AVR: Welcome to the REI Diamonds show with Dan Breslin, your source for real estate investment jewels of wisdom.

Dan Breslin: Welcome to the private lending webinar. My name is Dan Breslin. I am the President and founder of Diamond Equity Investments. We are a high-volume buy, fix, and sell residential and commercial real estate investment company. There's about 20 or so dealmakers; that will be the acquisition team. We buy nationally. We have offices in Atlanta, Chicago, and the Philadelphia region. In 2022, we did 324 deals, and that was a total of 54 million dollars in transaction volume, 330 deals closed in 2023, and so year-to-date, we probably actually had two or three more closings since I put this power point together. But we were at about 128 deals for this year, and 102 deals right now in our inventory that are either under construction or awaiting closing.

So, we kind of have a volume shop here and private lending has been a critical piece for us to build this scale. So, who is this webinar for? The private lending webinar is designed for you, for rehabbers looking to build a private lender network, whether you're just getting started and you haven't done a deal yet or you've done three, four, or five deals per year. There are a lot of fix and flip investors I know that make a great income doing two, three, four deals per year. They have a small private lender network, one, two, three people and that is a great lifestyle business to run. Or experienced rehabbers investors etcetera, that are doing six deals or more per year. This is going to be designed for you.

This is also going to have, I'm going to do my best to try to paint both sides of the table. The perspective from private lenders who maybe are considering lending money, and haven't done it alone yet. Even those who are already lending money, there's probably some tips, tricks and sort of the way that maybe I think about private lenders and how they might be a better partner to the people that they're lending money or hoping to lend money to scale. So, we have a private loan. You guys may have seen one of my roll out emails. I have a small frustration with the hard money industry. They pitch themselves as private money lenders.

So, we're a private money lender. Just fill out the credit application, send your tax returns in. We're going to do an appraisal. We're going to come out and visit the property. We're going to do the construction draws. Oh, by the way, we set the interest rate when we do the down payment requirement, etcetera. That's a hard money loan. A private money loan in my experience is a loan with a flexible interest rate. What I mean by that is that it's negotiated. The rehabber may set the interest rate. The lender may set the interest rate, but it's not like a fixed rate normally where the hard money company, Kiavi is a partner of ours. They sponsor our podcast, and like their rates are set.

Your credit is this, and your project size is that, and your term is this, and that's a ten and a half percent interest rate or whatever it is. The flexible down payment is also a component of what I would consider a private money loan. There's deals I do where we have 100% of the construction and the purchase and the closing cost funded at settlement from our private money lender. So, if we're buying a property for $100,000, we're putting in $50,000 in construction. We probably have another 5, 6, $7,000 in closing costs, insurance and utilities. Maybe we're taking a $160,000 private money loan to fund every penny of that project.

So, that's a zero down payment loan, and your lender has to be okay with that. Not all lenders are okay with that. Some are going to want to have some skin in the game. So, they may require, "Hey, you need to put 10%. You need to put 20% down. You want a $160,000 loan, I need to see a $20,000 project come from your pocket. So, you put that down up front; I'll cover the rest." So, it's a flexible down payment that can be set through a negotiation with you, the rehabber or you, the private lender. So, that's flexible.

One other thing, which I greatly prefer the private loan over the hard money loan is that the monthly payments can be optional. Every private loan I've ever done in my entire life has had the balloon component. The balloon component means that the entire amount of the interest and the principal of the loan are due at the end when I'm paying off the loan. So, that's 12 months in, or that's when I sell that property after it's been renovated. That entire amount is due at the end. Few reasons why I always preferred to have no monthly payments on the loan is number one, I don't want to borrow from people.

This is Dan Breslin talking. We do a high-volume. I don't want to borrow private money from somebody who needs to borrow that money from a home equity line of credit in order to invest in my deal. So, there are people out there who don't just have the cash sitting there ready to go, but they're borrowing that money against their house or against rental properties, and they have to make a monthly payment at 6 or 7% now. They want to loan it out to the rehabber or me at 10, 12%, and they're trying to make 5% spread. I think it's far too risky to borrow money and then re-loan it out. That's just my own personal opinion. I'm a conservative risk-averse investor. I don't like taking too much risk. So, that's number one. I don't want to borrow from people who are taking what I view is a little bit of unacceptable risk to loan me the money.

The second thing for monthly payments and why I prefer not to make monthly payments is people who take monthly payments or are inclined to pad the renovation budget. Sort of like, "I got to pay the hard money lender $1500 a month. Well, I can get this project done for 45,000, but let me play with the numbers here so that it's 60,000. That way I have some extra to pay the interest payments to the lender. I don't want to ever be in a position where I'm trying to over borrow money for a project to cover the interest it carry. Just not a risk I want to take."

Then the final reason is monthly payments when we're doing 300 deals a year, monthly payments can be a big pain in the ass for us to try to make sure it's going out. We borrowed this one on the 7th of the month and this one's going out on the 13th of the month, and we got to set up the automatic payment schedule, and it becomes another layer of accounting. So, I choose not to do the monthly payments in any loan that I borrow money from a private lender.

Now, on the other side of that, if you're a private lender and you're loaning your money to a person for the first time, getting those monthly payments can be a communication mechanism from the borrower or rehab that can let you know, number one, they're still alive. Number two, the project is likely still alive. Number three, they're probably willing to answer the phone if you call and the project is probably going as it should. So, getting the monthly payments can provide a level of security for a lender and some lenders are going to want that level of security in every deal regardless. They may not consider the balloon payment the way that I'm not going to negotiate on that. I just won't take the loan. I'll fund the deal out of pocket, but a lot of rehabbers may not be in that same position.

Then a private loan, the fourth thing I would characterize the private loan is, as the underwriting is optional. So, I'm willing to show my tax returns to a lender on a Zoom call. If somebody's considering sending $280,000 over to fund one of our deals. I'll show them my tax return. I don't have my credit report handy. I probably at this stage in my career wouldn't go get that for a private lender. But if I'm on the front end of the business, that might be something I do to put together my credibility package for a seller, but most of the loans that I do, there's not much underwriting from the private lender. I'm sending a text message.

I'm sending an email with some details on the loan, and my lenders who have done half a dozen or a dozen projects with me so far, pay back successfully. They're wiring in the money on the day of closing and there's no appraisal. There's no credit report. There's no checking the tax returns. To be honest, I've never been asked for the tax returns. I've never shown the tax returns or my credit report to any of the lenders. We've always kind of had this relationship and the brand presence with the lenders. We had some pre-existing relationship probably for a period of time in most cases before the lender pulled the trigger. But if you were considering making a private loan to someone else, it would not be out of the question to ask for the credit report, ask to see the tax returns.

If they don't, if they've done other projects, ask to see the settlement statements from when they bought it. The settlement statements from when they sold it. You could ask to evaluate the books for each of those projects that they have flipped maybe in the last year or so, and kind of see how clean and how neat those books were kept. I could tell you there's a lot of rehabbers out there who keep no books whatsoever. It's like a box of receipts when it comes time to do the taxes.

So, underwriting is optional. I wouldn't say it's necessary, but it might be a good idea if you were going to lend to someone else to figure out what your underwriting looks like. We'll dive a little deeper into that further and webinar here. So, who is a private lender? I kind of have this out of order just a little bit. So, private lenders my experience number one, you have to have the money to invest, right? If somebody does not have the money, that's going to be tough, and you hear me laugh a little bit, but you've got to be careful. We're going to talk about where to find the lenders.

One of the best sources of private lenders is going to be found at the real estate network and events in your market. You find the person who has experience in the market probably has done this before. Probably has actually the money to loan, and they're actually a private lender, but at the network and events and in the real estate community, probably even online. I know there's a private lender, Facebook groups and LinkedIn groups and things of that nature. Some of the people that hold themselves out and say, "Hey, I'm a private lender," don't actually have the money. They're going to get two or three of their friends or maybe they have their own money list, and they're going to get people to put 40 grand in each to loan you that $160,000.

So, you have to be a little cautious and do some underwriting if you're the rehabber on the private lender and their ability to actually fund the loan. So, a private lender from my seat, Dan Breslin, is an accredited investor and that's defined by the SEC. That's rule SEC 501, Reg D that you see listed at the bottom. An accredited investor has a one million dollar net worth excluding their personal residence, or they make $200,000 a year if they file their taxes on their own, or they have to make $300,000 or more if they file their taxes jointly with a spouse. I asked about that when I have a new lender who's going to be doing business with me.

So, I don't say, "Hey, do you have the money bill to send in 160 grand?" I'm probably going to ask him a few questions. I'm going to say, "Hey, are you an accredited investor?" The ones who are doing these kinds of I don't know unique investments, these are kind of entrepreneurial investments, if you will. A private loan being made on real estate to fix and flip. This is coming from an investor who's a little bit savvy, a little bit entrepreneurial and is really trying to maximize their return on their income.

So, when I ask about, "Hey, how are you an accredited investor?" They're like, "Yeah, I am." No problem. Oftentimes, I'm okay stopping there. They probably have the money and they know what they're doing. Other times, they're like, "What is an accredited investor?" Explain it a little bit. My antenna starts to go up, and I'm thinking, "I don't know if this person who's trying to lend, maybe they have their life savings is $160,000." I don't want to borrow from somebody who's putting their entire life savings into my deal because I don't want them calling me in five, six, seven months and saying, "Oh my gosh to car broke down or I have to do this, and I need the money back," and now we sort of have tension.

So, while I don't ask how much cash you have as an outright question when I'm betting a private lender, I do ask if they're an accredited investor because if they're not an accredited investor, you would have to consult a securities attorney. You're probably not supposed to be taking loans from somebody who is not an accredited investor and you have to do the due diligence to reasonably verify that they are. That's probably not a topic I can expound on, so it's for informational purposes. I'm not an attorney. I'm not giving you guys a law or legal advice right now, or securities advice. This is my understanding and this is how I approach my conversations with the private lender.

Now, one thing I do ask the private lender, if it's going to be the first time? There was a guy I talked to a few years back, and he said he was an accredited investor. I wanted to kind of do a little extra due diligence. So, I said, "What do you do? What was your career?" "Oh, I'm retired." What did you do?" Oh, I owned a business." "Oh, how did that go? Did you sell that? Did you have to close it down?" "Oh, actually no. I sold it. We made good money. Now, I just look for good places to put the cash." So, I may ask a little bit of like where the cash is currently invested? Is this in stocks bonds something you're going to have to sell or is this like ready to go into this deal tomorrow?

I want to know if I'm going to have a delay when it comes time for that private lender to fund my deal or not. There are accounts, interest accounts right now that take seven days and they pay 5.3%, but your money is like somewhat locked up for that week. It takes a week to get back in your bank account. I need to know about that up front because a lot of my private loans are going to need to close in like a 48-hour period. Like, we don't bother asking for the money and having people wire from our business until we have the clear to close.

So, a private lender has the money, is an accredited investor, and is willing to do a private loan. So, finding a private lender. These are the three items here. Number one, this is what the mentors taught me early on. It was to make a list of people who might have the money. You literally sit down with your pad and paper and make a list and sit down until you have 10-15 people on that list. Then you have to literally call down the list. It sounds obvious, but you'd be surprised. There are people who are willing to do these kinds of loans, and nobody ever asks them to do that. I would prefer a meeting if I were just starting out on every hard money loan, I'm sorry, every private money loan that I had done early in my career, these were people I would have coffee with, lunch with. I would see them at the real estate investor network in groups.

Those are probably the real estate investor networking groups out of fishing grounds of people who are going to participate in private loans. The middle thing I have mentioned here. You want to create an email list of private lenders? You have to have a money list, and that's separate from any other network list or email buyer list. So, some of you guys who are on the call, some of the gals, guys on the call probably have signed up for my money list, but probably came from the buyer list first. So, maintaining some kind of email system for communicating with the people in your network, real estate agents often have this with their clients. Many clients would consider being in the real estate business.

So, finding a way to talk about what you're doing with your email network can produce two or three people who might have an interest in this, and you can schedule them for an offline meeting after that. But hands down, the real estate networking groups are going to be your top source of the people with money. The second is going to be the email buyer list or just your network in general. LinkedIn and Facebook groups could potentially net something like this, but again, I would approach the social media type of contacts with caution. Then the third piece would be making the list of people and having the conversation. I can tell you some of the people that I put on my list early on, wound up not having the money.

Some of the people I put on my list early on had money, but no confidence to move forward in lending that money to me at that time. Then a few of the people on the list I still do business with to this day, and they still fund our deals at Diamond Equity. The conversation might be a little uncomfortable. Again, I prefer to have that in person. Depends on what your relationship was with that person ahead of time. So, here's how I view building a relationship with a private lender. Number one easiest way; if you've never done a deal with a private lender, it's going to be a little more challenging in my experience to have them do two points 10% interest on a balloon. I'm paying them off in a year and they're giving me 100% of the purchase and 100% of the construction. Without some kind of relationship, I don't know that I earned that type of credibility to deserve those kinds of terms. That's not to say you're not going to find that on your first private loan out of the gate. Your situation may be different from mine.

I was starting with not a lot of money if any money at all. Not great credit at that time when I started. I did actually get 100% of the loan in a balloon, but I paid five points in 15% interest. So, it was a risk-adjusted charge on that loan. But before I did that loan and got these desirable terms 100% of the construction, 100% of the purchase, what I did first was I partnered on a safe deal with the lender. So, there's a lot of lenders we do business with, Diamond Equity, at this point in our career. Maybe we're borrowing $275,000, and we're selling our deal for 400,000. At the end of the day, we're probably going to put a $90,000 profit in our bank account, and the lender on that loan probably getting about 20,000.

Sometimes, I lend money on deals too, so I know it feels like, "Man, I wish I was participating in the upside." Some investors will do that. I did that early on before I became in a position that I have the cash myself, I could fund the deal if I want to myself. At this point, there's more money than there are deals to go around, so that's kind of how things shifted over to career. But the first deal was a partnership. It was a light lift deal for me. So, I don't want to do a JV deal if I've done two rehabs and both of them were painting carpets where I'm doing 65, 70, 80,000. I want a light lift deal. What I mean by a light lift deal is like it's paint and carpet $20,000 budget or less and it's done in three or four weeks flat. You're back on the market, low risk, or it's one of the clean out and resell kind of deals.

That's what we did back in 2006. My partner and I had a property under contract $123,500 River View Avenue and Drexel Hill. I remember going to my partner and I said, "Hey, I have a deal under contract 123,000. I think we can sell this retail. We're going to clean it out, and we're going to sell it retail for about $165,000." He said, "Well, why don't we just assign it to someone else?" I said, "I don't need you to assign the deal to someone else. I can do that on my own. I'm coming to you so that..." and I had to spell it out for him, "You're going to bring the 123,000 foreclosing. We're going to put mop and glo on the floors. Then we're going to put a for sale sign in the front lawn, and we're going to sell it for $165,000."

That's what we ended up doing. He brought the money. I did mop and glo the floors. I think I may have taken out some trash or something. There was not much trash even in the property. We did get the settlement. I think our profit that we split was $38,000 dollars in change. So, we each walked with a check for $17,000. That was much better for him than loaning the money at that time. He got some more upside and we were in and out of that deal and 90 to 100 days. So, it was three or four months old and he got to share in the upside as well. So, the private lender on a risk-adjusted basis, I guess, the private lender's benefit of doing a partnership deal is that they may have a share in the upside. If you bring in a deal to a private lender, like I said, bring a paint and carpet, a clean-out and resell. Something that can happen lightning fast to put money in both your pockets. The private lender has risk in that deal as well.

So, if there's anyone on the call listening who has not done private loans and hasn't underwritten real estate deals, you have to be very careful with this kind of a partnership strategy because if the deal loses money, you might too. You have to come up with some kind of partnership agreement. We're going to split the profits and losses like this, and you guys come up with that structure together because if you're bringing the $160,000 all the money, and the other person doesn't have any money and then the property sells and after the expenses you walk away with 140, how exactly is that loss going to be calculated if this was like a joint venture partner that you guys did?

A lot of times newer investors, obviously we want to win and we want to make money on every deal. When you're far in your career, ideally, two out of 100 deals, you're going to lose money. That's about where we're at right now, but even still with the experience we have today we still lose money on some deals. We run into construction issues. We get shut down by the township.

It takes them seven months to get inspectors out to the property. The architect was late delivering the drawings, and then he screwed up so they didn't give us the permit. A lot of things can go wrong when you're flipping a house and there's a lot of risk, and it's good to be aware of that.

So like I said, if you're the private lender considering the JV, just be aware that there may be risk there. You may want to find someone perhaps with a lot more experience in real estate business to take a look at that deal for you before just thinking, "Oh, this looks great. We're buying it from 150, and we're selling it for 190, and we're going to split $20,000 each." There are a lot of costs and risks with property conditions in the market any time of year. You definitely want to have somebody with experience weigh in on that. The thing that's nice for this kind of deal on your first private lender type of deal is that the private lender can also mitigate the risk by retaining the checkbook control. So, when we bought that deal in Drexel Hill, my first JV deal, I also told him, "Craig, you're going to bring money, but you're going to close on it in your LLC. So, there's no foreclosure. There's no it's got to be me."

So, we made a little partnership agreement. Basically, two paragraphs that we just put down what we talked about. We signed it and then we went to a settlement on that deal. So, I did that to allow the private lender to feel like he could sleep at night in that deal because he was not handing off complete control to me. Quite frankly, I wanted to develop more of a long-term relationship with this gentleman on the front end, and we did end up doing that, which is why it was a, "Hey, we're going to bring this together. We're going to JV." I think right after that deal, before it even cashed out the prophet, he did two private loans onto additional flips for me. So, it did open the door to the private lender relationship that I was looking for.

He was a gentleman that I met at the real estate investor networking group. He had rental properties and he was flipping properties. So, it works out to be a really good relationship and he already understands the business. I wasn't trying to just pitch my dentist while I was getting a cavity filled because I thought he had money, and the dentist had no notion of how real estate worked. Far easier to have real estate conversations with real estate people who are already in the business.

So, you have to set the terms on your loan. I am going to talk about this from the rehabbers' perspective first. Terminal loan. Every loan that I have, I set a term of 12 months. It's a 12-month loan. That's when the money is due. I don't negotiate on the terms on my loan. I don't need the money that bad. I don't need the money at all. So, my interest rate on the loan is 10%. I pay 2 points upfront. That's an origination fee to the lender, but that two points is calculated and paid on the back end. We're not paying that on the front. You can set the monthly payments or balloon option. I'm always going to go with the balloon. I'm not going to borrow from somebody who needs to have monthly payments, or they can't do the loan. To me, it's a red flag. They probably don't have enough money to be hanging themselves out there as a private lender.

The big question really is, "Do you have the money to close on the deal yourself?" If the answer is yes, you can probably be as rigid as I'm talking about the way we run our business when we're doing these loans. There's no negotiation. I don't need to negotiate my private loans. In fact, a lot of times instead of even going to the private lenders, I'm going to send the money myself because it's easier to originate a wire than to send an email and then respond to two or three emails and send a text and connect them with the transaction team. Sometimes it's just faster for me to hurry up, send the wire and just keep it moving. If you're in that position, you obviously have more negotiating strength. You also are a more qualified, capable buyer, and you have more credibility because you can backstop any losses that are going to occur on any of these loans. So, I know that my lenders appreciate knowing that I have the money so that if something goes wrong and we lost $150,000 on one loan, I think the lender made 80 to $90,000 in interest on that loan.

So, that works for me. I don't mind losing the $150,000 at least because my private lender was able to put a significant chunk of cash in his pocket. The loan ran over. Everything went wrong with the township. The basement flooded twice. The electricity went off. It was just everything that could go wrong, went wrong. So, having the money puts you in a different position to set the terms on the loan. On the other side of that, if you don't have the money to close it yourself, if you have no money like you got 1,000 bucks in your bank account or two grand and your living expenses are that's it, that's the cushion, I would strongly suggest against taking private loans in the way that I talked about with 100% of the construction and 100% of the purchase, and then you having a balloon payment.

I would strongly suggest the joint venture option with a more qualified experienced wealthier partner who can help underwrite the loan and bring some experience to the table of how it happens to make money and negotiate real estate deals. There's going to be a lot more tangible benefit there if you have like zero dollars in the bank to go that route by just kind of leaning on the experience and just bring the deal. Do the 50/50 split; do the 60/40 split and go that route. If the answer is no, you don't have the money to close on yourself, but you have 30, 40, 50,000 in reserves, that's going to feel a lot better for a lender and you're going to want to talk about what your position is there because maybe you can cover some of the losses, if you did this 100% construction, 100% purchase. But the rehab wasn't 60,000. The rehab's 85,000. You're going to be a much better partner to the private lender if you can cut the check from your own bank account and not go knock on his door, “Oh gosh, the sewer line is broken. We need another $18,000 to dig up the front." Like, the private lender does not ever want to get that call. So, not having the money to close on it yourself may also affect your ability to set the term of the loan. Certainly the interest rate of the loan appoints a lender who may say, "Hey, I want you to know 14% on this one. I want three points." You've got to pay the three points up front. You don't have the money, and that's the only option, that still may be a good deal that you want to move forward with.

Again, my feeling on the monthly payments of the balloon, if it's going to be monthly payments, I probably will just go to the hard-- I have several hard money lenders and big lines of credit set up with them. If I have to make monthly payments, I go to them because they charged me 9% interest. So, their interest is often lower than what I'm going to offer the private lender. I view my private lenders as partners. I like to have them experience 10% return. Make them whole in the end. They make it easier for us to do larger scale deals, and I feel good about being able to call the person who's going to receive the money from my deal in their bank account versus Goldman Sachs owned hard money loan company.

So, how to present a private loan? I have a mock setup of my pitch here that I'm going to go through as if you're a private lender on the other end of the Zoom call here today. But a couple of things I prefer when I'm going to present a private loan. Number one is this; have it ready to go. You have to kind of operate in faith, right? To sign a contract for 100 grand or whatever it is. If it's a real deal, you can assign it to someone for 105-110,000 at worst case. If you can't make five or 10 grand assigning a deal maybe to someone else, maybe that's not the right number. It's not as good of a deal as you thought it was, but that aside is best to have a deal something real to talk about, "Hey, I've got this address on River View Road. I need $123,000. We're going to close on it. We're going to split the profits and everything's going to be wonderful."

That conversation goes a lot more effectively than, "Hey, I think I'm going to do a real estate deal, and I was wondering if we could maybe do a partnership together, if I find a deal." The reason is that the experience people will get that softer squishy, "Let's maybe have a partnership and maybe I'll find a deal," type of conversation, those people are coming and going constantly, and that's fine. Sometimes you have to find your way through the business before you get to the deal. But if you're going to go talk to the private lender, you sort of know who this person is, this individual is. You've met them. You have their phone number. I feel it's far better to have something real ready to go to talk about, when you pick up the phone and call them ideally, meet in person, if it's possible.

Maybe you could do it over the Zoom call sort of the way that we're doing it here. If not, far more effective that there's a deal on the table, then I'm thinking of maybe someday I'll find a deal and we can maybe do this." Right, it's a lot harder for someone to commit to you and say, "Yeah, I would do a private loan with you, Mrs. Smith when you get a deal. I can't commit to a deal, I'm not looking at if I'm a private lender." The final thought here is don't be lazy. You got to prepare your presentation. You've got to get your ducks in a row, and you've got to make sure that you have the salient details.

I'm guilty of being lazy and sometimes I send out the wrong photo link to my list. The guys are like, "This is not a house in Chicago. This thing is in Atlanta." Like, "Yeah, village idiot here. Sorry about that." Right? So, make sure that you prepare your presentation correctly, and everything's tightened down before you go meet with the person. So, here's a recent project that we did. This is a real deal; 6100 Lenox Avenue Chicago, Illinois, three bed, one and a half bath. This deal had hair on it in terms of there was a tenant in place. No one likes buying a property with a tenant in place and this tenant was the brother of a high-volume real estate investor in Chicago who actually went to jail for a few years back after the 2008 things.

So, the reputation or the thought from our end was, "Man, this guy's going to be a professional landlord beater, and he's going to fight us tooth and nail and we know why this seller wants to sell us the house." We're like, "We know what the risk is going in that we may have a very challenging tenant that we're going to have to get out of here, evict and they may fight the eviction. So, our purchase price was 225,000 and we did a $235,000 loan from a private lender, 12-month term, two points and 10% interest. Our plan on this deal was to buy it, close it, evict the tenant and sell it as is. Clean it out, put the mop and glo on the floors. Light lift other than the fact we have to own the property for three to six months to get the tenant out.

So, that's not how it went down. It actually went down, the tenant continued paying until he was supposed to be out. Then on the last day he did actually move out. He paid the rent all the way up until that point in time. So, we're like, "Okay, he got out ahead of schedule. We didn't have to do the eviction. So, let's go ahead and do some construction now after the fact." So, originally we weren't going to do work, then we said, "Let's do some work and see if we could really push to resale value." So, our original, so we'll start here. Our construction budget was 85,000. Our projected profit on the funding template, I'm going to show you what this document is in just a second. This is what the email looks like when I send it out to my private lenders and they reply back and say, "Yes, I want to do the deal." We projected 63,000 there on our original funding template.

Then we thought we were going to make way more money by doing the construction. The construction costs $90,000, and then it turned out we had some things go against this here. One thing that's cool is this property was actually I think featured in Chicago PD or Chicago Fire Department. So, this house was on TV and it was like a murder investigation there after we did the renovation. So, that was a cool experience, I guess. We had it sold for 600,000. The buyer backed out, dropped to 50 grand, and had it sold for 550. I forget maybe we landed at like 460. So, we thought at one point we were under contract with a buyer and our profit would have been around $200,000, and the deal fell out, and the deal fell out, the deal fell out. Big price drops. It's on a busy road. There's a double yellow busy road. So, it didn't really go as well as we hoped it was going to go. After doing all that construction, we landed at exactly the same profit we thought we would have day one.

So, I'm going to show you guys the photos here. This is what I would do for a lender too. I would explain that we had this plan on the way in so I would go through this deal because these are history. Give you the full view here. So, I won't go through every single one of these photos. So, if you and I were going to do a loan. I was actually sitting with you and doing the pitch just like you were sitting with your lender to the pitch, these are the before photos. So, you could see it's a functional house. It's a little dated, but we probably could have sold this thing for 325. Maybe even 350, if we just cleaned all this stuff out and kind of sold it.

The market's really good for that right now being able to sell property that's functional, but dated. There's a market for that, and that's not how it's always been there. It's been, historically, the house when there's more inventory, you have to make a nice product as a rehabber to really kind of make the product move. But right now, with the slow inventory, this product would have easily moved at 325. So, here's the finished product and this is probably what you're going to want to focus on with your lender, is your ability to execute on the construction at a high level. If you have a project actually in motion, when you're talking to your lender, have your lender meet you at that project. Or even better, if you have more than one project, have your lender meet at the project that's under construction. Then go to the one that's completely finished right after that if they have time.

If you only have time for one, take them to the finished product. Something that's like for sale in the market and they can see the quality of the renovation, and show them before photos there. So, we did a basement full bathroom here. Fully finished basement, and this is a Northwest side of Chicago. For any of the Chicago people who happen to be on the call listening, we've got a nice kitchen in here. So, you're trying to showcase your ability to execute a design and the construction project when you're showing your lender these pieces here. So, this is like our pitch here. This is our pitch here. So, when we're sending a deal out to our private money list, we want to make sure we have all of our facts if you will, for the deal, so somebody can make a decision. We list everything out.

You fund 235, and the minimum is going to be 245 here. We do a 90-day minimum interest payment. We do that because there's a lot of deals that we have a buyer already lined up and we just have to close it for 17 days. If a lender is going to wire in money for 17 days, I'm not going to try to wear out my welcome with this lender by saying, "Now, we can give you 17 days worth of interest." It's like, "Come on, you knew you were going to do it for 17 days really." So, we do a 90-day minimum payment, and that kind of becomes a big carrot for lenders. A little more of like a partner split if you will, because now you're sending out a wire, right? You're returning 245.

So, the minimum profit if I were to sell that property a day after I buy it, and the lender funds it, or 89 days, 60 days whatever, it was a $10,500 profit to the lender. That kind of makes it worth it for him or her to sit down at the bank, wire the check, have the money leave the account, take the risk. I mean, if it was like 17 days, I mean, what would that number probably be, $3800? Just kind of feels a little short-sighted to me, and I'd prefer to have people participate over the long term. You could see the 5800 minimum three months of interest. We talked about our resale price. We originally thought we would sell this deal for 325,000; 16,000 to close it out, the commissions, etcetera. Then if we had to pay the lender for 12 months, so if we took it for 12 months, the money we would be paying them 258. I'm trying to show that I'm being conservative in the way that we're doing our math. So our conservative internal profit was 63,000 on the front end.

Honestly, we're not terribly thrilled that we were at that conservative number after the year project had completely wound through. So, that's just how they shake out. Sometimes you've got to flip a lot of houses and real estate. You want to constantly be doing deals because you're going to win some and luck goes your way. Some are going to hit right on the head and the target, and then others are not going to go your way. There's probably going to be at best, you're breaking even or it's a 3 or 5,000 profit that happens sometimes. You do deals long enough, there's going to be some losses along the way.

So next, I will-- oh, one word about this. I'm going to share a website if you guys don't already get these. I don't send these emails looking for funding too often. It's probably three or four of them a year maybe, but when we send them out, you can kind of get this template by signing up @fundrehabdeals.com. You can see the exact presentation that I'm given on my money list. So, fundrehabdeals.com is where you would see this template in use. So, then I'm going to, if I'm pitching a lender, back to our lender pitch here, I am going to show the closing statement from the purchase and from the sale here. This is the proof that you did the transaction.

So, you can see we bought it for 225, and here's where the lender gave us, the 235,000 right here. This is March 28th, 2023, 200, and what was it, 241,000 total looks like. Then here's where we sold the property. We sold it for 460,000. So again, that was down from I think it was 625. It was something remarkable. We were ready to pop champagne in the whole thing. That fell through our fingers. Down here toward the bottom, here's the payoff, 267,549. So, if I'm sitting with the new lender and I'm showing the lender the payoffs and how much this lender made on the last deal, I'm also going to point out here that this project sold. It was like 14 months later.

So, we are past our 12-month balloon. My eternal gratitude to my lender on this one and almost every lender that we deal with is this way, patient. I don't think we even got a single phone call. He knows our money's good. He wasn't threatening for foreclosure. I imagine he wasn't losing any sleep at all knowing that we had his money on the project. Like our interest is still running at 10% and our lender was patient here. That would be something I would look for on future lenders. Like, I don't have to take a lender's money. I'm in that position where I just don't have to do that.

So, I probably would show this one was a success because we paid the lender off. It was a success because we made a profit. It was a failure because we went past 12 months, and it was a failure because we made only a conservative profit and we did the renovation. The final thing I'm going to point out on this deal here is our construction was $90,000 out of our pocket. So, we didn't go back to the lender when we decided to change our plan. We paid for that construction out of pocket. The lender probably didn't even know that we were doing the construction. We may or may not have talked with him at some point through that process. But when I'm borrowing money, I make it a hard and fast rule to not have to ever go back to the lender and ask for more.

No lender is going to want to put more money into the project. I'm never going to ask you, the lender, that I'm sitting with to put more money in. I have the cash to cover losses if they occur, and I have the cash to cover the construction. A lot of the losses in the real estate business occur because the construction runs way more than we originally budgeted. A contractor dies. A contractor scams you. The contractor doesn't do the work correctly. We didn't know the roof was shot. We didn't know there was mold damage. We didn't know that we had a foundation issue.

These are real things that happen to us along the way that cost us more money than we first anticipated. So, showing those, the huds which is the closing statement. I guess I'm showing my age here a little bit. That's going to be a key part of the pitch. So, the lender funded 235,000; the lender received 267,549. 31. The lender's profit was 30,549.31. Again, I am very grateful for the lender's patients on this deal. I believe underwriting makes you stronger as an investor. So, I think a lot of times, reading some of the questions and comments we had on the signup. So wow, you can get 100% of the purchase and 100% of the renovation.

I remember what it's like to get started, and I didn't want anyone to do any underwriting because I probably had a 550 credit score. My tax return said I made, I don't know, I don't remember if I filed them on time at that point in time in my life, $8,000 a year before, and $20,000 a year before that. So, I was broke and poor and had bad credit. There were no financial statements. So, I didn't want any underwriting to happen. Thank God, it didn't, but I believe the underwriting makes you stronger. So, if you are doing a private loan, think through the underwriting first. I see private lenders get in trouble because they don't ask any of the difficult questions. They don't ask for things that are on the list here.

What is the experience? How many projects have you done? Can you give me an address right now that I could see what you did on Zillow? I'm going to look in the public record and see if you have actually bought the property or not. Would you mind sharing a credit report, your tax returns or financial statement? These are the kind of things the lender should take a look at and get a feel for if they want to be in business with this person. You're not quite getting married to; a private lender is not quite getting married to, the rehabber, but you're forming a partnership, and you're betting on the success of this person's capability to finish the deal and see it all the way through.

Cash reserves: do you have any cash reserves? Do you have proof of funds if someone's going to borrow 100 grand for me, Dan Breslin and they come meet with me for coffee and I say, "Here, I've got 180,000 in stock market," and they don't want to pull that out and use it for the deal, but if the deal goes bad, and I will sell all that, and I will make you whole." I'm going to loan them 100,000. That's going to make me feel good. After renovation appraisal. So, you can actually call an appraiser and ask for an after renovation appraisal. If you think it's going to sell for 250, well, hopefully that appraisal comes in at 250 and you give them your scope of work and tell them what's going to be done on the property, and they put together what the value is going to be. That can be a good fail-safe or a check for a private lender to see if that value lines up.

A lot of my private lenders have business experience in the real estate business, and they can kind of see based on the comparable sales that I send to them. They can agree with that and say, "I think there's value here, and I agree with that." So, that's kind of how I cover that. You can ask for complete contractor bids and the draw schedule if you're a private lender. So, the draw schedule would be three draws of $15,000 each. We'd expect them to be 30 days, 45 days and 60 days in. This is what work will be done when each of those draws is given. So, the lenders can protect themselves by holding back that construction money and then paying out each draw as that work is completed.

On the flip side of that, I know I kind of painted this from the lender's perspective, but if you're the borrower, the underwriter makes you stronger too, underwriting. You put all the stuff on this list here together, you showcase your experience. Print out your credit report tax returns. You've got your investment account with your proof of funds sitting there. You spent 4 to 500 bucks and you've got the after renovation appraisal. Your scope of work is tight, and you have your contractor bids tight, and you present a draw schedule. Someone who may not have necessarily wanted to take a risk on you, the unknown or the person they don't know, may be more inclined to take that risk because you've come with everything put together correctly.

So, you can do the underwriting on your own deal before you make your pitch. If you are the lender and this is the first person that you're lending money to, I strongly suggest that you figure out how to do the underwriting and review some if not all of the items on this list. Please don't be lazy. Please understand the risk that you're taking with your money. So, dealing with a bad deal, if a bad deal happens from two ends here, from the rehabber, you have to maintain communication. Please finish the project. A lot of the loans will go bad because the person ran out of money, and they stopped calling the lender, and they stopped answering the lender's phone calls. They basically walk away from the project leaving everybody in this state of incompleteness. The incomplete project is going to create an even larger loss. If you're a rehabber, and you lost money on the deal, be willing to cover the loss.

Even if you have to make small payments over time, you're better off-- I had a couple that things didn't go my way in 2008 and 9, I remember at one point making $300-200 payments to one of the guys. Then eventually they were able to find ways to get 1,000 and 2000 make them whole completely, but having the intention up front to cover the loss of that, comes like I've got to set my mind that I don't care how long it would take, if a loss were to happen, I'm going to find a way to dig back out of the hole.

When you have that type of internal self-commitment, you're almost going to speak from a different place of confidence when you're trying to pitch a lender. Like, if you knew in your mind, you're ready to cover the loss if things go bad, the conversation you're going to have, the energy you're going to bring to that pitch meeting with your private lender, they're going to feel that. That's going to be part of the magic that gets that private loan done on your deal. So, from the lenders perspective too, you also want to maintain communication. I've seen lenders put their heads in the sand. Like, "Oh, the deal has gone bad." They tried to call the rehabber one time, they didn't answer and they're like send him a text and you know, don't get a reply. Like, "I guess it's just a bad deal." No, you might have to call them a few times right?

When someone's failing in a real estate project, like failing anywhere in like financially, there's a denial that occurs. There's the ostrich effect, is what we refer to it. They put their head in the sand, and pretend it's not happening. They're not answering the call. They're not answering the letters, the emails. They're just not being the most proactive and effective person that they probably were before things got tough. So, if your lender with a loan that's going bad, you have to be prepared to kind of go above and beyond and maintain the communication. If you have communication on a bad loan with the rehabber, your options you want to think in terms of the options you might have. Is it a matter of 10 or 20,000 more to finish the project, and then he can sell it, get out at a break even, or maybe still a little bit of a profit just because Dan Breslin said he never wants to call his lender for the other 20 grand, maybe you as the lender need to reach out and make the call and you're like, "Yeah, hell yeah, I would pay the 20 grand to finish the project and make sure we all get our money back."

That's way better than me having to go take the property over, do the foreclosure, then go find my own contractors to pay the 20 grand. Maybe as a lender, I'm not as good as the guy who is doing a rehab or the gal doing the rehab who had contacts in the neighborhood. So now, me trying to find contractors in this neighborhood have cost me 40-50 grand to get done what? Maybe the rehabber could have got done for less.

One thing I'll mention in a bad deal, a deed in lieu of foreclosure. So, if you get to the end of a project, when the deal is gone, if you're the rehabber or the lender, and you guys are having that conversation, the deed in lieu of foreclosure is when you like you kind of sign off and give the property back to the lender. Then the lender has to deal with fixing it up, selling it, cashing it out, whatever the case is. That's what the term is, the deed in lieu of foreclosure, if in fact you find yourself in that tough spot. So, when a market shifts, that's when some of these kinds of things. We saw quite a few, not quite a few, we saw enough of these failed projects in the middle of 2022 and in the end of 2022 when the interest rates kind of spiked.

We did have some of these kinds of projects working their way through, and it wasn't fun. But if the market shifts, that's when the bad deal risk may become real and you want to make sure that you're prepared and kind of have your action plan for that. So, closing your first deal, the documents, we have paperwork. The paperwork that's usually done. I'm just sharing this for information. Our attorneys review and draft the documents for each mortgage and note that we do. Some states use a trusty and have different document sets. So, if you're around the country, your attorney will know how to structure a mortgage and a note for your deal, a deed-in-lieu of foreclosure. If you were a new borrower, you may offer to put a deed in lieu of foreclosure signed ahead of time with an attorney as like it's in escrow. So that, if you fail on the loan, the deeds are already signed and the attorney has instructions to release that to the lender.

It's another level of security that you can offer to the lender to make them feel a little better. So then, if the lender gets a deed in lieu of foreclosure, they don't have to spend 4 or 5 grand going through an attorney and 3 months, 6 months, 9 months, 12 months fighting foreclosure cases. So, the deed in lieu is something I don't give to my lenders. I don't need to because I'd write the check to make it go away. It's just a little more hassle, more paperwork for me. But I've done dealing with little foreclosure in escrow. Very early on in my career, I've done a few of those.

One other thing that's important here is proof of property insurance with the lender as additionally insured. I can't stretch how important this is. You'd be amazed how many people in this scenario. If the lenders are not asking for insurance, they forget to get property insurance. God forbid, you lend 200 grand on a house, and it burns down the day after closing. It's happened. We've seen things like that happen. You basically have a $200,000 mortgage on a piece of dirt that probably sells for 5 or $10,000 maybe. So, make sure you get the proof of insurance before you send your money off with you listed as the additional insured so that you can see that. If the person's a brand new investor, that may be the trigger that causes them to get the property insurance.

That's a good thing. They've got property insurance. You may even want to call the documents just to make sure everything is tight. The final piece is our lender's title policy. You can ask for a lender's title policy. That's like a title policy for the normal real estate title policy, but this one pays out to the lender, if there's any title issues it kind of protects the lender. So, it's kind of an off the beaten path, I guess, document. What's most important is to mortgage, the note, and the property insurance would be the three critical pieces here on every deal.

So, when you close your first deal and you fund the deal, you're going to originate the wire. You're going to send the wire to the title company. You do not send that wire to the rehabber. If you're the rehabber, you do not ask your lender to send you the money ahead of time. I mean, there are people who are a little higher up in the business in terms of experience. There's probably scenarios where you're getting a loan directly from your company. That's a different story, but the right way to fund a private loan deal is to send that money to the title company and connect the lender directly to the title company. That way they can send over the wire instructions, and verify the wire instructions and make sure no wire fraud is occurring. We're usually dealing with large amounts of money here, six figures, 5 figures. We're not sending off a couple grand, it isn't going to kill us.

I mean, you don't want to be in a situation where a $200,000 wire is missing to the wrong account. The lender may request to review the documents prior to disbursement. So, when my loan funds, I have an original note and mortgage that is scanned at closing, and I see that come across my email. If it was the first loan you're doing you may write up some instructions to not disperse the money until you review the documents to make sure that everything is signed at the closing table. Then just note that the construction draws may be funded separately. You can set up a loan where $160,000, $100,000 purchase, 60 in construction, and like I set an example earlier, there are several $15,000 draws. Well, the 60,000 may not necessarily have to go to the title company. The lender may keep them in his or her own account and then send those draws, do the site visit themselves. See how the construction is going. Maybe that's a way where the lender feels a little more safe in that transaction. Other lenders don't have the time. I have a lot of my network out of state. So, they're never going to actually see the property ever in their life unless they happen to drive by it at some point later on. They're not going to be doing construction drawers and visiting the site to see if the construction is done.

So, the payoff, your rehab is the property. You sold the property. It goes to settlement and now you get your money in your profit. So, you want to set up, first of all, the lender has to receive the wire. So, I say again, so you have a payoff document. I typically prepare the payoff document in-house. Send that over to the lender, and there's like a fill-in-the-blank section for the lender where they can write their wiring instructions. Then have them sign off on the payoff. You don't want to be a pain in the ass to your lender, and you're like, "Yeah, we borrowed at two points and 10%." Then the title companies say, "Can you get the payoff from your lender?" You call the lender, "Hey, send me the payoff." They're like, "How?" "Well, you have to calculate all the interests and everything, and then send it over to me in an email."

Don't make them do the work. Make it easy for them so they're not hesitant the next time you want to do a loan. So, how have we done that? We created our document, the payoff document and we did the math. Sometimes the lender should check the math. We've made mistakes and amounts have been incorrect, and we always make sure that everyone gets made whole, but it's just to make it easy on your lender. Prepare the payoff, send it over to them. Have them sign it, and then send that in to the title company. Then in the final document is the satisfaction document, the satisfaction piece. That's the mortgage satisfaction. It's typically prepared by the title company, and sent out to the lender via email, but they have to notarize that document and oftentimes send it back via FedEx because it's kind of got to be there at the settlement table.

So, the satisfaction piece can be the only thing that can be like a bit of a pain for a private lender. For me, it's like I'm running down to the FedEx and getting the notary, and then sending it off and waiting in line. It's like it's an hour or two to round-trip, get the satisfaction document sent off by FedEx. We haven't really found a great way around that, but the satisfaction document is important for anybody who is a lender. You don't want to sign that off because you're releasing the mortgage when you sign that off. So, that's when you're getting paid. The satisfaction document and the release, it's a fail-safe, if you will, right? That's what's kind of got your money protected and secured to the property.

So, it's a good thing I guess to have to put that round-trip to the notary, and send it off in a

FedEx. It is a little bit of work for the lender, but doing that work, I guess we could be grateful that we've had that security on the property through that entire process. Cool. So with that, I have fundrehabdeals.com. When you sign up at fundrehabdeals.com, you'll get an email with some documents. These are just my example documents. I send this to people who are thinking about lending money to me. So, I think we have the mortgage in the note and a small explanation about how the deals work, and it's a small educational process for the lenders who are considering doing business with me in this capacity at some point.

So you guys can take a look at that, review them and sort of build them into your own I guess in your money list. Watch the email sequence. I mean, it's not robust for two or three emails or something like that over the first couple days, but I designed them for a specific function when I'm communicating with the lender. I actually have phone numbers come in and depending on when you sign up, it'll ask you like how much money do you have ready to invest. If someone says they have 250, 200,000 plus something like that, I may give them a call and just kind of introduce myself, right? So, if you set your money list up and you have people who are signing up, you may want to take the time to do the intro call and sort of welcome them to your list and make sure they have your cell phone number and things of that nature.

So, that's the design, and then the only other action item would be to create your email list, your money list. I was in the business for eight or nine years before I finally got an AWeber account and I created a list, and I started to put people on there who I was going to send my deals out for funding. I'm surprised how long I've procrastinated it, and how much success I had before we even created the private money list, but creating the money list now would be like the action item for anybody who is on the rehabber side of the equation.

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