Ep #368: Jay Conner - Investing in the Private Capital Markets (Part 2)

Full Episode Transcript

With Your Host

Dr. David Phelps

[Dentist Freedom Blueprint] with Dr. David Phelps

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Welcome to the Dentist Freedom Blueprint, a podcast about freedom—freedom from expectations of society and the traditional path to success that has been ingrained in us from our early years, I'm joined by mavericks, renegades, and non-conformers to discuss an anti-traditional path to financial freedom, freedom of time, relationships, health, and ultimately freedom of purpose. My name is Dr. David Phelps. Let's get started.

David Phelps: Hi, David here. This week, we are picking up on the second half of a conversation I had with Mr. Jay Conner. We began that conversation last week, talking about how private capital can make a real mark in the real estate industry. How Jay developed what he does today, inserts capital and other people's capital into real estate deals. This week, we'll dive deeper into the conversation and give you a clue as to how important relationships are in putting deals together. Enjoy the conversation.

I want to people understand why entrepreneurs are really the fabric of this country. Yes, we have the institutional markets and they do play their role. The banks, the mortgage companies, yes, they do. But, I look at what people like you do and people in our groups, in our masterminds, is, we're the ones that really are the fabric of putting things back together again when the market conditions, inflation, interest rates, recession, whatever you want to call it, is causing a lot of upheaval.

If it weren't for people like you that have figured out, to fill this void in the market, the void where the banks don't play. The banks won't play here in this market, not at all. So you go out, because you're able to find off-market properties that otherwise aren't going to be listed anyway, because they need deep rehabs or the financial situation with the owner of the property is such that they need quick help. They can't wait for the traditional retail markets. So you come in, you find those people, because you're a great marketer. That's a big piece of this.

So you market. Well, now, to get these deals done, you go to borrow private capital which is people like both of us and a lot of people on my list. So, we get to get in the game with you. We get to get in the game here and earn a much more substantial yield rate than we would in the typical CDs, T-Bill market, bond market today. And it's a lot safer, because we've got real estate backing it.

The last thing I want to bring up and I want you to jump in, because I know you're getting excited here. I can see it, Jay, I can see it coming because it is exciting. Now you also created an entry point, as you just said, for people who actually really would like to buy a home but again, because of credit scores, financial issues, maybe the market, they can't get in right now. I mean, look what you've just sewn together, sir. I know you know this, but I'm making a point to people listening. You've sewn together the fabric of what is a great part of this economy, and I just have to say without people like you, the world will be a lot less fruitful than it is. Now you jump in because I know I just triggered some points there for you.

Jay Conner: Well you did. I appreciate you saying that. I view myself as an orchestra director. I'm the guy in the Black tales, in the suit that's bringing in together and making beautiful music. Now, what do I mean by that? Well, I'm the hub of... Me and my team, we're the hub of communication.

So I'm over here, I have private lenders that are funding the deals, right? Then I have over here, a fantastic team of general contractors and crew members that are turning lemons into lemonade, and making beautiful properties and upgrading the community and et cetera. And then I have these people over here that would love to own a home, but they can't. And so now I got a solution for them.

These people, private lenders, contractors, realtors, I'm not a realtor, I don't have a license, I mean, I went to one class and quit, I don't want them, I don't want my real estate license, but my realtors are very important to the team. Just bringing up, bringing all this together. But what got me excited was something you said a second ago, you said, "8% is a pretty, really good return in this market that we've got." And you mentioned CDs, certificates of deposit. So let me tell you what I love to look at on Thursdays in USA Today. You may find this interesting Dr. Phelps, if you don't already know it. But on Thursdays in the USA Today newspaper, which is getting thinner by the week. But anyway, Thursdays in USA Today in the money section, that's the green section of USA Today. The front page of the money section in the lower left hand corner is a little box, a little box.

And the box reports what are the national averages yields for certificates of deposit six months, one year, three years and five years. I just looked last Thursday at the USA Today. And I ask this to my audience when I travel the nation and have the opportunity to teach people what I know, I ask the audience all the time, somebody just guess, just guess what is the national average right now and I hold the newspaper up. What's the national average that a 12 month certificate of deposit are paying and I'll hear three quarters of a percent, one and a quarter percent, one and a half percent. And you know what it was last Thursday, Dr. Phelps, zero... You want to guess?

David Phelps: Well, less than a half a percent, I'm guessing.

Jay Conner: Zero... You check me out this Thursday, 0.14%.

David Phelps: Oh my gosh.

Jay Conner: 0.14%, that's way less than a quarter of a percent. Now look, you can get down right aggressive and you can tie your money up for five years in the local bank. And you can get a whopping 0.33%.

David Phelps: Is that all for five years... I really didn't know. I thought maybe to get approach maybe 75 basis points, but got it. That's just... So yeah.

Jay Conner: So here's the deal, people don't know what to do with their money.

David Phelps: They don't, they don't. So again, so we're bringing up the point that there is a market where entrepreneurs make a market, so what you do. My group of people that are in their own business, they're not real state investors. Well, we call our... What I do today is more passive. I used to be like you, I used to do a lot more transactional, which I love, it's fun. It's like you say, you're orchestra director, but a lot of my list and myself included back in the day, when I had a practice, a dental practice, that's where our greatest time value is. And the only way I made it work for me, I'm just being very honest. I got started in real estate, very, very young. I was still in my early twenties. I didn't have a family.

In fact, I wasn't even married when I got started. I wasn't even a dentist yet. So I want people to understand context that what Jay is doing, what he has done with Carol Joy and a lot of other people do around the country, now they're focused in a business. And Jay talked about the business of the team. The team is so critical, so I don't want to make people think it's easy to go out there and just say, "Hey, I'll just put something on Facebook or I'll put something out there and say, Hey, I got money to lend." Wouldn't that be a little bit dangerous to do in this marketplace right now, Jay. To think that it's just... And I'll put my money out there and say, "Oh, I'll loan my money to... Who wants my money at 8%? Who out there has got a deal?"

So let's talk about the caveats here, because this again, this is the critical piece. Yes, you can do this yourself and Jay, you teach a lot of people how to do this, who this is their focal point. This is what they're going to do in their life. Or at least right now, they're not trying to run two businesses. So if I can earn 8% secured by good real estate and secured by an operator that I've built a relationship with, that I know your track record, I know... you've got a history behind you and I can earn 8%, which is well, that's how many times more than that pitiful CD.

Jay Conner: Well, I see.

David Phelps: I can't do the math. Is it 25 times? I don't know. I'm trying ...

Jay Conner: If what I did was a quarter of a percent, that'd be 32 times more.

David Phelps: Yeah, so I can actually up my rate 32 times, it almost sounds like that's got to be risky, but it's actually not. But how do we make it not risky? How does the lender who wants to do this, how should they look at the marketplace? I know if people are probably getting excited and go, "This sounds great, David and Jay, it sounds great, but what are some of the caveats?" What do they got to look out for? How do they go down the list of due diligence, as we would call it?

Jay Conner: Absolutely. So, as a private lender and I'm just going to speak from where I sit. I'm just going to speak from the way I look at it and Dr. Phelps you may look at it a little differently and I'd like to hear the way you look at it. But from the way I look at it, this is just my criteria I am not loaning my money to anybody unless A, I already know them and I got some relationship, some track record with them or... And I'm going to have a lot more opportunity to loan money out when I use this second strategy, or I am being introduced to a borrower by somebody that I already trust. And by the person that I already trust has already vetted out that borrower, right? So for example, let's say, and I believe... I'm not absolutely sure Dr. Phelps, but I believe you have a list of vetted real estate investors and borrowers that you've already vetted out. You may be doing... I don't know if you're doing...

David Phelps: Well, no, you're right. I mean, I want to emphasize your point, is that doing business on any terms, this is real estate, but where you can do something in business or partnerships or something. Yeah, it's got to start with who you know and who you trust and what the character is of the person you're potentially going to do business with. And you either know that person already, as you said, or you get a direct referral of somebody else who can vouch for and talk about some history they've had, that's number one step, and I'm with you all the way. We haven't even talked about the real estate yet. We haven't talked about the terms of the note or the yield or anything. We've talked about the person and that's where it starts. And I think Jay, correct me if I'm wrong, but that's where most novices make their biggest mistake. They go after the deal that someone holds up and goes, "I got this deal." And they've skipped the other steps. It's almost like getting married before you actually date a little bit, right? I mean, what could possibly go wrong there.

Jay Conner: It's like and with me and my private lenders, it works both ways. So for example, now I'm not going to recommend this to your list. I'm just going to tell you how strong relationships can be. After I've done some deals or a deal or two with a new private lender, because... And I'm going to give them the documentation. I mean, my mother, my 88 year old mother who just got a brand new Corvette. She's awesome.

David Phelps: Are you kidding me? Corvette?

Jay Conner: A brand new Corvette, custom built. Anyway my own mother is one of our forty-some private lenders, right? She's a... And guess what, my mother gets the same exact protection and documentation on every deal that she does just like any other private lender, because I want her protected. But anyway, I'm not going to go down that rabbit hole that I was getting ready to go down.

As a lender, first of all, what we just said is the most crucial point. Who am I doing business with? Right? And I tell you what folks, I put a lot of... I don't know what the word is. I put a lot of stock in your gut feel. If you don't feel comfortable, for whatever reason, you may not even know what that reason is. If you don't feel comfortable doing business with that person, then don't do business with them. It's like, I like doing business with people that I would actually enjoy going to lunch with.

David Phelps: That's a good reference point, yes.

Jay Conner: I want to like them, I want to trust them, right? And all that. Now, when it comes to documentation and I.... Can I talk about documentation for a second?

David Phelps: Sure.

Jay Conner: When it comes to documentation, I don't care how strong that relationship is. I mean, I really don't care. I don't care how strong a relationship is, I don't care how much I trust someone. It's like Ronald Reagan, the trust and verify thing, well, I still... I mean, business is business and things need to be done the right way. So first of all, there ain't no handshakes and verbal agreements because the best of us can't remember what we had for breakfast yesterday.

David Phelps: That's right, yeah.

Jay Conner: So whenever you do a deal, it's always in writing. The terms, the note, the promissory note is in writing and it's always is prepared by the real estate attorney. It's always prepared... I mean, I've had students, they said, "Well, can I save money on the attorney fee and drop my own documentation?" No, you let professionals do, it's like I don't want somebody pulling my tooth, that hasn't been to dentistry school for 18 years or whatever how long it takes, right?

I want a professional doing the work. So it's always in writing, the term of the deal, the promissory note is always in writing. It's always prepared by the real estate attorney. And then secondly, I'm not loaning any money unsecured. That's just my criteria. Can you loan money unsecured legally? Sure, you can. I mean, I know people that loan money from their self. I wouldn't do it, but you can do it. So when I'm loaning money or borrowing money, I always want that promissory note, collateralized, backed, in other words, by the real estate that the money is being loaned on. Whether the money's being loaned for a rehab or whether the money's being loaned for a purchase, then we want that collateralized. Now, as a lender, I'm not going to be loaning a hundred percent of the purchase.

I am going to loan my borrower to what we have, what we call some skin in the game, right? So in writing collateralized, and in addition to that, as the lender, I want to be named on the insurance policy, that the borrower will have in place, the fire and hazard policy, all that. I want to be named as the lender, I want to be named as the mortgagee. And that's a writer-downer right there. I want to be named as the mortgagee, the lender, on the insurance policy. Now, the reason I want to be named as the mortgagee is, God forbid, it's a total loss. Hurricane comes along and takes it out, or the house burns down and you got a total loss, or it doesn't even have to be a total loss, it could be a partial loss. Well, guess who is got their name on the insurance check. And if it's a total loss, guess who gets paid first?

David Phelps: Yeah, you do.

Jay Conner: The mortgagee gets paid first. So the way I look after my private lenders and as a potential private lender, what you would require is what I would suggest is you want to get the same protection, as the local bank does, right? I mean, you borrow money from the bank or the mortgage company, they're going to be named as the mortgagee and the insurance... Now I'm still, now as the borrower, my company is still going to be on there. What I want to be sure of as a private lender is to be named as the mortgagee on the insurance policy, because just like the local bank, I mean, if there's a total loss, the mortgagee, the private lender is going to get paid and made whole before anybody else is.

David Phelps: So we have standard protocols across the country where these kinds of real estate transactions are handled by a third party. That's the other benefit. You'd already talked about having a real estate attorney provide the documents, documentation. You've got either an attorney, escrow office, or a title company, depending upon what stage you're in. They're the third party that where you send your money, if you're the lender, you send your money to them. A third party, they have an escrow account. They don't release that money to the borrower until all the documents and the insurance and the title everything is all assured, confirmed. That's their job.

In fact, there's actually a closing protection letter. We don't have to get into today, but just assures that, that transaction's being done by the book, by the protocol. So that's the other safety measure that's put into place. You're not meeting at Starbucks and handing over money and hoping you got the right documents. I mean, but people think that sometimes, they think... Well, this sounds scary because Jay, nope, that there's protocols in place that we could easily follow in this regard.

Jay Conner: Yeah. So, I'll be... Over the years I have talked with multiple new potential private lenders to start doing business with me and I'll get to the end of explaining how the program works and all this and that. And I don't know how many times Dr. Phelps, someone's looked at me and say, "Okay, I'm ready to start it. What do I do? Write you a check?" No, no, you do not write me, you don't write my company there's no direct check writing or exchanging the money between the lender and the borrower. As you said, those funds are wired to the real estate attorneys trust account or the escrow account or whoever's handling the closing. And then there's no money that is dispersed until the closing is handled right. And everybody is protected.

David Phelps: Jay let's finish off with this last piece and again, you do multiple day seminars on this topic. So we're covering a lot in just a short period of time here. We're surface writing here, but we're trying to get some key points here. So people at least will dig in and realize what they don't know about this process, whether you're a borrower or a lender in this case. Talk a little bit about, again, from a lender's standpoint, we talked about the borrower track record, we talked about documentation. Can we talk a little bit about the collateral? And of course you said as a lender, you're never going to loan a hundred percent of the value of that acquisition. What are some of the other key elements of understanding the collateral from a lender's standpoint?

Jay Conner: Yeah. So, as a lender, you have to decide what you want to require for your comfort level. So obviously as a lender, I want to see the proof of value. I want to see the proof. Now there's multiple... There's more than one way to look at that proof. You could, as a lender, require a full appraisal. Now, if it's a rehab property, then you're going to want to look at what's called an after repaired appraisal or the after repaired value, if there's going to be a rehab involved. So you may require full appraisal. If you do your borrower's going to pay for that, right? Me, depending on where I'm loaning money and where the property is located. Most of the time I personally, I'm going to be good, depending on who the borrower is. Depending on who the borrower is, I'm going to be good with a very detailed, comparable market analysis provided by a realtor that I trust, right?

So you want to make sure that you don't have a inherent built in conflict of interest, to where you have a borrower that uses that same realtor all the time. You think there might be a little conflict of interest there of the borrower using that realtor to provide a comparable market analysis. If you're not familiar with the market and you are loaning outside your own market, and a lot of lenders do, then I'm probably going to want to see a complete full appraisal, but to show me the proof of value, because an appraiser has got a lot more writing on the line when it comes to their license of them providing an appraiser versus on a realtor. So as a lender, I want to see the proof of value.

David Phelps: Very good. Jay, alluded to a book that you've authored the title being, Where to Get Money Now. I think that'd be a great book for all of our listeners, because some are, from a lender's side, it still speaks a little bit about, who they may be. But also there's a place where, as I said, you and I both borrow and lend money and people that are private lenders, I think sometimes understanding the value of arbitrage and borrowing other money. And we won't get into details of that today, but there is a place for that. So let's talk about the book and where they can get a copy of it, Jay.

Jay Conner: Sure. Well, I just released this book a few months ago, called, Where to Get the Money Now. Subtitle, How and Where to Get Money for Your Real Estate Deals Without Relying on Traditional (or Hard Money) Lenders. It's 20 bucks at Amazon, but for your audience, Dr. Phelps, we'll give out a free URL. If they'll just cover a couple of bucks for shipping and handling. And that website is www.jayconner, J-A-Y-C-O-N-N-E-R. I'm an E-R, not an O-R. So www.jayconner, J-A-Y-C-O-N-N-E-R, .com/freebook. Freebook, F-R-E-E-B-O-O-K. And ship it right out.

David Phelps: Excellent. Excellent. So good, Jay. Well, it's been great to have you here. Thanks for giving a lot of great information. I think it's certainly appropriate for people to understand really more how money works, where to get money. Real estate's what we love, but there's a lot of applications here in just what you've talked about out in this brief time we had today. So thank you so much, sir. Appreciate having you on today.

Jay Conner: Dr. Phelps, thank you so much for having me.

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