YOU'RE JUST ONE DEAL AWAY

FINDING PRIVATE MONEY

Host: Zack Childress

Zack: So, the big question is this, how do aspiring real estate investors like us escape from the rat race and build real wealth and freedom without access to millions of dollars in investment capital and start to live the life that we know we deserve? This is the question and this podcast will give you the edge. My name is Zack Childress, and welcome to Real Estate Investing Talk Show.

Zack: We're on week 15 of the 24-week challenge. So, what does that mean to you? That means that you've been working with us and you've been coming along way, with you on 15 weeks into this 24-week challenge. What does that mean? That means that if you're literally doing everything I've been teaching you over the last 14 weeks, then you absolutely should have already been putting deals together, okay? You should, no questions asked. You should have already been putting deals together.

Zack: So now the question would be is, what if I'm finding something I want and I want to buy them? Well, let's talk about the money, right? Let's talk about the money. Anyways, come on board, that's what the classes today. My name is Zack Childress. I am your real real estate coach and I'm joined today by the lovely Jill. Jill, say hi to everybody.

Jill: Hello.

Zack: So, today's topic. Let's just talk about this real quick. I'm going to give a plug for the book. Go to Amazon.com. Go there, search for my First Deal Playbook. If you haven't gotten a copy of the book, you definitely want to bring that book to the live event. I'm going to do a book signing there, so if you have a book you don't have it signed yet, get it to the event. When you come to the event, I'll sign your book for you and if you don't have the book, you need to go on the screen and you need to get it, Amazon.com, My First Deal Playbook.

Zack: Week 15 is finding private money. Not Thinking, but finding.

Jill: You know what, somebody once told me that, if your inner circle of friends does not talk about money then you should not be associating yourself with them.

Zack: You're in the with the wrong circle. Right. That's very true. You know, it also goes back to your net worth can be calculated off the five people you hang out with the most.

Jill: Yeah.

Zack: So, think about that since me and you've started working together and hanging out, has your net worth grown?

Jill: A little bit.

Zack: So, I have that effect on people.

Jill: You know, when you think about it, my five closest people, I mean we have a multiple gym owner who's worth millions and you and then Alaina, the business owner. And that's like the three that who I talk to every day.

Zack: Yeah. And there's so much truth in that because here's why. How do I say this without offending anybody? I guess I can't without offending anybody. Some people just don't talk in a manner or an acknowledgement of future growth, right? Some people talk about what they saw on football or baseball or basketball or what you know. So. And so down at the grocery lines said to somebody would just talk about that type of stuff, right? Where business people and people chasing a dream and chasing a passion and a purpose, they're constantly thinking different. They're thinking about their next move, their thinking about what they can change in themselves and how they can invest in themselves or invest in invest their money. And so that's the conversations that they're not just having with you, but they're also having with their peers. So, when you're associated with them, you're involved in those conversations as well. So anyways, private money or let's just call it money. Who likes money in here?

Zack: I was a kid, all I ever wanted was a cash register. I asked for it for three years for Christmas. I don't know what it was. I just wanted a cash register because I liked the idea of bartering goods of life, right? You gotta remember I was a kid that would go to the gas station. Take my luck. Now this goes back, how far I invested in myself. I would take my lunch money and I always walk to school uphill both ways in the snow, you know what I mean? But I would take my lunch money and I would go by the grocery store or another grocery store, the gas station on the way to school and I would buy bubble gum and lollipops and tootsie rolls as much as I could buy and I would take them to school and I would sell them. I think I started around fifth grade, fourth grade or fifth grade. I started doing it. But that was when my mother realized very quickly that I had the entrepreneurial spirit. But I always wanted the cash register because I was making money. Cash registers just had an unlimited amount of money and they came that way.

Zack: So, let's talk about really quick, the difference. I want to take you through a little process here. What's the difference of, as we know is private money. See, sometimes people in the industry they call even asset and hard money, private money. So, there's really three points I want to clarify. Private asset and hard. So, let's start with what private money is. Well, there's different layers, right? I could go on for hours and hours on this. There're different layers. You need to be conscious, right? So, they the cheapest money you're ever gonna get, believe it or not is not your own money. Some people believe that. Some people say, oh, well, I'll just use my own money. It's the cheapest. Do you realize how bad that is? You would have to literally pay yourself off of every deal, 20 to 30 percent return on your money for it to even balance out if you were going to go use it in an investment for the type of returns you wanted.

Zack: The cheapest money is not your money. It's actually the probably the most expensive money to use your own money. That's why I'm always talking about leverage, leverage, leverage, leverage, leverage, right? But you gotta have the stomach. You got to have the grit and you got to have the tenacity and the integrity to say, I'm going to go borrow money and I'm going to do a good job at this and I'm going to do this deal and I'm going to make sure it works and I'm going to pay that money back. See, that's the difference between people who are okay with borrowing money and using money and using credit lines versus those who aren't. They're afraid that they're not going to pay it back. Well, you control that. You control whether you pay that money back or not. Here's the point I want to make clear.

Zack: I've been borrowing money from private assets and hard money lenders and bridge funders and all in between for 16 years. That's right. Sixteen years. I'll never forget the other day, I go down to the bank and they wanted me to fill out a financial statement. I looked at it and I was like, what am I supposed to do with this? Like there were so many questions. Then they're like, well, we need your tax returns. I'm like, okay, well my tax returns, you know, that's fine, but I own my own business. And they were like, oh, well then, we need the tax returns from your businesses. I'm like, well, I pay myself from one business, but that business owned several other companies that pay into that. Oh, well then, we need the tax returns for all those businesses. I said, are you joking? You mean I gotta go out and pull in 12 different tax returns and bring them into you from 12 different companies on there?

Zack: They're like, well, yeah, that's what the sheets for. I thought, Oh my Lord. No wonder you guys get so frustrated when it comes to dealing with banks. Right? It's almost easier to get a loan if you didn't have so many companies. You're just going out one sheet of paper and say, here's what I may give me a loan. So, I say this because the cheapest money is really traditional financing. That is the cheapest money. It is absolutely the cheapest.

Zack: You know, you're going to get loans between four and six percent, no points. It's going to be relationship type lending. Once you do one, you're going to be better off to do several more with them in the long run. It's just the best way to go, but I get it. Some of you can't get it right now, so you have to lean more towards private and the asset and hard money lender basis. So, knowing that, let's talk about private money. Let's talk about private money. You want some private money?

Zack: Here's the thing, some people get confused because some people out there that are doing hard money loans are calling themselves private lenders and they're not. So, what is a private lender? A private lender is someone that you have a relationship with. It's someone that you know personally. It's someone that you maybe your friend knew and he introduced you to them. That's a private lender. It is someone that you can establish what's called a prior existing relationship that is not based on running an operation on lending money out. A private lender could be your aunt, it could be your uncle, it could be your friend, it could be a coworker. It could be anybody that you know, and the way private lending works is there are no points. Do you understand? It's just interest. That's all it is. And it's not amortized in most cases.

Zack: It's just interest only and they typically run between six and 12 months or if you go into a long-term hold, they can. They can be for the life of the hole until it sells. Or they can have a clause in there that says there's a five-year balloon payment in there to get them out of the deal. You know, privates have to have a way to get out of the deal. With that said though, private lenders are going to charge anywhere from eight to 10 percent interest in most cases. That's a private lender, eight to 10 percent. So, if you've got private lenders, you pay eight percent to then there you go. You're paying double the amount in which you would be paying traditional banks.

Zack: The other side of it is, since it's an interest only payment, then you're only making the payment on what the interest of that is due. So, if you have a 100,000 dollar-loan at eight percent interest, that's $8,000 for the year divided by 12, $700 and 600 and some change, right? If you had 100,000 dollars loan with a bank and you were getting five percent interest amortized, then you're paying. Your payments are still less, but then once you add taxes and insurance it goes more. But you still didn't add taxes and insurance over on the interest only with the private. So, it's still cheaper to do the bank. But here's my point. You got a question for me?

Jill: I do. I'm sure I'm not the only one that would ask this, but what's the difference between amortized and regular loans?

Zack: Yeah, great question. So, amortization as the Great Einstein said, it was the lost wonder of the world. And the reason that is because amortization is a process of a loan that is, has an interest based on a 30, 15, 30-year term and so that interest is compounded every year. It's horrible because let's say you got a loan for $100,000 and you got an interstate five and a half, six percent interest compounded over, let's say a 30-year term. You're literally on $100,000 loan. You'll probably pay back somewhere around $250,000 - $270,000, right?

Zack: So, let's look at it from an interest. An interest only means that, oh, and on the, on the, the amortized, it's like a, it's like a shift. So, you're, you're, let's say if you had a chart, and this was, this line was interest, this line was principal balance. The interest is always front end loaded. And about halfway maybe two thirds into the loan, the interest starts going down and the principal balance starts going, meaning paid off, right? So, you don't really pay off the principal balance in amortized loan until towards the end. But now on the other hand, let's say you pay 150,000 extra in interest because it's compounded where if you've got an interest only loan, let's just look at that.

Zack: So, over a 30-year term, I would walk out owning that house free and clear. That means that, let's say I paid 100 but a paid 150,000 in interest. So, I paid $250,000 for that property. But I own it free and clear. If I take $100,000 loan and I times that by eight percent interest, that's 8,000 a year. I Times that by 30 years I've paid $240,000 in interest, but I still don't own the house, you understand because I'm only paying interest. So, the point is is even though it's amortized, you own it at the end of 30 interest only means I'm only paying interest for 30 years and I still owe the balance on the loan. So, I'm always going to pay more on the long-term positioning of the private money. So, I'm sure I'm not the only one that's ever asked you that question.

Zack: No, you're not the only one that's ever asked me that question. So, let's get back, I got sidetracked. Shiny objects syndrome. Our point of topic is, is traditional funding versus private funding versus asset hard money lending funding. So, when we deal with private, we go back, it's usually an interest, right? It's eight to 10 percent interest. There're no points. It's relationship type funding. These are the people, you know, the thing you've got to understand is this. People say, well man, I want private funding. I want private funding. Well then you gotta ask for it. You got to literally get out there and start asking for it. You can't assume that somebody is going to look at you and you're going to have a tag on your shirt that says, I need money.

Zack: Unless you bought a tee shirt that said that, that'd be pretty cool. I need money for real estate. Oh man, that'd be a good shirt. That would be a good shirt. Just walk around with it on you. I need money for real estate. I like that. I'll add that one to my list. Look at me. I'm getting all kinds of marketing ideas talking to you guys. So I. So, I would say to get you a tee shirt that says I need money for real estate, written on it and walk around all the time with it on your phone number and your URL. Put your phone number in your website on there. Right? Good Job Joe. So, I'm, you got to get out and start talking to everybody. You got to literally get on the phone and at Thanksgiving at functions you're going to tell her about what you do.

Zack: You gotta tell them, look, I'm in real estate and I work with people that you know, sometimes have extra money that's not making them any interest. And I helped them, you know, take that money and I placed it in real estate deals and I'm involved in and I can pay anywhere from eight to 10 percent return and the properties are secured by real estate. So, if all else goes wrong, they have a property they can sell and get their money back out of it. And then I would turn around and say, what are you making on your money that's sitting in the bank? Oh, maybe one percent. Okay, great. How would you like to make eight? Well, I love that. Well, great. Let's talk. Right? You just got to have that conversation all the time. All the time. You'd be surprised who you run into.

Zack: Steve brought up bridge funding, you know. Bridge funding is also known as gap funding. It's short, amount of money to get you over a hurdle and you might even know people that only have 10, 20, $30,000. Well yeah, in some markets you can buy a whole house for that. But in other markets that's a bridge fund. That's a bridge that's a, you know, that's the fund that is going to allow you to get to that next stage of the deal. And so, you want to, you know, you want to keep those in your, in your database as well. Um, so it's really about relationships. It's really about talking to them, communicating with them, sharing information with them, telling them what you do, getting them onboard, and here's the biggest thing I can tell you. People always say, but what about the legal aspect of funding?

Zack: What about the legal aspect of compliance? What about the legal paperwork? Those are all great questions. I know him, but I let the attorney do it. That's as simple as it gets. I might drop a promissory note that says, you know, Landmark Investments agrees to pay Rob Stanfield $100,000 back from a loan at an eight percent interest rate with payments per quarter or month of x, Y, and Z, and this is my promissory note. All I do then is I signed it. Rob would sign it. In this case, we would send it into the attorney and the attorney does everything from there. The attorney draws up the note. The attorney draws up the mortgage, the attorney files everything so that I don't have to worry about compliance. That's what they do. That's what they get paid for. Let them do it. You don't need to do it, and that's how private lenders are taken care of, if not the biggest and one of the best lessons that you have to teach.

Zack: Everybody else has an expertise and let them look after their job. Let me tell you, when it comes, absolutely like I know enough to make sure I know I'm going in the right direction, but at the end of the day I'm going to let the experts do what they do best. That's what I'm gonna do. Here's the other reason I ain't got time for a man, rob. Rob said that. That sounds good on the eight percent. So, let's do it. So that's private money. So. So the question that Steve had was the bridge funding. So, let's talk about bridge funding because that's a great segue into the other two. So, bridge funding. Let's say you're going in, you're getting private funding in your private says to you, well look Zack, I'll do the deal. I know you need a 100,000 for the purchase and you need 40,000 for the remodel, but I'm only willing to give you a 120.

Zack: Well, I have a gap there, right? So, bridge funding is also known as gap funding. So, I have a gap there and I got to build a bridge over that gap so that I could do the deal to execute that deal, I got to find 20,000 more dollars. So, this is where bridge or gap funding comes in. It's short term, um, and usually it's anywhere from three to six months. But the beauty of gap and bridge funding is they know their position. So, for instance, a private investor, if they're going to loan you money, they're going to have typically in most cases, if they're funding a lot of the deal, they're going to want first lien position in first lien position is important to know because here's why. If the property gets foreclosed on, they start going from the top and working their way down of paying off the liens or debtors when it comes to the sell that property.

Zack: So, who gets paid off first? Obviously the irs, right? Government, irs tax liens, things like that, they get taken care of. Um, the next one is first lien position. First Lien position is typically the lender that loaned the most money and then if there's anything left, if they pay off the second and the third and the fourth lane positions or any mechanical lanes or anything like that, usually most of them get wiped out anyway. So, um, so a private gets first we're gap or bridge funding. They know their position. So, they're willing to take a second position or in some cases very rare, they'll take a third position, um, or they'll buy out the second position to secure them in a second position and then add the. So, let's say you had a second that was up $10,000, but you need a $20,000. Well they would come in and buy out the second and then have a $30,000 lien, but they would be in second position to control that.

Zack: So, Steve also has another question there. He says kind of on topic, what is your thoughts on paying off the long-term loans early or let it go to full term. Do you want to own them free and clear? Yeah, I do. Steve. I do want to own them free and clear, but not right now. Look, I'm in. I'm in wealth mode right now, right? I'm still building. Well, 16 years in this business and I'm building wealth all the time. And here's why. Because markets run in cycles and wealth runs in cycles. When you're not stable, that didn't come out right. I promise you I'm very stable back when they first purchase rental. Well, no, that I don't mean that. I mean just life being stable. Right? And so, for instance, I built by building wealth, very successful in the beginning and then obviously the market took a shift and we lost some of it.

Zack: Then we plugged back in with some strategies that most people weren't doing. And then we started rebuilding it again. So, we went up, we came down that we caught that. We started rising back up. We were riding high when most people were closing their doors and shutting their businesses up. We had figured it out very quickly. One of the reasons that I'm still so successful today is because I've learned over the years through trial and error, how to move through markets, whether it's a good market, bad market, hot market, cold market. I know from the years of doing this, what strategies you got to move with. You got to move and change and alter, you know, and then as you build your mind and you build your business and you got more money, you're able to do even more market shifting. You know, for instance, when you're in the hot market like we're in now, if you've got the capability you should be building, you should be building, building, building, building, building apartments, building subdivision.

Zack: You should be building a building. Obviously, most people don't have the ability to do that right back when the first market hit in 2006 and seven and eight. I didn't have the ability to do that back then, but the guys that made all the money back then, that's what they were doing. I was building up to get to the point, you know, now we're back in a hot market. I'm, I'm, I'm in the middle of several land development deals right now. One of them is almost a 500-unit apartment building. Another one's a 28 unit, a townhouse community. Why? Because that's the time we're in, but if you can't build, you've got to be making capital right now, so that's wholesaling and fix and flips, wholesaling and fix and flips and then buy and hold along the way. But when markets take a dive, they take a crash.

Zack: That's when you want to be positioned to buy everything you can and leverage as much as you can. Stave. Is it Steve? Romania. Steve, leverage as much as you can. So back to your question, do I want to own them free and clear? Yeah, I do know right now I'm leveraging lenders on all my investments so that I get the highest rate of cash on cash return I can get because my model is I want to double my money as much as I can, as fast as I can and I can't do that. If I'm putting it all into one deal, I can do it. So, I'm doubling. I'm basically, I'm growing money right now. I'm putting little seeds out and I'm watering them. I'm putting some, was it neutral green on him or I don't know what it's called. Putting some black seed out there whenever you put other things.

Zack: And I'm watching, I'm making that money grow. Then, whenever I decided I think I want to retire. That's right. I'm a what am I going to retire? That's good. I have no idea. I love what I do. I love real estate. I love business. I love my team. I'm for once in my life. I've got a great partner that's helping you build this thing. And I just love everything I do. I feel really blessed. So why would I walk away from all that? Right. So, I don't know if I will retire the day. It's not fun anymore. That's when I'll retire when I just, I'm not having fun with it anymore because here's why. Like I don't mind working 12, 14, 16-hour days, like I really don't. Like I'll get up in the morning at 5:30-6am, get the kids to school, start working at seven and I'll work until 12am-1am in the morning. So how many hours is that? Seven to seven is 12 hours.

Jill: You're sleeping for six.

Zack: Sixteen-eighteen-hour days. I can work months at a time. It doesn't faze me because I love what I do. So, when that day comes, yes, then I'll start paying everything off but not right now. And here's the other thing. When you get to the point that you want to pay everything off, you got to have at least a three-year exit strategy at that point so that you can start doing deals to take the earnings from those deals and the cash flow you're not using and then reinvest all that money right back into the debt on the portfolio you've built to get it free and clear. So, let's talk about the difference between asset based and hard money. Okay? What's the difference?

Zack: There is no difference. Guys do the exact same funding sources. It's just over the years, hard money kind of got a bad rap and so they changed it over the last year or two into asset-based lenders. They just basically didn't like being labeled as a hard money lender. Right? It made them think of the mafia days, right? Because when people would say, Oh, you can borrow from them, hard money lenders, they'll come out and bust unique apps.

Zack: So now they're really referred to as asset-based lenders. Okay, and to get clear with you on this, a true asset-based lender is just what it says it is. It lends based on asset, not you personally. So, it doesn't really care if you have a credit score, doesn't really care if you have a job. They don't care. You know what they care is this, does your deal fit their parameter of risk management and they'll fund the deal and most of them will fund anywhere from 65 in some cases, 75 percent of the ARV after repaired value. So, this is great for you that are watching this, that are brand new or you're trying to figure out how all this business works is that when you don't go to traditional banks, you go to prime it. So, you go to bridges and you go to asset-based lenders, also known as hard money lenders and they only look at the deal. So, it's a deal submission. They liked the deal, your purchase price has to meet and the remodel together has to meet their parameters, meaning it has to be below their expectation of ARV after repaired value.

Zack: But that's the beauty of this whole thing. That's the whole beauty of this is that they don't care about you, they only care about the deal. So, this is how you get them to fund you. And when you don't have a job and you don't have any other. Now I know some of you are saying, yeah, but most of them want some skin in the game. That's right. They do, they do. So, we even no lenders that will go up to 85 percent of purchase price, but they'll fund all your construction. So, let's say you're buying the house at $100,000 and you've got 30,000 in construction, they're going to give you 85,000 plus I'll give you the 30,000 and draws and the beauty of it is, is a charging between eight and 10 percent.

Zack: Maybe one point, okay. But let me be very clear. If you're talking to somebody that says they're an asset-based lender and they're hitting you up with, you know, five points and 16 percent interest. There's plenty more out there that are much cheaper. Don't use them. Guys, don't use them. They're overpriced. Now look three, four years ago, yeah, they were all extremely high because there wasn't as much competition. Now in today's market, lenders are popping up everywhere. There're more asset-based lenders popping up in today's market that I've ever seen. Even back in 2007 and 2008. You know, we didn't see this many of these lenders out there. I mean they are literally coming in like a mad storm. The other thing I heard the other day I read in the news was that subprime loans are coming back. That is a disaster.

Zack: So, let me help you guys get a clear vision of this, okay? If subprime loans are coming back out, guess what? You got maybe a year and a half, two years before you can get in and out of this because those subprime loans work on what's called a three-year adjustable in most cases because that's how they get the cheapest payment for the person who wants to buy the big house but don't have the income. So, they put them on a subprime loan on adjustable rate arm. A three one, which means in three years, guess what? All those payments are going to go up. We're going to see another crisis happen again. People are gonna lose their properties and we're going to be right back in a hot spot to buy houses again. I'm ready.

Zack: Bring it on. So, this here's my ploy though. You gotta know how to move in the markets, right? You got to see the markets come and you've got to prepare for those and position yourself correctly. This is why it's important to get lenders now so you can start making the money now because let me tell something when that shift happens, when it happens, prices are gonna drop and you're going to wish that you would have built your money up to start buying rental properties for dirt cheap, dirt cheap. You're going to be able to go out and buy rental houses for $20,000 that rent for 750, $800 a month. You're going to be able to go out and buy fourplexes again for $100,000. That brings in 1500 to $2,000 a month. That's the reality. That's the reality. It's all about positioning, okay, we're in a great market right now, but listen, live in the market now, but prepare for the market that's coming and you're with me on that.

Zack: Live in the market now, but prepare for the market that's coming. That's how I've managed to be so successful as a real estate investor and in business. I appreciate what we're in now, but I'm always looking two, three, four years down the road and where am I going? Where am I going, what's going to happen? What are the indicators? So, you got to be clear on that.

Zack: Asset based lenders. Let's talk about that real quick again. So, these guys are out there. You want to build relationships with them, you want to be on the phone with as many of them as you can get. Some of them will do certain states, some of them won't do certain states because your state has, you know, a long period for foreclosure time. Your state may have a long period for redemption period. So, some of these lenders say, look, we don't want to deal with that, so we just don't lend in that state, but you want to get out there and dig around and look at them.

Zack: So, you've been listening to the Real Estate Investing Talk Show. I'm Zack Childress and I'm on a mission to create 10,000 real estate bosses over the next year. Will you be one of them? Head over to my website, REISuccessAcademy.com/web class and register for my free web class will you'll discover how to escape from the nine to five grind and become your own boss in real estate. See you there.

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