EPISODE 614

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[00:00:24] WS: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today, our guest is Merrill Chandler. Thanks for being on the show, Merrill.

[0:00:32] MC: I'm so glad to be here, Whitney. So glad.

[0:00:35] WS: Merrill has some skills that are going to be very helpful for you if you feel like there's going to be some deals to be had in the next few months. I know everyone is talking about there's going to be blood in the streets. There's going to be all these deals, and you better have this capital ready. He's going to help us to find some capital that hopefully we can be prepared for that time.

But a little about him, he spent two years on a service mission in Guatemala. He spent three and a half years in federal prison. Now, you weren't actually a prisoner, right, for three years?

[0:01:04] MC: No. I was a federal prisoner, which is where I kind of connected all the dots and literally created fundability optimization on a wall in my cell.

[0:01:15] WS: Wow! That's a story right there. Then you walked the 500-mile. How do you say the rest of that?

[0:01:22] MC: It's the El Camino de Santiago. It's a pilgrimage and it used to be the Catholic starting the 1100s. I'm not Catholic, but it's a 500-mile pilgrimage from the south of France all the way to the coast of Portugal. It was quite the thing but it's 500 miles. Yeah, that was not pretty at all.

[0:01:43] WS: But you completed it.

[0:01:45] MC: Yeah. The thing was that I have both suffered in body and spirit. It's – You don't go on a – A quick story there. One of my friends had told me about it, and I totally respect – His name is Joe. I totally respect him, and he said that this was something that would be right up my alley. So, I started practicing. I started literally taking walks and building up, because you need to put like 15 miles a day and to get it done in the 30, 32 days, right? He had took me aside one day and he goes, "So, Merrill, tell me. You're training for a spiritual pilgrimage. Is that a thing? You actually train for a spiritual experience?" I'm like, "Oh. Okay, good point that you're supposed to – Yeah." Anyway, it was quite the adventure.

[0:02:29] WS: It sounds like it. It sounds like it. I'll have to look it up. Well, tell us what your superpower is and how you can help us, and let's jump in a little bit and educate the listeners on this?

[0:02:39] MC: Yeah. My superpower straight up is building personal and business funding profiles, right? Not credit repair. This is actually looking at what FICO and lenders measure in automatic underwriting so that you fill out an application and you got the right borrower behaviors, the right borrower profile so that you get approved.

I've met with FICO three different times at three different conferences. I met with the CEO, their score development teams. So, my superpower is kind of – I don't know, to use, I guess, this is weird, another religious metaphor. I'm kind of Moses coming off of the mountain with the tablets from FICO, the funding gods saying, "This is what you need to do to be approved. This is what lenders are looking for to be approved."

[0:03:24] WS: Okay. That's good to know. I mean, whether we're in commercial real estate or whatever type of deals you're expecting to want to purchase in the very near future. Lots of people want to have that credit available or have that profile looking good when they go to get a loan or get credit, right?

So, help us to get started and what we should be thinking about or what we can do to have that personal and business funding profile looking as good as it can be.

[0:03:45] MC: Okay. First things first, like you said, everybody's waiting for blood in the streets, right? They're just waiting for this great opportunity, like was in 2008 and afterwards. I don't know if it's going to bottom out like that. The banks are acting very differently than they did last time. They're planning for 6 and 12 months' worth of deferments and moratoriums. Part of my expertise, my superpower is the research and connecting the dots of what all the lenders are doing, and I'm the only borrower-facing organization in the seminar or in the conference. I got the back of the borrowers and all the lenders are talking shop about. So how do we take care of our customers and save our own skins, right?

I get to hear and talk to these people who are making these policies. A couple things that listeners should be aware of is that lenders are watching to see whether or not you take a deferment. If you don't need to take the deferment and your borrower behaviors show you don't need to take it but you do anyway, it actually pollutes your future funding relationships, even with current lenders.

So, it's kind of like they're watching. The analog is like in, what was it, March was 31% of renters didn't pay the rent, right? I had a whole bunch of landlords who are part of my tribe that are literally in an uproar that their people aren't paying rent. Then they asked me, "So, can I not pay my mortgage?" I'm like [inaudible 0:05:13].

So, show me how you're different than your renters. If you can afford it, pay it. And they'll know that because everyone knows who we are under stress. Well, the truth of us, our real colors come out in the stressful times, right?

[0:05:27] WS: That's right.

[0:05:28] MC: They can count on us to be spot on. If they can count on us to be the clutch player, the in that pinch, we show up in our partnership with them, they're going to remember that in prosperous times. So just remember that if you need to use it, of course, use the deferment. If you don't, one of the things that we have not got the time to discuss right now but there are 40 borrower behaviors that they measure, and it's not just the ones on our credit profiles. There's far more going on behind that curtain in Oz.

If we don't know what those borrower behaviors that they're measuring, they can actually do the math and connect the dots about whether or not we need to take these deferments. So be very, very careful. That's the first recommendation that I would share with your listeners is that big brother is watching, and they want to know how you're going to treat their money in a pinch, right?

[0:06:19] WS: 40 behaviors. I mean, can you highlight a few of them or are you going to?

[0:06:23] MC: Yes. There's 40 borrower behaviors. For example, I go to a conference and people come up to me all the time. They say, "Hey, I've got an 800+ credit score. Why do I need to be fundable? I'm already fundable." I said, "Credit scores are not fundability." I can show you and – Some of your listeners have awesome, awesome credit scores and can't get a dime, because the credit score is the third or the fourth most important feature that they're looking at. Credit scores dictate kind of rate and terms, never, never approvals. You are not approved on high-value accounts from a credit score. It's always rate and term is based on that credit score.

Secondly, one of the conditions that people believe that they have an 800+ credit score is, "I pay my bills on time." I asked them, "Well, what – That's one of the 40, what I call a FICO 40. What about the other 39? What are you doing? What kind of balance do you have at the reporting date?" So many people believe that they're doing awesome as a borrower and they paid a zero every month on their credit cards.

The problem is, Whitney, what they don't know is the due date is not the balance that's reported to the credit bureau. So, you may have an artificially high balance that's counting against your score and you look like a chronic balance carrier. What's the balance actually on the reporting date? There's a lot to know about that.

Oh, here's a tricky one. If you have mall store cards, online cards, what are called retail merchant cards, they're tier four out of four tiers. They are the worst possible accounts, and FICO actually downgrades you for having retail cards. You look like a consumer-borrower rather than what we call a professional borrower, and professional borrowers have to be made. You do not back into being a professional borrower, so you use the tactics and strategies to implement those things. Those are a couple of the FICO 40, right? If you don't have a national bank cards, if you have too high a balances on certain types of accounts and not enough balance on other accounts, all of these –

Like I said, there's 40 of them, and here's the magic: These things are measured over what's called a 24-month look back period in increments of 3 months, 6 months, 12 months, and 24 months. So, you can see it's kind of exponential in nature, right? It near doubles every single interval. Each one of these, every single one of these carries more weight by a square. It's squared the previous interval. So, 24 months of a positive or a negative behavior counts 16 times more than an original three-month period. This is literally the math the FICO and the lending automatic underwriting software uses to evaluate you. So, imagine 40 of these times these four increments. That is where your fundability lies.

[0:09:14] WS: How can we see some of that? As the borrower, can you?

[0:09:18] MC: Well, it sounds like a pitch. I have a book that I wrote that's called *The New F* Word*. Fundability, of course. I don't know where your mind went, but *The New F* Word* is where I outline the principles of fundability and how you can literally see how fundability is being measured. Then, of course, I have other educational platforms, bootcamps, and things like that where you can take the principles and start learning the strategies to start changing your entire framework. But I want to be more about education in this time with you.

[0:09:46] WS: Yes, please. So, help us to become that professional borrower. How do we do that in the next 24 months? How do we become the most professional borrower and have that type of profile?

[0:09:57] MC: All right. So, I did want to say kind of what the result is. You would ask me what do we need to prepare for. There's two points I wanted to make. In [inaudible 0:10:04], think everything that I do is based on targets, so bull's eye is where we want to be. Most people aren't even fundable enough to hit the target at all, right?

But when you are fundable, meaning to some degree, and you can hit the target, then the problem becomes in times of recession, the target becomes smaller. So, fundability optimization, what we do, what we talk about in every platform that I'm on, deals with how to make your scatter chart within that bull's eye first ring, right? So, it doesn't matter whether you're in prosperous times or the lenders are tightening up their criteria. Lenders only make money when they lend. So, if you are in that bull's eye scatter chart, you're going to still keep getting money.

My clients, we've already got $1.3 million so far in May in fundings from top-tier banks, because they keep getting that small tiny scatter chart. Now, to answer your question, how do we change what we need to do in the next 24 months, right? First thing, you got to learn the rules of the game. Most of us, before we come to this, we are literally playing pickup games at the rec center and we're playing against all-star pro NBA ballers, right? We're getting dunked on and dunked on. It's like the Harlem Globetrotters. They're just killing us, so we got to first learn the rules of the game. The rules of the game include those 40 characteristics that we need to become aware of. Some of which I've already mentioned.

The second thing is the awareness of a consumer borrower means that you are picking up types of credit that are harming you. Here's the perfect example that some – You guys can stop right now and improve your profile. If you go to optoutprescreen.com, optoutprescreen.com, and take your name, address, phone number, everything off of the credit bureau mailing list, your profile value will increase by 10 to 15% because you're not on the list to be offered credit. Now, just so, lenders I have mad respect for their system and their marketing savvy. But do you realize many credit offers are literally pinging consumers to see if they should be taken off the serious borrower list, meaning you're being pinged with a credit offer? If you get approved, then you end up on – It's my term but it's a susceptibility list. The reason why your credit score and your fundability goes down is because you will respond to offers.

Lenders do not like to lend to people who need money, so your borrower behavior has to shift so that you appear in every way not to need money, and so the insider secret here is if you get an offer, let's say in the mail, "Hey, it's a $50,000 business line of credit from Wells Fargo," do not ever under any circumstance anywhere input on the form the tracking number, the activation code, the pin, whatever.

Call up Wells Fargo and ask them about their $50,000 business line of credit, because now you are a proactive intentional borrower, rather than a reactive, unintentional, I'll-take-whatever-money-you-throw-at-me borrower. In the book, we talk about what we call borrower totems, right? There's different animals. That's a seagull borrower, right? Pick up the scraps. Anything you got, I'll pick up any type of credit that you are willing to offer me. Professional borrowers are intentional borrowers. We do not respond. We proactively seek.

The other thing that your people need to really understand and this comes directly from David Smith. He is the SBA. When I was at FICO, I did a podcast and I interviewed – At FICO World, I'm interviewing the SBA liaison with FICO and Congress, and he's the guy who reports to Congress and literally tells Congress how well the SBA portfolio is doing, right? Well, now we have gobs and gobs and gobs of PPP loans and the EIDL loans. Do you know how they evaluate the credit of individuals for the PPP loan? It's called SBSS, Small Business Scoring Service, and it uses the FICO liquid credit engine.

But people think that business credit depends on the things that they have been taught in the past. Some of the mythology has been around the PAYDEX Score or the Experian Intelliscore. No credible credit bureau scores its own data. It's illegal for Experian, TransUnion, Equifax to score its own data. That's what FICO is responsible for taking the data and scoring it. Well, on the business side, the Fair Credit Reporting Act doesn't exist, and so FICO has just barely in the last few years been moving into the business scoring market.

In this podcast, David Smith, FICO, told me that 80% of a business lending decision, 80% of the business lending decision depends on your personal borrower profile. Only 20% depend on your business information. Not your business credit score, not your business trade lines, and they look at the business identity to make sure it's not fraud and that your personal borrower identity and the business borrower identity sync up. That's the other what we call in the bootcamp the other 20%.

[0:15:45] WS: It's important what you're doing with your personal credit if you expect to get business credit.

[0:15:49] MC: Absolutely. 80%. Because David also said in this podcast that business credit reporting today is the equivalent of what personal credit reporting was in the mid-80s, literally 40+ years ago. It's still the wild wild West in business credit reporting, and so FICO is coming into this space and will dominate just like it does on the personal side. But right now, we need to understand that our personal profile, just like you said, Whitney, drives business approvals. The magical thing that he said was we have to optimize the personal profile for business underwriting. That's why we can't have the consumer.

People ask me all the time, "I have an $800+ credit score," and it's based on consumer accounts. You have perfect payment history. I always ask, "Do you believe the Chase is going to give you a 50 or 100,000 dollar business line of credit based on your Home Depot reputation?" It is never going to happen, so we have to build a personal profile that completely encapsulates what a business lender wants to look at.

[0:16:56] WS: Give me a couple things that will help us do that. I know we all learn those rules and then not have harmful types of credits or we're not going to go finance furniture. Or we're not going to just take in any kind of credit that they send us like you were talking about. What else is going to help us to have that profile?

[0:17:11] MC: Credit offers. One of the things that we can be aware of, this one's huge, there are FICO scores and there are FAKE-O scores. If you're playing a basketball game and you're using a fake score to evaluate your credit, that's like believing somebody holding up a poster in the stands and not looking at the official count on the scoreboard on the wall, right? Well, perfect example, and this is a travesty. Do you realize who the purveyor of the greatest, greatest, most horrible FAKE-O scores out there? Credit Karma. 80 million people are using scores. They're basing their credit belief, their credit financing capability, and their actionable intel on a fake score because no lender uses Credit Karma scoring model. Nobody uses it for approvals, especially for high-value accounts; automobiles, mortgages, tier 1, tier 2 bankcards, the credit cards, things like that.

All of a sudden, we have 80 million people who are evaluating their fundability on a fake score and they wonder all the time. A woman came to my bootcamp, and she was just devastated when she learned out the fake scores because it totally made sense why she went to buy a car, and her credit score on Credit Karma said 720 on her phone. Then they walk in and the auto dealer is pulling a 650-credit score. She's devastated, right?

[0:18:39] WS: So, should we have debt on our cards? Should we have credit card debt, which we do to help build that profile to show that?

[0:18:46] MC: Another set of criteria, kind of the rules of the game, right? The highest and most valuable credit profiles to the lenders are, one, they have at least one mortgage. It doesn't matter the amount. It could be a $20,000 HELOC or a $1.2 million first. Doesn't matter. At that level, it doesn't matter. An auto loan, it doesn't matter if it's a $5,000 one or a 3,000 or a 50,000 or you got your Maserati at 150, right? It doesn't matter as long as it says auto loan on it, because FICO is about predictive analytics. If you have an auto loan and a mortgage, you are in what's called the scorecard. You're in the scorecard that has the least likelihood of default or bankruptcy, so those two.

People ask all the time. You'll have listeners I'll bet you that'll comment or otherwise like, "Yeah. But I paid off my car and my score went down 20 points. Why? I thought that's a good thing?" The credit reporting and scoring process is the quintessence of what have you done for me lately. So, if you pay it off, that's not a good thing because you don't have a trade line that you're proving that you've got the chutzpah to continue to pay. One auto loan, one mortgage where possible. Don't go into debt intentionally if you can't afford it, guys. That's no bueno, but I'm telling you what is most valued in the process.

The next thing is that you want three tier 1 or high-value credit cards and the tier 1 banks are Wells, City, Bank of America, Chase, the too big to fail. Tier 2 are all the regional banks, the BB&Ts, the US Banks, the California Banks and Trust, the ones that are regional and cross state lines, etc., etc. Those are the top-tier. Tier 3 are like credit unions and community banks, and so, tier 3 banks are less valuable to business lenders than tier 2, which are less valuable than tier 1.

Now, remember the higher value that you have on your personal profile, those relationships leverage over under the business division banking of those same institutions, and there's ways to play that game. When you know the rules, you can master the game. Ethan Dornhelm, the Chief Scientist at FICO told me when I asked a very pointed question. I said, “What is a zero balance because our numbers, our algorithms said that a zero balance is not good?”

He said, “I can't tell you the math but less is better than more, but some is better than none.” So, our numbers showed that but we worked that out so that – Remember I spoke about the reporting date. You can have a false high balance. So, there's a way to find out your reporting date and then make a payment before the reporting date, in addition to paying it to zero on the due date. That's a strategy that will make sure you look good when you're broadcasting to lenders in the future.

[0:21:50] WS: So, it never shows a really high balance?

[0:21:52] MC: Correct. That's correct. Yet so many people cross over. They pay it to zero but they're in the middle of using it all the time. When it crosses that reporting date, that use balance is what gets reported, not your zero balance at the due date.

[0:22:08] WS: So, we want the reporting to be zero. Is that right?

[0:22:11] MC: We want to pay zero at the due date but we want – There is a percentage. It's less than 30% but it's customized. I think of everybody's borrower profile as a pie chart. Depending on how many accounts you have, how many are open, how long they've been open, the quality or tier of the accounts, it all contributes to an algorithm that basically says what the percentage should be for each particular account. Every account is a different percentage which equals 100%.

But that's part of the magic, right? I'm a total geek for this stuff, and so we’ve not only been back to FICO, but our modeling is spot on with regards to what they have, what the lender-facing side, and the borrower-facing side are synced up when it comes to the dots we've connected.

[0:22:57] WS: Okay. Unfortunately, we're almost out of time. Just to make sure I understand, I thought I’m going to just tell you how my credit card works a little bit and you tell me if I'm doing this right, okay?

I mean, we for years paid it off every month or I don't have many years and since I've had it I guess nearly. Thinking that's going to help our score, right? We do have nearly perfect scores, but maybe it doesn't matter. I don't know? But I think the reporting date may be like the third of the month but their due date isn't till like the 28th or something like that, and it's just scheduled every month to pay itself off, right? If I put bigger items on that card, I do go back in there before that reporting date and I will like fund that to pay it way down.

[0:23:39] MC: Correct.

[0:23:40] WS: But I do leave a certain amount on there and not much but enough on there.

[0:23:45] MC: As long so it's non-zero.

[0:23:48] WS: Okay.

[0:23:49] MC: That's a reporting date and then pay it to zero on the due date.

[0:23:53] WS: Okay. So, I've been doing something right.

[0:23:54] MC: Yeah. It's a non-zero, and some people it could be 20% is okay. Other people, it's 50 bucks. That's where the modeling comes in, right?

[0:24:04] WS: Should we be calling and asking for them to raise our credit limits?

[0:24:08] MC: Okay. You can have too much available credit on the personal side. Again, that's math, so some people is 30 grand. Some people, it might be 80 grand. I don't care if you make $1 million a year. If you have more than $80,000 on your personal available credit, there's no limit on business credit. You can have millions of dollars available on business credit but you don't want too much available credit on the personal side, because what that's showing is that there is a huge – Businesses are known to spend money but who needs $80,000 of personal credit? There are ways that you can freeze the limit increases. You know how you get free ones, etc. We don't have time to go into automatic limit increases. You want those limit increases on the business side, not on the personal.

There's just so many wonderful things that you can do to prove that you are a circumspect, careful, intentional borrower over here on the personal side, and then you can be a mad scientist over on the business side and still be blessed by the funding gods.

[0:25:19] WS: How many of those tier 1 cards do we need to have that profile that we're looking for?

[0:25:23] MC: I'll tell you this, three. Three to five. Anything above three to five, you begin losing fundability, and that includes retail, tier 1, tier 2, and tier 3. I only have three, but then there's the business side, which I capitalize on my personal reputation. Think of your personal profile, your personal borrower profile as the goose that lays golden eggs. Business lines of credit, business loans, commercial loans are the golden eggs that are hatched out of this perfectly crafted personal profile.

[0:25:56] WS: In those three cards each month we're doing that same thing. We'll charge certain things and pay it down and pay it off.

[0:26:02] MC: Yup. We call it traffic, right? You run traffic on it. You pay it to X the day before the reporting date. You pay it to zero on the due date and start over on the next billing cycle.

[0:26:13] WS: Okay. Well, that's great information. Great information. That's going to – I mean, that helps us in business. I mean, like you said, getting those business lines of credit, and that's great information. So, tell me a way that you've recently improved your business, Merrill, that we could apply to ours.

[0:26:27] MC: Pivot. Pivot, pivot, pivot. Look for opportunities. I've never done a mastermind before in my entire life. But because people's credit was tightening up, people were becoming more conservative, after our boot camp we tried a new like a eight-week course that I'd never done in 28 years. I'd never done one. All of a sudden, I'm now guiding people through this very process of becoming fundable. The point is find out what opportunities.

There's a group here in Utah. It's called Five Wives Vodka, and they're playing off the old Mormon polygamy thing, right? Well, Five Wives Vodka saw a need as soon as COVID came out. They got FDA approval and used their facilities, pivoted to start manufacturing hand sanitizer in the very cauldrons that they had been doing vodka. They total pivot and observed their community and added to their bottom line, rather than have it shrink. So, the question is this. What opportunities are available now that were not available and how do we pivot? How do we look for that new opportunity and leverage it?

[0:27:39] WS: That's what makes a good entrepreneur right there.

[0:27:41] MC: Absolutely. I believe so.

[0:27:43] WS: What's the number one thing that's contributed to your success?

[0:27:46] MC: My passion for my subject matter and my team, right? I got wind beneath my wings, and I'm willing to fly as hard and fast with somebody who wants to fly with me. I love this stuff, and so I just tell everybody join or die, right? It's like let's do this thing. That's how I treat my students, my clients, my friends. It's like, "Guys, let's do this. Let's do this." My passion is my purpose.

[0:28:11] WS: How do you like to give back?

[0:28:13] MC: One of the fun ways that we've done in, for instance, for years is every Thanksgiving we do like 500 massive lunches. These aren't the little tiny like a little tuna fish sandwich. I mean, we – These are like hoagie, delicious massive bags of food that we give out, and that's just one of the ways in which we are teambuilding for our team, right? But on the day-to-day, I love offering my – I have a podcast here with you, free. I just want to empower people. I want to contribute to the fundability, and my goal is that every single price point, including free, there is tons and tons and tons of operational intel that you can use to change your life today.

[0:28:59] WS: Merrill, I'm grateful for your time. Grateful to get to know you a little bit. You've provided tons of value I know to the listeners and myself by helping us think about how we are building that profile that bankers or whoever are looking at when we're trying to get credit or lines of credit or loans, and I'm grateful for that. But tell the listeners how they get in touch with you and learn more about you and find your book.

[0:29:18] MC: Absolutely. Thank you. First of all, go to getfundable.com, getfundable.com. My book is free, by the way. My book is free. Just tell me where to send it. Cover the cost of shipping, it's yours. In fact – So, Whitney, my team is already getting ready to send you a copy so that you can prove it. Then just tell your people what you think, because it is loaded for free, just all of these great things. So getfundable.com and you'll find information on my book, my boot camp, everything you need to know, my podcast. Links are all right there so that for free you can just check it out and see what's up.

[END OF INTERVIEW]

[0:29:56] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook, so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too, so you can get the latest episodes. Lastly, I want to keep you updated. So head over to lifebridgecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the contact us page, so you can talk to me directly. Have a blessed day, and I will talk to you tomorrow.

[OUTRO]

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