Ep #165: Dave Van Horn Pt. 1 - Getting on the Right Side of the Financing Business

Full Episode Transcript

With Your Host

Dr. David Phelps

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You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

Dr. David P.: Good day everyone, this is Dr. David Phelps of the Freedom Founders Mastermind community, and the Dentist Freedom Blueprint Podcast, today with a really good friend of mine. I decided to do this podcast for several reasons. One, it's gonna talk about framework of real estate investing, that I personally think is the best place for new real estate investors to get started. We'll talk about why that is, but I think it's where, in my community, the Freedom Founders, I tell people, "If you're just getting started, start here. Because all the pieces you need to know are in this particular element."

Another reason I'm happy to have my guest on today is because, not only have we been good friends for many years, but he's also one of our trusted advisors for Freedom Founders community. He does a lot of things for a lot of people. He's out there in a big, big way, so I've got Mr. Dave Van Horn of the PPR Note company with us today. Dave, how're you doing?

Dave Van Horn: How you doing David?

Dr. David P.: I'm doing well, doing well. So we haven't seen you for a while at Freedom Founders and I know why. I know why because you told me a little over a year ago, you said, "I'm here to take a leave of absence from being out there as much as I do, because I'm working on a project," and you named it. You said, "I'm working on a book, I'm working on a book." And you obviously had a deadline in place, yep, yeah, yep there it is right there. And it's done. It's out right, now we'll talk about that book, why you did it, where people can get it. Kind of who it's for. Very, very good of you to put your intent right into it, and you knocked it out. Doing a book, not the easiest thing to do, is it Dave?

Dave Van Horn: No, it took me about a year and it's probably because I'm CEO and I have 30 employees, so it's hard to stop and go write a book at the same time, and one part I would head to the mountains and write, or I'd, one time I actually flew out to LA and got a cottage, and just shacked up. My son, who's also my editor, writer, partner, and just hid away in a little writer's cover for several weeks.

Dr. David P.: Yeah, but you're already a very prolific writer or blogger. You've for years put out a lot of great articles, different platforms, for people who are interested, kind of in the real estate note space, so you're already gifted writing, but putting together a book itself that kind of has a beginning, middle, and end, that's a little bit harder than just putting out articles, right?

Dave Van Horn: Yes. Well you're right, I actually, that was the other thing. While I was doing the book, I continued to write weekly for Bigger Pockets, and I write an article a week for about the last five years now. So, it's a long period of time, and each article takes a little bit of time, and you know keeping it interesting, coming up with topics. It's a little bit of work. It's not that easy to always come up with something interesting to talk about.

Dr. David P.: Feels so good when it's done though, it's gotta feel good.

Dave Van Horn: It does for me, I actually wanna do a second book and my son's like, "You're nuts, I'm not working with you ..."

Dr. David P.: I'm not gonna do that dad, you're on your one now, right?

Dave Van Horn: He's kind of taken a hiatus or whatever.

Dr. David P.: Alright well I've gotta tell people about you. You've been on our podcast before. You've been on our podcast before. A lot of our Freedom Founders members know you very well, because many are investors with you through different portals, we'll talk about that. So fou our general audience, Dave Van Horn currently serves as the President and CEO of the PPR Note Company. We'll talk about what that is, what you do. His primary responsibility is raising capital. Dave's expertise is derived from over 30 years of residential and commercial real estate experience as a licensed realtor, real estate investor, and a fundraiser.

As the latter, Dave's raised over $100 million for both notes and commercial real estate. He's also involved in strategic planning and business development at PPR. So now let's talk about PPR, then we'll back into your story and how you got there, but PPR itself, Note Company is a financial services firm that primarily assists private equity funds investing in distressed, and I'll emphasize that, distressed residential mortgages. We'll get into what, what this distressed is all about, throughout the United States.

PPR provides top tier business services in the areas of asset acquisitions and analytics, borrower management, document management, and client relations. I've been to your offices. Now you're in new offices now, I gotta come see your new digs, maybe I'll get to do that in a week and a half when we come out for the Mid-Atlantic Summit. Don't let me forget to give a plug there because the Mid-Atlantic Summit is coming up. You're just about sold out I think, right?

Dave Van Horn: Yeah we're close, yeah, yeah.

Dr. David P.: Pretty close? This is your first East Coast Summit out in Philadelphia, and it's obviously focused on really all aspects of real estate, right? You got people from all platforms, really a great group of people are coming to speak and give everything from notes, to equities, to funds to taxation. I mean it's really all there. Just real quickly, if people wanna, there gonna have an opening coming up that weekend, which you gotta give me the dates 'cause I'm not looking at my calendar, but where should they go to just have a chance to, if they wanted to try to get involved?

Dave Van Horn: Just go to midatlanticsummit.com. Midatlanticsummit.com and you could still sign up for a ticket, and the cool part David is, all the proceeds are going to Project Home, which is a homeless charity in Philadelphia and Detroit, so.

Dr. David P.: You've been involved in a number of charity give backs, and that's one obviously. Another one is Halfway House, right? Shelter.

Dave Van Horn: With my oldest son I own a drug and alcohol recovery center, and we've been doing that for about eight years, yeah.

Dr. David P.: No, very cool, very cool. So let's go back a little bit in time, then we'll come up to the current, and how PPR came about, how you and your two awesome partners came together. Every time I talk to you I have to add years, so right about 2007, so we're about 11 some years ago I guess, if I know the story correctly. But you've got a great story, a great background, because like most people, you've evolved to get to where you are today. You've evolved from a guy who was a painting contractor, you hurt your back doing labor, labor you know-

Dave Van Horn: That's what it'll do to you, yep.

Dr. David P.: You and your wife and your son were living with your mom, and mom said, "Well, why don't you try real estate?" So take us a little bit down the pathway to where you are today Dave.

Dave Van Horn: Wow. You are correct. I went to college, I was an accounting major, and didn't really like accounting. Don't tell John Groom. I switched to management and got out of school and couldn't get a job, and was working in construction while going to college. And later on became a painting contractor, and was actually in construction 22 years, so a significant portion of my life.

But when I 26, I was coming home from the construction site all beat up, and my mom said, "Why don't you try real estate?" And I went and got my license at night, and was doing it on nights and weekends. And I actually took a class on real estate investment to get towards my broker's license, and that's when the instructor said, "How many people in here have credit cards?" And we all raised our hands, and he said, "How many of you are buying houses with credit cards?" And all the hand went down. I remember coming home from class that night and telling my wife I was gonna, I was thinking of buying a house with a credit card, and she was like, "That's not gonna affect my ability to go to the mall, is it?"

I said, "No it's another credit card, don't worry about that." But it's a little bit crazy at first, but really I had, there're some things I'm not pointing out. I had access to the MLS, I could find deals, I knew how to fix up property 'cause I was handy. I just didn't have the capital piece. And I'm a blue collar kid with no money, no assets, rally and just to access the capital is what did it. It doesn't really matter what that form is. No I wouldn't use credit cards today. There's debt to income ratios would get wacky, the advance fees are expensive, but back then, they didn't have them when they first came out, and it was like, I don't wanna say free money, but it was kinda like that.

I wrote myself a credit card check, put it in my account, and would go pay cash for a property, and I would get a better deal 'cause I was a cash buyer. Plus I was handy, plus I could find a deal 'cause I was a realtor, so if I don't point that out to people, there's a couple things I'm doing there to mitigate risk, I mean like I just randomly bought property like that. And I would fix the house up, move a tenant in, go down to the community bank, and refinance and pay the credit cards off. Of course they kept upping my limits, and next thing you know, I had $400,000 worth of access to credit cards which is insane even back then. And then I bought my first probably 10 or 12 houses that way, along with some other ones with regular financing, and next thing you know, I accumulated all these properties.

I got up to 40 units. I had about 30 buildings, apartments, and then I started utilizing HELOCs, Home Equity Lines of Credit, and I was fortunate David. I was kind of blessed, appreciation hit, and next thing you know, I had two and three million in equity. And it was like, "Oh where did this equity come from? This is great." So I didn't really pay down that dramatically, I mean I was paying my bills but it wasn't like a dramatic pay down or anything at the time. But the appreciation really took off and I was in a pretty nice spot, and so I started accessing the equity, and in the beginning I was doing more rehab projects with it, which is something that I would question today, from a risk perspective.

I started out doing that, and then I became a lender, and I started being a private lender for other folks, between my IRA account and I had 11 lines of credit at one point on apartments and things like that. Basically I was working this equity and I made more money working my equity than most people make at a salary, at the ... and I did it safely. I mean I was lending 60, 65% loan to value on properties in the county where I was a broker and I was also a contractor, so it was almost ... and I was only lending to people I knew. So I wasn't like a hard money lender advertising to anybody. I was lending to colleagues that who were contractor buddies of mine, often who owned 50 or 100 properties themselves, so. I used to pray they would default, they just never did.

Dr. David P.: Now you're one of those after the property guys, I get that game but, let me tangent off a second, we'll come back into the story and press forward. But, I want to pick up on some pieces you talked about that I think, a big epiphany, you just made a statement that said, you were making more off of your equity than most people make from a decent job out there. Now explain a little bit of that. So the timing of the market, the fact that you were controlling, through leverage, through good leverage controlling a lot of assets that happened to hit a market time where you did have appreciation, so that built up equity, equity in these properties, so let's talk about now, how did you access that equity? Was it through the 11 different lines of credit?

Dave Van Horn: Yes so I went out and took these lines of credit, and at the time the rates were only like three, four, definitely under five percent, and I was able to lend out money at 15 and 18 with points, which is a significant gap at the time. And it was a testament that when I had got hurt, I was 42, and that's when I sold off my painting contracts and got out of the painting business 'cause I hurt my back, and I actually took off for three months where I didn't work at all. I basically retired at 42 and could live off my properties and live off that equity. I was able to live like that until my wife went, "You're not gonna be home again today, are you?" And I literally got an office to leave the house so I didn't get in her way. She was like, "It's one thing to grow old with you, and you're home and you're 65, 70 and you're home, but you're like 40 and you're home, and I don't like you interrupting my day."

Dr. David P.: Well knowing you too, Dave, I mean you retired from your active work contracting, which I think is a cool thing to do, and I know a lot of the audience we're talking to today, that many of them are professional practice owners. That is backbreaking work. It's stressful physically and emotionally, so not unlike a lot of businesses that, you're dealing with people, you're doing the hard labor. There's a lot of people that would to at least like to have the opportunity to transition or maybe slow down, or maybe have their life a little bit more not on auto pilot, but where they can make choices, right, and not have to deal with all the bureaucracy, and all the regulations, and all the insurance.

So I'm always talking about a plan B, and of course real estate, just like for you, that to me, real estate's the vehicle. There's so many ways to utilize real estate as a vehicle to create equity, wealth, and then the different ways to create the cash flow from that, and you just talked about one. By controlling a lot of real estate, back during a time when you built up that equity which you could then access, and then use a form of leverage which is arbitrage, or the gap, you just said the gap between what you could borrow, based on your equity, and then re-lend out to people you knew, and of course, again you were very wise to tell the audience that you already knew a lot about real estate so, this is something that anybody can do, but something that you need to have some knowledge about, due diligence and about the people you're working with.

So I don't wanna leave that out either, but you had all those pieces, and now you went from someone who learned how to work in the field of real estate and contracting, to someone who is dealing in the world of finance. Well, you know what? There's so many things we can talk about. I don't want to get off, too much off track. I wanna come back to finance. I'll come back to the world of finance because that to me, that's the key and that's a lot about what you're about, so we're gonna get into that. So let's go on, so now you're a hard money lender, accessing lines of credit secured by the equity in your properties. You're making more money doing that than you could at any kind of day job. So what happened next? Where did you go next?

Dave Van Horn: So a couple things happened. One was, obviously it was sad closing down the painting company. At my heyday, I had 12 employees, it wasn't like it was just me or anything. So, and today my oldest son still has the same family name and a painting business, my oldest son does, so he actually works for some of the same folks that I did years ago. The other interesting piece though was, to your point I had a college degree, I had a business degree, I had a real estate license, and what I did was I read, I think it was Robert Allen's book on Multiple Streams of Income that kind of got me thinking.

And for the first 15 years of being a realtor, believe it or not David, it's right around 30 years I've been a realtor. I'm just probably the worst realtor in the world these days, but anyhow, in the first 15 years, I gave all the title business away. I gave all the mortgage business away. I gave all the property management business away. Well then I read Robert Allen's book, and I'm like, what verticles could I bring into my life to really generate more income from the business that I'm bringing to the table. These are my clients, so now I became a property manager, RE/MAX, I owned a title company. I even ran mortgages through my wife for a while, and then I would even do maintenance.

I had all these pieces and I would get paid multiple times off the same transaction. So that was one thing that I was doing for a while, and then over time, just being this lender and being a property manager, the down turn kind of hit, and my real estate office got bought. And they go, "You can't do property management anymore. We already do that." So it was right around that time that I met with my partner John Sweeney and we were starting PPR, because I went from selling about 75 houses a year to 7. And when you're at a RE/MAX and you're 100%, it was tough. Your livelihood's just ripped out from under you. Now luckily I had my rental properties and could live off that, but the good news was, I was able, I said to John Sweeney and Bob my other partner was, "Which side of the fence do we wanna be on in this down turn?"

That's when we shifted over to distressed debt. And I ran a real estate investing group, and some of the speakers would come down from New York, raising capital for pulls and mortgages, and that was probably a couple years before the collapse, and then right about the time of 2007 and 2008, we had started PPR, and we're like, "Hey, show us how to collect on delinquent debt, and we'll buy assets from you." And that's kind of how we morphed into PPR, and if I hadn't been doing private notes, if I hadn't been doing private money lending, and if I hadn't done seller finance seconds when I was selling properties, you know there's a lot of neat ways to utilize notes.

I had a We Buy Houses business for a couple years there too, and I would make multiple offers on properties. I would say, "Here's an offer if we take over your mortgage. Here's an offer if you give us owner financing. Here's a different offer if you hold a second. Here's another offer if we pay you cash with private money from our sources." So all offers worked for me, but the seller was able to pick the offer that fit them best. And a lot of times, you're able to get better deals that way. Sometimes the deal's in the financing is what I'm getting at, and that's a neat way to buy, and you can do the same thing when you're selling.

So I had sold a few of my properties, right before the downturn. It was at the peak of the market. I actually sold about a third of my portfolio, and some of them I sold with owner financing seconds on them, and I would cash flow for an additional five or ten years, after I no longer owed the property. So utilizing notes to buy can be a great way to get multiple offers in, and it's a great way to sell to cash flow off property you no longer own.

Dr. David P.: A big thing that you talk about and I think you say it well, is that everybody, whether they know it or not, everybody's in the financing business somehow, and usually most people are on the wrong side of it. That's where we start out in life, right Dave? You mentioned credit cards. Because of good credit, you had access to credit cards, so that's credit. That's a loan, that's an unsecured loan, but you fortunately utilized that access to that credit very well and put it into real estate. We come out of school usually most of us, and today a lot more people come out with heavy student loan debt, so that's financing, right?

So let's talk a that, financing and why you'd like to shift sides, shift sides and not be on the paying side but maybe on the receiving side and we'll kind of blend that into what you do today very well.

Dave Van Horn: Well this is something that I even teach my kids, and now I'm having a fourth grandchild David, so.

Dr. David P.: Nice.

Dave Van Horn: I'm getting old. But the interesting thing is, the financing thing for example. Most people go through life and financing happens to them, instead of learning about financing and using financing as a tool. So once you get a handle on managing financing, really using it as a tool, it's a game changer as opposed to most of the herd goes through life and financing happens to them. And they don't even realize what's going on around them. They're going to Rent-A-Center for furniture, their insurance is high because their credit's bad. They don't even know what's going on.

They just know they're broke, and they don't know why. And it's because they don't understand banking, or they don't understand financing that's happening all around them, and you pointed it out. We're all in the note business whether we know it or not, because we all have student loan, credit card debt, medical debt, auto debt, and so on and so forth. Mortgages. So you're in the finance business whether you realize it or not, now I just happened to realize it and said, you know I was fortunate. I had this course that I took by accident in college called Money and Banking, and it really opened my eyes to what banks really did and how they really made their money, and I do talk about that in the book a little bit about how that happens.

But one of the things I like is to show people how you can use your assets to pay your liabilities, and I do talk about student loan debt in there, and I give an example of, actually it was my first note. It was my student loan which was 5600 bucks at 6.12% for 10 years and my payment was 65 bucks, and people would go, "How can you complain about that?" And I'm like, "Well it was just a long time ago, it's still a lot of money at the time." But then I tell the story about how I paid my son's college in a completely different way, and it cost us about 30 to 40% of his tuition. So, people go, "Really, how did you do that?"

And really what I show them is, while my son was going to school, he's like, "Dad, I'm going to college, are you and mom just gonna write a check?" And I go, "Oh no, that's not how we do it here," I go, "Don't worry though, I'll show you how to pay it back." And he's like, "Whoa, what's this mean?" I go, "You're gonna take out a student loan and you're mom's gonna take out a student loan." And there were a lot of lessons to teach him there about responsibility, about showing up for class, about it being his credit, about interest rates, about arbitrage.

There were a lot of lessons I was planning to teach him with this, and it was funny, in the very beginning, we take out the student loan, he takes one out, and my wife took one out, and what he didn't realize was, it was easier for me to get a student loan than I could get a mortgage. He didn't know that. They're giving out student loans like candy, like lollipops, and the rates are in the six to eight percent range, and I'm making 12, 15, 18% returns on money. So why would I take my money out of my investments to pay for Junior's college when I can use student loan debt to pay for the college, keep my money invested, and make that spread, and I showed that to him.

I also showed him that, you can often deduct student loan interest as well, so a lot of time people don't look at the whole 30,000 foot view picture of what they're doing. They don't look at all their finance and all their capital that they have, their capital stack. They don't look at, "What's my blended rate of my debt, how am I making money with it?"

And all that type of thing. So not only am I making this arbitrage between the student loan money, deducting in some of it, and making that spread and keeping it in play.

So Junior was Dean's list, he's a great kid. He gets done school, and he's working at PPR at the time. And they have that deferral, six month deferral, and he's coming to me. "I thought you were gonna show me how to pay this back?" And I'm like, "Yeah, how much you got saved up?" And he's like, I think he had right around five grand or so, and what we were able to do was, we bought him a discounted re-performing mortgage for about 30 or 40% of what he owed. I think he owed like 15 or 17 grand, something like that, and he was able to buy this note, and the payment from the note paid the student loan payment, and the note was actually a little bit longer term than the 10 years he had on the student loan.

So what I was showing him there was, your investments can pay your debts. So he buys the note, it's paying his payments, and I guess he was about a year or two working at PPR, and he went to school to be a writer and I was driving him down to the Philly airport, and he's moving to LA to be a writer. So I drop him off at the airport and I hand him an envelop with the money in it, and he's like, "What's this for?" And I said, "Well I don't want you to tell anybody your dad didn't pay for college." So, he goes out to LA, and this is how I know it stuck.

So he had this old used car, and he shipped it out to LA and the car goes after about a year or so that he's out there. And he calls me up one day, and he's like, guess what he said? "Do you have any of them short term notes laying around?"

Dr. David P.: Exactly, exactly.

Dave Van Horn: So most 22, 24 year olds don't think like this. They're not thinking like this at all, so it shows you that it really works, and what he was able to do, same thing. I go, "How much you got saved up?" And it was like, I don't know, 4500 bucks I think it was, and I said, "Well, let me see what I got." We ended up with a seven year note that had a $300 a month payment on it, and that note, he was able to actually lease a brand new Prius, for the price of a used car. So you can see the power of what notes can do when you incorporate it into your everyday expenses and liabilities and those types of things.

And I do strongly recommend to people, whether it's your kids or your grandkids, I do the same thing with my grandson, I torture him too. I say, "How much can we get for your used video games?" I'm all over him. But, is that a good investment? No. Same thing with my son, when he was in high school, we used to, I used to trade stock options, right, and I was taking classes and I made him take the class with me, and we'd trade options together. Or, we would for probably a four or five year period, I would make him, I would pay him, but I would make him do my taxes with me. And even to this day, he knows all the family trusts, he knows everything we have, he can, he's actually better at it than my wife. So I strongly recommend doing as much as you can with your children and grandchildren.

Dr. David P.: Yeah, no I think that's great Dave. That's legacy but it's also teaching your generations, your kids, your grandkids resourcefulness, and that's what it takes in life today. Yeah, education's great but the right education, and here financial education in the world that you revolve around, the world that I revolve around. It's amazing what you can do if you just have that ability and the connections. Which, by the way, we're gonna do an additional segment Dave, and that'll come, for our folks listening today, come next week. Before we cut this segment off today, I do wanna give just a quick plug, and it's a plug because it's a really great resource but, that is your new book which is Real Estate Note Investing, Using Mortgage Notes to Passively and Massively Increase Your Income.

Let's talk about where people can get that and there's some bonuses that go along with it.

Dave Van Horn: Well all you have to do is go to biggerpockets.com/noteinvesting and you could get it there for the next couple months, and then it'll eventually come out on the Amazon and Barnes and Nobles, but for now ... and you also get some free bonuses if you do go to Bigger Pockets to purchase the book. One of them is, Stay Safe, Note Investing Pitfalls to Avoid. It's a nice little ebook that we put together.

There's also a video on how to buy actual notes. We actually go around to a couple websites and analyze notes with my loss mitigation partner, Bob Paulus. I know you know Bob, and very knowledgeable guy in that regard, and he really breaks down, "Hey, this is what we're looking at when we look at a note, this is what we would buy, this is what we wouldn't buy, these are the risks we see," and he kind of walks you through that, and then the last piece is an interview with Mary Hart, which is also I think one of your trusted advisors, Freedom matters, and Mary does a topic, The Biggest Asset Mistakes You May Be Making And How to Avoid Them.

And there was a short period in my life where I was selling insurance, and did a little bit of financial planning, and a lot of it was to the same audience, my real estate clients. I learned a lot about where a lot of real estate investors overlook some of the asset protection strategies, or that being more diversified, having multiple buckets of investing, and a lot of people will say funny things to me David, they'll say like, "Well you're the note guy, you don't like real estate." I'm like, "This is absurd, right?" I have a company that day trades, people don't even know that. I have real estate bucket, I have my note buckets, I have multiple trusts, I have commercial holdings, I mean it's just an array of diversification in multiple buckets, and even the SIA group that I run, it's really turning into almost like a mutual fund of alternative investments.

So it's, I'm just like everybody else. I want diversification and safety, and there's tax advantages to real estate that you'll never get with something else like notes or, and then there's all kinds of vehicles. And I'm not one to shoot down someone's vehicle, and also there's another bucket. It's your business bucket. My business bucket is, PPR's one of them. I actually have a few companies so, I don't always tell everybody that but in your audience David, I'm willing to share that. It's not just, I'm the note guy and I don't do anything else or anything like that.

Dr. David P.: Yeah, no it's good to get that perspective because, yeah when you're an avid writer and you got the new book out, and your company's PPR note company and you got people can kind of singular out into a certain space, but yeah you, that's why I wanted to go into your background today because you have a very broad, diverse background, and your evolution through the real estate arena handles all those different buckets as well, so that's, you come with a very diverse background, your investing shows the same way.

Alright so next week, come back because Dave and I will go a little bit deeper, and we're gonna get a little bit more specific about how a busy professional practice owner, which is typically my audience, can really make use of this, 'cause they're busy, and they're not gonna ... We'll talk about active versus passive and connections, and where you're finding deals, and how do you make that happen, so we'll dive a little deeper with that on the next session, Dave, so I will see you there sir, alright?

Dave Van Horn: Sounds good. See you David.

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