a blast [inaudible]...

Matthew: [crosstalk] Thank you again for having me on.

[background music]

Dan: My favorite way to fund a Fix and Flip deal is by using private money. I did an episode on raising private money for single-family flips, a little while back detailing my entire process with Joe Fairless, as a matter of fact. Which you can find at REI Diamonds.com by typing raising private money into the search bar. But what if you do not have access to private lenders and need money to get started? Everyone usually talks about hard money and that is great, as long as you have some reserves or a nice chunk of cash in the bank to show the hard money lender, in order to get the loan. They like to loan money to people who already have a little bit of money at least, to be able to cover the payments and any other ancillary construction items that may come up. But one little known and little talked about option is gap funding and gap funding is a line of credit used to access the funds needed for reserves, business start-up costs. There is really no restriction on how you use the funds and it is called gap funding because it is used to fill in the gap. The team over at REI pathway funding can set you up with a gap funding line of credit that has an initial interest rate of 0%. And in certain cases, if you qualify it does not show up on your credit report as it is structured as business loans. To find out how much you might be pre-approved for go to www.reipathway.com.

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We are at the conclusion, my friends. Next stop, we have Stephanie Walter joining us to share her experience as a real estate syndicator focusing on multifamily and luxury home development. This shift for her comes after a successful career and exit from the insurance agency business. So we have that and more on the next episode. Keep coming back.

Voice Over: 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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