How and Why You Should Loan Money in Real Estate - Jeff Watson: Ep #505

Full Episode Transcript

With Your Host

Dr. David Phelps

[Dentist Freedom Blueprint](https://) **with Dr. David Phelps**

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Jeff Watson: Always, and I mean always, close at a title company rather than directly with the borrower, and verify that the title company is truly legit, that they've got a physical street address, get a copy of their E&O policy from their underwriter, verify that they write for at least two different major carriers, because I've seen a scam even with bogus title insurance companies. Trust but verify, or verify, verify, then trust. Whichever way you want to go.

"David was of course a dentist, but he was a very sophisticated real estate investor. He had run with a circle of probably the most sophisticated housebuyer types in the country."

"David is a student of the game."

"I would never say this about most people. I would get in a foxhole with David."

"His knowledge is unreal. I mean, it's off the charts."

"This is not some person in front of you going, 'Yeah, just give me your money and I'm going to invest it in real estate.' It's way more elevated than that."

"The most common message I get, 'I want to thank you so much for introducing me to Dr. Phelps because my wife and I—we went to Freedom Founders. We're on a path. We're going to be financially free. We are going to retire sooner. We are going to be happier. This changed our life.'"

David Phelps: Jeff Watson is an active Ohio attorney with a unique perspective on real estate investing, wealth building, and asset protection. Battling inside and outside the courtrooms, Jeff has handled thousands of contested hearings and changed the law in Ohio five times. Tens of thousands of investors have used his documents to invest in notes and properties, and he's currently General Counsel for the National Real Estate Investors Association, and a co-founder of Realeflow LLC, which made the Inc. 500 list in 2011. His accolades speak for themselves but from my own experience, this man has a drive to ensure investors' freedoms and money are protected. He's a longtime friend, a trusted mentor, and a boots on the ground data collector for us as real estate investors.

In this episode, we discuss why investing in real estate makes sense in all market cycles, why asset based private lending is part of our portfolios, how to protect yourself against fraud and operator shortcomings, building your own team that helps you invest in real estate safely with less stress and less of your time, and much more. Please welcome Mr. Jeff Watson.

Jeff, it is always so good to have you back and thanks for taking time out of your busy day today to jump in. The conversation I'd like to have with you today really starts at a higher level in terms of the economy and the uncertainty that everybody's looking at from, I think, a business and investment standpoint.

Everybody's trying to figure out, does the stock market, does the Dow, does the Nasdaq, does it keep climbing and climbing and climbing? We have an election coming up in less than two months and then we have a Federal Reserve report that I think is coming out this hour. Does Powell cut by 25 basis points or 50 basis points. There is so much out there, Jeff. I don't know about you but I keep my eye on the ball of economics, but my personal life, I don't worry about it so much. Does that sit with you? Does that make sense?

Jeff Watson: David, it sits with me very well. In response to all of the economic anxiety people have, I'm going to make this one comment. Actually, I'm going to make two comments. You and I both know God in heaven is in control of everything and he's got it all figured out and we're just, we're along for the ride. The second thing I'm going to tell you when it comes to investing, I haven't met many people in America or anywhere that don't want to go to sleep at night in their own place, with a comfortable bed, shelter, hot running water, and a kitchen. So shelter is always a commodity in demand.

David Phelps: I'm with you a hundred percent that I call it, you know, what are the essentials? What do people need to have that they're not going to go without, right? Food, shelter, absolutely. Hopefully, for most people, some form of clothing would be helpful too.

Jeff Watson: Some form of clothing would be helpful for many people. Yes.

David Phelps: Maybe a little bit more for some than others, but we'll leave that as an aside. So what I want to get to is, you and I, and many of the people that we run with, and we've been just been a long time friend and cohort in the entrepreneurial space of, I would say advocating for our own financial future with other people that are like minded and we love to a great extent, hard assets.

I'm talking about tangible assets as opposed to financial assets, which are financial products, stock market, the things we talk about. I'm not saying that it's bad there, but I just feel like, and you can state your case, but what we've learned over time is we love to have some level of control and I feel like with collateral, which is what real estate gives us, it gives us a hard collateral as long as we assess that collateral, we know what that collateral looks like. We've kicked the bricks, so to speak. If we tie our investment to specific collateral, nothing's going to burn where we lose it all. Even in the worst case, there's going to be something there. And you've already said it.

If it's the usual brick and mortar real estate, improvement building structure, there's usually, most cases going to be a need for it. Somebody's going to want to use it and that's what we tie our livelihood to our long-term financial advocacy.

[Break] *My new book, Building Your Financial Ark: How to Survive and Thrive During the Next Economic Storm just released on Amazon. My team and I have been working on this book for months. None of us ever imagined that launching this book would coincide with two major hurricanes hitting our Southern coasts, impacting thousands of families. Some of our very own Freedom Founders members have been affected, and my heart goes out to all of them. I believe that there are no coincidences in life.*

This is an opportunity for us to stand together to support those who are affected. In light of this, I've decided to donate 100% of this book's launch proceeds to hurricane relief efforts. Right now, the storm isn't just metaphorical, it's real. By purchasing Building Your Financial Ark, you'll be supporting families who have lost homes, lost businesses, and livelihoods, while also gaining tools to secure your own financial future.

One of the themes I touch on in the book is developing a strong network of relationships that you can depend on through the storms of life. This is an opportunity to put that advice into action. Go to www.financialarkbook.com to order your copy right now, and a hundred percent of the proceeds will go toward helping families and communities rebuild their lives after the storms.

That's financialarkbook.com. Remember, true wealth is measured in relationships. It's who, not what. Treasure your loved ones. Stay safe.

Jeff Watson: I'm going to share with you a concept that I'm making as a big shift in my languaging. We have brought over from England this concept of landlord, where we were based upon an agrarian society and we would rent out huge parcels of land and get it subdivided and people would farm it and that's how they'd make their living and remit their taxes and remit their rent and so on.

Today, I like the term housing provider. I am a housing provider. I do business with housing providers. I lend money to housing providers. And at the end of the day, I'm looking at, we're providing shelter. There is dirt, there's bricks, there's sticks, there's copper, there's plumbing, there's shingles, there's something there.

I can see it, I can drive by it. David, you and I talked a while back about an apartment complex that I put an investment into. And David, I was there last week, walked the pathways, looked at the buildings, it's all still right there. It hasn't moved an inch!

David Phelps: People still enjoy living there, I take it.

Jeff Watson: It's 100 percent occupied, yes, they absolutely enjoy living there. And so that's the beauty of real estate. I don't know how else to stress that. It's, we know where it is. We know what it is. And we know how people will use it.

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David Phelps: We both have grown up with this concept. And a lot of people also intellectually believe that real estate makes sense as part of a wealth-building, wealth-sustenance platform.

The problem that a lot of people have is, today particularly, but certainly in times past, everybody wants the easy button. That's why people defer to stock market retirement plans, 401ks. “Here, somebody else just take my money, manage it for me. And when I show up at 65, hopefully, you'll have it all good for me and we'll take it from there.” We both know that that model, even if it worked to some degree in the past, tell me what you think, but I think it's game over for old models. I think old models, whatever they were, 60, 40 stocks to bond model. I mean, all the things that people have believed in and held on to, I don't believe that's going to be the case.

And I think that's a reason, a catalyst for why those who want to be on the forefront of nurturing, managing their own livelihood going forward, maybe past active income, and also bringing up the kids and the grandkids in an era and environment that I think has more uncertainty than maybe you and I have lived through. What are your thoughts?

Jeff Watson: Well, I'm going to tell you, I've put my money where my mouth is. 10% of my net worth is in the market. 90% of my net worth on balance sheets is either private equity in companies that I own and control or in real estate. 90-10, David, not 60-40, 90-10 real estate and businesses versus in the market.

David Phelps: So Jeff, to be able to do that with any level of competence and competence, you had to take a skill set and acumen that you certainly developed and had to be a trial hearing attorney for 30 plus years and have that practice so you had a certain skill set. But outside of that primary skillset, which was your active income and still to some degree is because you're still provide for services that require the license and professionalism that you bring, but outside of that you were always building what I call today your plan B and you help other people do it too today, but your plan B, which you've already alluded to 90% intangible assets through real estate or private businesses.

Now, my question to you is how hard or how easy is that, or what has allowed you to do that over the years? What did you have to do? What sacrifice did you have to make? And has it been worth it?

Jeff Watson: I made a lot of sacrifices. I started investing in real estate by my fourth year of being a trial lawyer because I knew I had to have a plan B because I could just tell, I could already see the burnout in my colleagues that were 20 years older than me that listen, the life expectancy of a personal injury courtroom litigator is 20 years. I made it 30 years. The career life expectancy. And I am so burnt out. I don't ever want to be in another courtroom again in my life if I don't have to be. But I knew four years in that I had to do something different.

So I started acquiring real estate. The first thing I did was I did a house hack. I bought a home. I lived in one half and I rented out the other half. The rent paid 80% of the mortgage. And David, if I would have just stuck with that strategy, I'd be ahead of where I am now, but oh no, I got shiny object disease.

I got squirrelitis. And so I had to go chase this and chase that and do this. And so what I did is I finally inoculated myself against this reoccurring round of squirrelitis. And now I just do two things in real estate, two very simple things. I buy and hold, I buy and hold, I provide housing. The second thing I do is I lend to other people who buy and hold.

I'd lend money to other people who buy and hold. Occasionally I'll lend to a fix and flipper, but it's generally, I'm lending to a buy-and-hold person who's a solid operator. And David, I'd like to talk more about the lending, the buy and hold guy.

David Phelps: You're going right down where I want to go. So thank you for leading that because you and I both know that the sexy side of real estate has always been to buy, fix and flip, short term rental, and again, nothing wrong with any of that at all. Right time, right market, right ability to leverage financing, amortization, appreciation, value add. I mean, yeah, it's all there. But I think what people don't understand what you're bringing up to our conversation here is that there are these two sides, the sexy side, which is ownership and all the responsibilities, obligations, and risk that comes with that, which a lot of people, when you watch HGTV or flip this house, don't quite see that side.

So you get into it, you find out, but there's, as you just said, the private credit, the lending side, being the bank, which is something that we both learned many years ago. You started on the equity side, which is, I think where almost everybody starts because that's what you know, it's right in front of you.

It's like, “Yeah, I can buy this house. Someone show me a house. I'll fix it. I'll rent it out. I'll become the house provider, landlord.” Okay. But the other side, as you just mentioned, which I've loved for decades is the private credit lending side. And very few people outside of the circles we run in understand that even exists.

And people ask like, “Well, what do you mean, David? You're lending money to people who are either maybe fixing and flipping or having a buy-and-hold portfolio, why do they need you? Because is that what the banks do?”

Jeff Watson: No, the banks don't do that. The banks will not lend on the kind of houses that I finance. The banks will not lend or, I'll give you an example. There's also borrowers that could go to the bank, but don't want to go to the bank. They don't want to turn over 14 inches of paperwork in a DNA swab in order to get a bank loan,

David Phelps: That would be me. That would be me for sure.

Jeff Watson: They'd rather pick up the phone or they'd rather text or call a buddy and say, “Hey, I need x by x date.” And based upon their credibility, based upon their track record, based upon their integrity, you get people that go, “Where do I wire, what title company do I send it to? When are we closing?” That's the answer you get. You get your deal funded that way. You get it done faster with a whole lot more privacy.

And David, before we got on this call today, I did two things that were that I think were really significant. One is I spent 45 minutes on the phone with a single mom in the medical field, got a great career, got a fantastic career, neurotrauma nurse. She's in her mid-40s. She has a net worth close to a million bucks, one child, and she's looking on building her passive income portfolio.

That was what the call was all about. And so we talked about some strategies of how to do that. And then another thing I did before I got on the call is I reviewed loan docs and a closing statement for another client of mine who's funding a second loan for business owners for business purposes, and she send in 75 grand out of her self-directed IRA with one of our favorite companies to the title company.

And I'm just making sure everything looked good at the last second. I drafted the docs. I look at the closing statement. I've already seen the title commitment. I know it's going to the title company. I know the title company ‘cause I own a small piece of it. It's a good deal. She vetted the borrower. She's done business with them in the past.

It's a solid deal. We're going to get a recorded mortgage. We've got lots of equity. It's a great deal. I'm not talking theory, folks. This is what I do every day. My office generally does two sets of loan docs a week for private lenders in a multitude of states so I see this stuff all the time, And we have certain fundamental things that we do every time.

And folks, I'm going to tell you some stuff out there and David, just let me go on a little rant here, okay? The first thing I always tell my potential lenders to do, get copies, color copies of the photo IDs of your borrowers. First thing I want. I want to see color copies of photo ID. That way I've got names, full names.

I got date of birth and I got pictures. I got addresses. That's important to know. Then the next thing I tell them is, have you verified the value of the collateral and what title company are we closing at? And let me explain this. What title company are we closing at? Because I do not like my lenders to send money directly to the borrower.

I want it to go to the title company. I want there to be a closing statement. I want there to be E&O insurance. I want there to be a closing protection. I want there to be a lender's title policy. I want someone else to make sure there's insurance in place. I want all these things done to protect my lenders.

David Phelps: Who pays for all that? Borrower or lender?

Jeff Watson: I make the borrower pay for it all.

David Phelps: That's pretty conventional, right?

Jeff Watson: Yeah, it is very conventional. go borrow money from a bank. Look what they're going to ding you for. They're going to fee, fee you on out the door, baby.

David Phelps: Then what would cause people, lenders, private credit lenders, like we're talking about who want to get in the game and lend money against collateral that they have assessed?

We'll talk a little bit more about that too. What would cause them to just send money directly to the borrower? I mean, is it trust? Is it a friendship? Is it trying to save money? I mean, what? Save time. What causes people to do that?

Jeff Watson: Well, there's three things. Okay. There's always cut the corner. We're always in a hurry. We're always in a hurry. We're always in a hurry. So the moment I have a borrower or a deal where I have a borrower that's down at the last second, I want to know why. What happened? Now I realize good deals, you cannot steal them in slow motion. So sometimes you got to be there in 24 to 36 hours with money to get the deal done.

I got it. But boy, you better have a track record to back that up before I'll even think about it. But then, we're going to get this stuff done anyhow. We're going to get the note. We're going to get the mortgage. We're going to get all this stuff done, executed, and recorded right away anyhow. I find that you can make a phone call and get your name added to a hazard insurance policy or whatever.

But anyhow, the other thing, and this is the one that scares you and I. This is the one that scares you and I, it's the gift of—it's that exuberant personality. We've all dealt with them. I've been hooked by a couple. I've had some issues with some. They're so likable. They're so believable, but they get you away from your checklist, and that's when the flag has got to go whoa, that red flag has got to start flicking and if they keep trying to pull you away from your checklist when you pull out the checklist then that red flag has got to go away and the black flag has got to come up and says no bueno, no deal.

You can do a deal perfectly. You can verify the value of the collateral. You can underwrite your borrowers. You can make sure you've got pristine paperwork. You can close it at a title company. You can do everything you want to do. And that's not a guarantee, that is not an absolute ironclad guarantee that something won't go wrong because Murphy is alive and well.

I have seen borrowers in the middle of a project die of heart attacks. I have seen borrowers have major life altering circumstances in the middle of a project. Is it their fault? No, it isn't, but I've seen it happen. I have seen markets shift dramatically.

David, what we've saw with interest rates a couple years ago, that skyrocket acceleration by the Fed?

David Phelps: Never before.

Jeff Watson: Never before. What kind of carnage did that cause? Come on. When you're making a loan in ‘21, are you looking in your crystal ball going, oh, the Fed's going to screw the economy in eight more months? No. So you can do all these things. So the only protections you've got, there's little things you can do to protect yourself.

And the number one protection is always be conservative on your loan to values. Always be conservative on your loan to values. So I got a phone call yesterday. Ugly phone call. Ugly phone call. 25 properties in Milwaukee, Wisconsin. The borrowers, plural, have walked away from all of them. The lenders thought they were good at 50% LTV.

The houses have been demoed, no rehabs begun, just demo of crews, costs, taxes, all that other stuff. Now they're looking at like 85, 92% LTV and they're nervous. But, David, they're not at 120% LTV. They can get in, they can get control, they can improve the value of the property because these are empty shelves.

At an empty shell at 90% LTV, you still got a way out. You still got a way out. Go in, clean it up, fix it up, get it ready, and now your LTV is back down to like 70, 65 and you're good.

David Phelps: Yep. If you do it right, there's generally a way out at least to get close to break even and still sometimes even squeeze out a profit in the worst case, as you said, where situations occur that no one can anticipate.

And again, I've done this too. Not always has it caused me an issue, but sometimes and it's getting that checklist. So even with people that maybe I trusted and they've done enough deals with them and they give me an assessment over the phone, or maybe I just look on Zillow and go, “Yeah, that sounds like the project's good.”

What additional relatively easy steps can a potential lender make if they're not that competent with going in and checking sewer lines and checking electrical and getting up on the roof and things that, mechanicals, the things that we know that make part of a—either a higher mark or a lower mark where we're assessing loan to value.

What things can people do, or what do you advise from your clients who are maybe getting this that they should do in terms of verifying collateral and making them feel more confident that what they are loaning against is appropriate?

Jeff Watson: There's two things I would always recommend at a minimum, a broker price opinion. At a minimum.

You, the potential lender, contact a service that will give you a broker price opinion from a local to that asset real estate agent. Not an online, no, I want an interior, hear that word again folks, interior BPO, which means the agent gets inside the house, takes pictures, sees what's going on. I just had it done on one of my properties. Just had it done this week, David.

David Phelps: How much does that usually cost, Jeff?

Jeff Watson: This one was expensive. It was 495 bucks. That was expensive at 495. A decent interior BPO should be no more than a couple hundred bucks. But because it was a multi-family property, I paid extra.

David Phelps: But even at 495, I don't know what the value and what you're loaning, but at 495, that's insurance, right? And you build that in to your desired profit margin. You just build it in.

Jeff Watson: $495 on 140,000-dollar loan is pocket lent. It's pocket lent. Okay. So the other thing that you can do if you're really unsure, if you really want to be really meticulously thorough, hire a home inspector. It's going to cost another four or 500 bucks.

You can make your borrower pay for it at closing, but if he does, the deal doesn't close, then you're going to eat it. But I'll tell you what, I'd rather spend 500 bucks and find out that the chimney separating from this house and it's not worth it. And I had a home inspector save my bacon on a deal like that once.

Man, 500 bucks to find out that the house needs to be either it needs 10,000 repairs immediately, or I'm going to get condemned. Man, that's a great day. I'll pay 500 bucks every time for that. Those are the things we can do. We can go out and hire third-party experts. We can go out and hire third party experts to double check our math, to double check our estimations, to help us trust and then verify what we're doing.

And David, there's a third thing we could do if we really, really are uncertain about it. I rarely see this done in a commercial setting, in a business loan setting, on a rehab landlord setting. But you can always go hire an RMLO. A RMLO is a Residential Mortgage Loan Originator. So it's someone who will underwrite the file as to the borrower's capacity and ability to pay.

So that now you're making a loan, not just based upon the strength of the collateral, but now you're making a loan based upon the strength of the borrower's income and assets and ability to pay. So you've got not one, but two recourses, the collateral, and the borrower, which is how I like to do all my loans anyhow.

So you can go out and do these things. You can go out and go get a home inspection, pay for it. You can get an interior BPO. You can have hire an RMLO to do a background check, do an underwriting on your borrower. Which by the way, that's going to smoke out a lot of issues that I've discovered over the last few years.

And those are some things that can give you a great deal of satisfaction. If a third party expert says, “Listen, the house is in good shape.” No one comes back and says, “Hey, based upon the market, the comps, days on market, square footage, all these other features, this is what the house is worth. All fixed up, this is what it would be worth.”

And then you have somebody come back and say, “Hey, listen, this is what they can afford to pay. Based on their income. Based upon looking at their last two years of filed tax returns.” David, that has become my litmus test. If you are not current on your tax filings, if you're not legally current, you're no bueno.

What that means is, right now, in the middle of September of ‘’24, you better be able to show me your ‘22 and ‘21 tax returns, filed, accountant tax preparer signature on them. I don't need to see your ‘23 because you still got another month to get those in, but I want to see the extension.

David Phelps: Okay, so this is a great conversation. So, we talked earlier about the fact that private credit exists for several reasons, filling a void in the marketplace, doesn't fit the bank's buy box and for privacy and maybe more efficiency because real relationships until someone passes away, they can go on forever and you can do it. Whereas banks can change officers and names and consolidate and they can be here today, gone tomorrow.

So all those reasons are very apropos, you talked about not having to go to the private lender and take them 14 stacks of documents and DNA, but you just said, and no disrespect, we all get to set our own criteria, but me giving my tax returns, and I don't know if I feel good doing that, that can be a deal killer for you. But for me, I've never asked for tax returns from anybody I've lent money to.

Jeff Watson: We've gone through a cycle. And so I've gone back and I've said, what are the things that could have been earlier indicators that they were not what they said they were. And I've come back and I've concluded that being current on your tax returns is a big indicator because that tells me you've got some decent financial accounting and tracking going on.

And that means that you're managing your money to some degree. And so that to me is something I'm looking for because there's a lot of, David, we've met them by the hundreds, if not thousands. They're the fire, aim, ready guys. And they've got a great idea. They've got all sorts of energy, enthusiasm.

It sounds like a fantastic deal, but they don't have the gravitas. They don't have the ballast to handle the rough seas. I'm looking for a return of my money and a return on my money.

David Phelps: I gotcha. I agree that having some ability to look at the scope of someone's money management. I've seen good people. We both know, as you said, lots of good people with good intentions.

But they get over their skis, right? The wheels start to come off not because they did anything bad, but they just didn't have capacity to handle maybe all the money that was coming towards them because they were in a rising market and all this money's coming back. Well, I got to put it somewhere. Let's go grab that deal.

And we can scale, the big word scale. Let's scale, right? Scaling without having good financials is going to burn people. A, and it's happened. It's happening today. It's happening today. So I'm a hundred percent with you finding some way to establish that is a good thing, or I'm not going to do that. Then I just better make sure that my loan to value. And the other thing we didn't mention, which I know we're getting short on time here, but I think one more thing that's key, which I've seen people and you'd see it all the time, they've got all the other checklists and covered all the verifications and underwriting that they feel is prudent.

And then it comes time to fund. Well, how much do we fund of the entire amount we've promised to fund? Do we do it all up front and just trust again, they're going to go do it? Or do we do some draws? Jeff, just speak a little bit about draw provisions.

Jeff Watson: A client lender of mine closed a deal earlier this week. And when I looked at the preliminary HUD, I saw how much the buyer was walking away from the closing statement. They want, I said, no way. I said, they only get 15. The remaining $38,000 is going to go sit in my law firm's trust account, which is insured back monitored. I mean, if I make one financial mistake with that, the Supreme Court of Ohio is down my back.

Okay. So trust me, it's highly, highly scrutinized. It's going to go sit in my trust account until they prove they've done 15,000 worth of work, and then we'll get them another 15. And then when they get the certificate of occupancy, "Hey, we've pulled our permits. We've passed our last inspection." Then they get the balance of their money, but we don't let them have it all at once because I've had people that call me up and say, "Jeff, I made a loan. I did stupid. I lent too much. They lived on it. Now they can't get it done." David, we try and keep people from doing those things because I'm going to tell you, it's not necessarily that the borrower is a bad person. They just sometimes, like you said, get over their skis and they don't pay attention to what they're doing.

David Phelps: They're kind of sort of short term, use the word in air quotes, rob Peter to pay Paul. Well, I'll just use this money to finish job on Elm Street, and as soon as that one's sold, I'll put the money back in Main Street and whoops, Elm Street doesn't sell. And it's like, nah, we got a problem. That's how it starts to unravel.

All right. My last question for you, we talked earlier about why we both love hard assets, tangible assets that it's backed by collateral, either equity, or we're talking a lot about private credit lending today. And it's backed by hard assets collateral that we have the opportunity to verify, inspect, underwrite through our own means or through other people.

So if we go through all those checklists and do that correctly, if we use a third party fiduciary title, escrow company to manage the recording execution of documents, getting title insurance so we know that what we're taking title or lien, that is actually what it is. And if it's not, it's backed. If we do all those things the right way, what's our greatest risk?

Can someone actually just perpetrate some massive fraud on us and just wipe us out so we got nothing. Is there a way for someone to work their way in? You've been doing this for 30-plus years. What have you seen a worst case? If we follow all these steps, what's the worst thing that can happen to us?

Jeff Watson: The worst thing that can happen to you if you follow all of those steps is you're going to have to forcibly take the house back from somebody who didn't do what they said they were going to do. And you're going to have to go through the legal mechanism in your state, in your County to go do it. And if you kept your LTV correct, and if you did all those steps, you'll probably not make much of a return on your money, but you should get all of your money back with a little bit.

I had one client that he's one of the best private lenders I've got. Anytime he's got room in a deal for my money, I'm in it with him. Okay? He made a loan. He was the first one to make a loan to this one guy who turned out to be a flight-risk scuzzball operator. His loan was done correctly because he's got a fantastic real estate attorney and who I work with a lot myself.

This borrower took out five more mortgages. Didn't record them all against the same house. My guy went through the arduous process. At the end of the day, he got all of his money back and got an acceptable rate of return on his money. Was it a headache? Was it a hassle? Yes. But he got it all back, David.

David Phelps: And here's the thing, like you, I lend money across the country. I mean, not willy-nilly. There's certain jurisdictions where I lend and certain ones I don't. You probably know which ones that we would both stay away from. I lend money in your home state, Ohio. Now, to people I know, and again, worst case, if I followed all the rules, if I felt like I had to go through the legal and collection and foreclosure process, might there even be an opportunity through my, our network?

You're right there. You know a lot of people. I know some people in Ohio. You know a lot. What if I just called you and said, “Hey. I've got a valid lien, all substantiated by the documents, title insurance. It's in default. Might there be an ability for me just to, through the network, just sell the lien as is to somebody?”

I mean, for some wholesale price, if someone would just go and take it for me and run it through if I didn't even want to mess with taking the property back, right?

Jeff Watson: David, you could sell the note or you can convince your borrower to deed the property to somebody else and modify that note, and leave you in a lending position with somebody else that's got a better track record.

There's two ways out. Yeah, I mean, you've got the ability to negotiate from a position of strength. That's the point you're making. You've got the ability to explore options and negotiate from strength. Yeah. I mean, cause David, I had a guy referred to me a few years ago by one of our mentors who recently passed away.

And this guy turned out to be the canary in the coal mine that blew the whistle on a guy that's now going to go do federal fraud for running a Ponzi scheme out of Cleveland, Ohio. And this competent real estate attorney that I referred to before handled the case with a little assistance from me.

He's going to get him decently made whole. He's a medical professional out of Atlanta. He's going to get him made decently whole, not perfect, but close, but he's going to get the satisfaction of knowing that he did enough right to allow the justice department and the IRS and the FBI to put this guy in jail.

At the end of the day, okay, so I lost 20% of my money, but somebody else lost the rest of their life. So there's things you can do. There's things you can do. Folks, if you haven't heard anything else I've said, it's this. Always, and I mean always close at a title company rather than directly with the borrower.

Always close at a title company and verify that the title company is truly legit. That they've got a physical street address, get a copy of their E&O policy from their underwriter, verify that they write for at least two different major carriers, you know, Stewart, Old Republic, Fidelity, whatever. Make sure you've got that.

Because I've seen a scam, even with bogus title insurance companies. You got to trust, but verify or verify, verify then trust, whichever way you want to go

David Phelps: And just to tag on, just to kind of complete the whole thing here. But. You alluded to, we alluded to a lot of verifications. And I think the thing that I want people to understand, and you would say the same thing, is create your team.

You are a fantastic attorney who is part of the team for a lot of private letters. You've helped me and my people put together deals. You don't have to do all this yourself. You talked about inspectors and BPO's from licensed people, using title companies, attorneys to write the paperwork to verify all these things.

You as the individual, you want to be knowledgeable about all this, but you don't have to get in the weeds of understanding every nuance. Just have good people who are there running the process so you get to do what you do, and that is create relationships and solve problems for other people. Bingo, right?

Jeff Watson: A good private lender can run their business from a laptop, iPad, sometimes even an iPhone, and just make sure you coordinate all the experts on your team. That's your number one job is coordinating all the experts on your team.

David Phelps: It becomes a joy at that point. It's just fun. The relationships and putting deals together, which is what you do all the time. It's just fun. Yep. It's addicting, but it's a good addiction to have. I think.

Jeff Watson: I'm making the neighborhood better. I'm helping somebody else acquire a cash flow-producing asset. I'm making money. Boy, what else could I do? What else could I do?

David Phelps: I wouldn't have the friendship that I have with you had I not had the curiosity for me, it's like over 40 years ago to get involved in tangible assets, i.e. real estate. Because it led me to people like you. We wouldn't be talking today if I had not stepped out of my dental box, which was a great box, an engine that drove me and gave me income to do the things I needed to do, but boy, stepping out and learning how to be a financial advocate and doing it with other people, not by myself, but with other people to learn and keep me from stepping off too deeply into the minefield, which we're all going to do from time to time, but you know, we've got a safety net there and it keeps us from falling off the cliff.

If we just follow the directions of other people that have expediency and the experience of doing it the right way.

Jeff Watson: I think the biggest mistake that I made in my investing career is for the first eight, 10 years, I tried to do almost all of it by myself. And it was due to arrogance and hubris, like, “Hey, I'm a lawyer. I'm going to figure this all out.” But once I started plugging into some decent networks, that's how I met you. That's how I met so many of the other mutual friends and acquaintances we have. That's what really propelled. And then the other thing is when I got very clearly focused on, there's only two things that I do, only two things I do on real estate, I buy and hold for long-term cashflow and appreciation because I'm a housing provider. And the second thing is I lend good people on good assets with great paperwork.

David Phelps: One of the questions that came out of my discussion with Jeff was this, why do I think that some investors have a hard time sticking to one asset and really focusing on that one particular area? Jeff brings up the point during our discussion about having the shiny bright object syndrome, which a lot of people fall prey to.

Here's what I would say. It's not a good idea for anybody when they're starting out in their investing arena, their investing platform to just focus on one thing. I think some diversification is very, very important that protects against something, one asset, one investment, not having a good year, maybe going bad, or having less than optimum returns while others will carry the boat.

Warren Buffett tells the general populace that they're better off diversifying in index funds or ETFs. However, on the other side, Warren Buffett and Charlie Munger would say when you really become more sophisticated and astute and you find a niche or a particular asset class that you really like and you study it, keyword is you study it. You become educated about it. That's a time to focus and not just try to play ball in multiple arenas. So this is what Jeff was alluding to. He found that he had a curiosity about real estate early on, but was trying to play a lot of fields to see like what might hit, right?

What would be that magic investment that would really hit a big run. And that's really hard to do. Being a compounding investor over many years, trying to get base hits, maybe singles, maybe doubles, not trying to get the triple or the home run is the better way to go. Certainly, we read stories about people hit the home runs and we all want to do that, but that's not reality.

So early on diversification, but study, find out what you like, what you want to become more involved in and more sophisticated about. And I'd say focus more in that area. You can still diversify within a focal point and not trying to be a broad-range investor in all things, but this comes with time and experience in the market.

Another comment that came out from our discussion was this. A lot that goes on in the public sector, the media, and a lot of what the Federal Reserve does is reactionary. Is this bad or good? What example does this give us as investors and business owners? And I would say there's a lot of truth to that.

The media overall is always playing a lagging game. They report news of the day, but they're never out in front of it. They are never looking at what I call leading indicators. And that's really where business owners that are more astute, investors who are more astute, are looking for what you might call the canaries in the coal mine.

What are those leading indicators that nobody else is looking at that gives you an idea or a pulse on what's happening in a particular sector of the economy, a certain investment class, financial markets, real estate markets, certain business sectors. What do you see that's happening there? If you just follow the Fed and you just follow the media pundits that are out there in mainstream media all over the place, then I think you fall into the trap of also being in a lagging or a reactive position.

We can't time the markets, no question about it, but we can ride the waves and being more sophisticated in our own right, being educated, being part of a group or community of people that also has a real pulse on what's happening on the street and not just the theory is where I found my best ability to navigate the volatility of the market cycles that we have today and I think we'll have for many, many years. So how can we as investors be more proactive and really develop and then follow a plan that over time will take us to our goals? And I think that is the critical part. So I know that I can't do everything myself. I have a curiosity about a lot of things and yes, I became very focused about business and marketing and about the economy.

And I do study that a lot, but I can't study it all. So I need to surround myself with other people who also, I believe, have some insights, some experience and perspective in areas that either I don't have or I need a deeper dive because that's what they do. I learned a lot about real estate being boots on the ground and doing it myself for many years.

But there came a time in my life when fortunately I built up enough net worth and assets that I couldn't manage it all myself. And that's where I had to move to more what I call semi-active, not really passive, but semi-active investing, where I began to invest more through other people, which would save me time.

But that came with a lot of other aspects that I had to become more diligent about to make it worthwhile and mitigate risk. Having a plan or a blueprint that one can start out with and doing this as a couple, a partnership who are in your family and creating that plan with an end goal, where do you want to be in two years, three years, five years, seven years and then reverse engineer to where you are today and then develop that plan.

Certainly, we can't prognosticate everything that's going to happen in the market. We can't prognosticate what interest rates will do, what kind of inflation will have, but the more proximity that is the closer we can be to our investments like we are in our business. We're very close to our business, right?

Because we're there, we're active in a business, then we are there managing and controlling that business. You can't do that in all of your other investments. I if you want to be a little bit more on the passive side. So that's where we have to still put in the time and the effort to create the network, to have the access through the right people, and that takes time.

That takes work. It takes effort. A lot of people don't want to do that. They'd rather abdicate their financial assets to somebody else on their platform and just hope that they know what they're doing or they'll do a good job. Nobody's going to take care of you more than you will. But you can't still do it yourself.

You've got to surround yourself with the right people, the right team, and then be willing to step up and reinvest in yourself to learn what you haven't learned in the formal education process of what you do so well with your specialized skill sets. Learning how to make money is one thing, learning how to keep it and maintain it and preserve its value going forward in the volatility and the inflationary climate that we have today, that's another skill set and you shouldn't walk away from that investment.

How and Why You Should Loan Money in Real Estate - Jeff Watson: Ep #505

As the election approaches, it becomes clear that we cannot depend on the government or rely solely on the advice of advisors who have a clear bias towards where we invest. Now is the time to be aware of your finances, seek to mitigate risk in all investments, and prepare for the opportunities to come.

You can do this yourself, of course, but I prefer to be with a community of mentors, peers, and boots-on-the-ground experts who know what they're doing and can expedite the process of education, due diligence, and building your customized blueprint to financial freedom. I protect and grow my wealth like anybody else, but all in the service of my freedom and my time.

If you'd like to do the same, now is your chance to see how we've helped hundreds of practitioners and business owners work towards more secure and reliable passive income streams in order to give them back their time for what matters most to them. Go to freedomfounders.com/discover to schedule a call with my team and see if you'd be a fit for the Freedom Founders community. That's freedomfounders.com/discover. It's your freedom. You must take charge of it.