EPISODE 632

[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 Debbie Bloyd. Thanks for being on the show, Debbie.

[00:00:32] DB: Hi. Thanks so much for having me.

[00:00:34] WS: Debbie Bloyd has been helping clients over the last 20 years with their investments, mortgages, and insurance needs. Debbie is CEO of DLB Mortgage Services and helps create wealth and peace of mind for her clients across the country. As a radio host on her show for over a decade, Money Strategies with Debbie, she hands out advice to listeners, as well as making the complicated financial news easy to understand.

Debbie, thank you again for your time. You've been talking through a mic a lot longer than I have.

[00:01:05] DB: Okay. Well, how long have you been doing this show?

[00:01:07] WS: This show is a couple years old. We've done well over 600 interviews now but just within a couple years. But you've been doing it a lot longer.

[00:01:15] DB: Yeah. No, it's a lot of fun. You really get to have your pulse on the community when you do shows like what we do.

[00:01:21] WS: Right, right. Well, Debbie, thank you again for your time and being on the show. Give the listeners a little more about who you are or your background little bit, and let's jump into some of this mortgage stuff or just financing stuff that we need to know. I know you're an expert on many others areas, and hopefully we'll touch those as well.

[00:01:37] DB: Sure. A lot is going on on the real estate market right now. Everything is very busy, so I don't think – COVID kind of slowed everybody down but it didn't stop them. Depending on the city that you're in, agents have still been showing houses or they do virtual showings. I still had contracts. I had closings the whole time. When everybody else was home, I was here at my cute little office working, because other people were buying.

It's been a very active season. I don't believe that everybody quit looking because I've been very busy. Rates are great right now, so we're slaying with refinances.

[00:02:11] WS: Nice. What kind of rates should we expect right now? Can you share that?

[00:02:14] DB: No, I can. If you had decent credit, which is like 740 and above, if you were just buying a house, a 30-year fixed-rate vanilla loan, you'd be in the middle freeze. If you're refinancing with great credit or a purchasing, you could be as low as 2.99. I did a 15-year last week at 2.65, so rates are great, and I always have to say that then you have to add in closing costs, that kind of stuff. But the rates themselves are great. It just depends on what you're looking for. Investors have a little bit higher interest rates just because it's not a primary house. They're going to maybe pay a little at the top of the threes, low fours.

[00:02:56] WS: Okay. Let's focus on that a little bit as far as an investor looking for their first deal or types of financing that they should be thinking about right now. I know lots of listeners are still – They're looking for that first deal there and they're – That first deal is so important, and financing is such a big piece of it. I know financing can just make or break a deal, right? I mean, depending on what type of financing.

[00:03:16] DB: Yeah. I mean, I'm not an investor myself, so I buy and flip properties, and I buy properties, and I've held them. Right now, I took out a hard money loan a couple years ago to buy a little house. We tore off the roof. We added an extra 1,500 square feet. Now, it's up for sale. It's almost finished. That was a hard money loan, so those rates are going to be in the nines. You take what you can get, and there's a lot of different ways to do it. There is a construction loan that you can get. You just buy a regular loan, a 30-year fixed rate mortgage on like a duplex or a fourplex or a single-family. Then you're going to need your cash to make improvements.

There is one loan out there. The thing is if you're an investor, you don't buy it as your primary. FHA has a loan product that you can do some rehab on but you have to have it as your primary. I know a lot of people build up their investment portfolio by going house to house to house as their primary. You buy something. You move in it. You fix it up. Then you sell it and you do it all again. That way, you're always borrowing money at least at the lowest rates.

[00:04:24] WS: Can you speak to that construction loan a little bit. I think that's a popular thing that people need when they're getting into the business, but then you mentioned you need your cash to make improvements. Tell me a little bit or let's talk about that just a little bit.

[00:04:35] DB: Sure. FHA has a program. A 203(k) I believe it is. I don't do that many of them because their requirements are kind of hard. If you buy an FHA house, it has to be a primary and you have to call it your primary, so you've got to live there. A lot of people don't like to do constructions loans when they live there.

[00:04:54] WS: Is there a certain length of time you have to live there?

[00:04:56] DB: No, but you just have to buy it as your primary, so you have to either take whatever you're living in now and call it an investment and move there. FHA is pretty tough. They're going to make sure you're going to change your address and do your stuff that you're really moving in there. Then you have to provide them, when you first get the loan, you have to also provide them with a set of plans and what are you going to do to it. If it's just lipstick, if it's just wallpaper paint, new cabinets, you've got to have an estimate, and they have to approve that estimate. It has to come from a real builder that they can vet.

The problem for most of my clients is if they buy a house like that, they're going to fix it up themselves. This loan doesn't allow for that, so you'd have to hire a contractor. You'd have to – They would have to have insurance, and so it's a bigger process. Most of my people that want to buy a house, live in it, and fix it up, and flip it, they want to do all the work themselves, and so they simply can't qualify.

[00:05:50] WS: What about multifamily properties or something? If I'm looking at, say, a four or a fiveplex. I know one's going to be residential. One's going to be commercial. Maybe you can tell us and talk about that.

[00:06:02] DB: Yeah. If you buy a fourplex, you can still buy a fourplex on a one-time like a primary if you're going to live in one of the units and you're going to renovate the others ones. If you buy it strictly as an investment, the way it works is you buy the property. You're putting 25% down at current day. With COVID, it's really put a kibosh on a lot of transactions because what used to be 20% down is now 25. What used to be a 680-credit score is now 700. Or we used to get into houses at 620, and a lot of lenders have their FHA loans to 640.

But as a broker, I'm signed up with a lot of different companies, so I could still go down in the fives. They're just called alt-A loans, and not every bank has them. I had a client in last week that she was denied at one of the bigger banks, and it was because her score was 613. But I can do those all day long, so you just have to know where to look.

If you buy a fourplex and you put your 25% down, you're going to need to also have money set aside for the construction of it, the improvements. Remember you're going to do that after you buy it, and there is not a way to roll that into the loan. You either have to have an equity line of credit at your bank or you have to have the cash to do it.

Right now, of course, cash is king. So, if you have cash, then you can do it yourself. You can hire subcontractors that aren't licensed. But if you are putting into some type of loan that a bank has to approve, everybody has to approved. It's really cash is what you're using to fix it up.

[00:07:42] WS: What happens then if we are going to finance a fiveplex or something larger? How does that loan change?

[00:07:51] DB: A commercial loan, right now, a lot of them are asking for 30% down instead of the 20% down they used to, and your investors have to have financials. Yes, you can buy it as a person but you can also buy it as an LLC. If you've made an LLC, that's a commercial loan. Anything over a four-unit is a commercial loan. They also vet your company. Certain banks don't require any seasoning on your LLC, and you have to have money in your LLC. That means when you're first setting up the company, you're going to deposit money on that account for the LLC, and they're going to have to see money in there to make you legit. Then they go on vetting you, so they have to see are you the primary sole contributor and owner of the LLC or are there other people in play?

I've got a lot of clients that have gone in with siblings or business associates, and they make an LLC. They all throw money in the pot and they think that LLC is going to be able to survive on its own merit because it's brand-new. No. They've got to pull financials from all four people or all two people, whoever makes up the LLC because if an LLC is less than two years old, they want financials on everybody. It's got no track record. I'm afraid that most investors don't know all these things. They get all excited to buy a property and then they find out that they haven't had the company long enough and they have to go hard money at that point.

[00:09:17] WS: Could we buy it, say, on contract with an established entity and then have a new entity that we put that property and when we close?

[00:09:26] DB: No. It has to be vetted. If it goes through the bank, you can't flip it. You can only flip a property. Where most of my deals go, it's their personal name and they buy as an investment property, but they're just stopping at fourplexes. They're not ever doing commercial stuff because once you stay commercially, you have to stay commercial.

Once you buy it as a individual, like I could buy something as Debbie. Then when I close and it funds and I own it now, I can on paper move it into an LLC so that liability goes into the LLC, but the LLC has no track record. It has no money in it. It's just kind of an empty shell, so I have to buy it in my personal name. You get a much better interest rate when you buy in your personal name. Commercial loans can be 5 and 6%. When you buy something like a fourplex in your personal name, you're down at 4%. Underwriting is much easier, so people buy it.

You've got to be a real established LLC to buy it commercially. Most people don't know that, so they just start out the paperwork and they think they fund it; they put a hundred thousand in the account; they're good to go. No, they've got to have a track record.

[00:10:31] WS: What does that track record look like? What does that consist of? Is it just doing numerous deals or –

[00:10:37] DB: It's having money in the bank. It's having them pay rent. It's having rental checks come in to that bank account. It's to show that they're real but it's just not a friend for something else. I think half of the legitimacy is not money laundering, and the other half is just knowing that they have the money behind it. The more properties you buy, the more you have to have in savings in a 401(k) or an IRA or cash to qualify. You always have to show with your rental properties that you've got six months of principal interest, taxes, and insurance for every property. It's easy for the first one.

The second one, it gets a little tougher. By the time you've got 10 properties, you've got to have a lot of cash behind you or you don't get to buy the next one because it all adds up every step of the way. You've got to have six months of every single rental you have saved up. Not that you have to have it liquid but you have to have it. It can be invested in mutual funds or an IRA, but you still have to have it somewhere that they can see it so that if you – If something happened like this, which no one ever thought would happen, this pandemic, people can't pay rent. How many months can you go and float without being bankrupt yourself? If you have no cushion, you're going to go under yourself. The banks have added those requirements ongoing just to make sure you have enough and you don't upside down.

[00:12:07] WS: You mentioned earlier and I wanted to go back to it. You said like doing the fiveplex. You said investors have to have financials. What does that mean?

[00:12:13] DB: That means that the LLC – If you're buying a fiveplex as a commercial loan, your LLC has to have bank statements that has to be audited by a CPA. You have to be able to show a profit and loss. If you just show that you have a $100,000 in there, and there's been nothing going on in there, it's really hard to get started. That's where it really comes in handy to have that personal banker that knows you. You kids play soccer together. Most of my LLC started out at a community bank. That way, they know their banker. Then they have to put up usually some collateral.

I worked at a bank as the vice-president in the mortgage department and I sat next to a guy that was a commercial lender. So, we would throw our clients back and forth, depending on what they really needed. Those commercial lenders, they really want to see a track record and they can take collateral. If you have a piece of property somewhere else, you can put that up for collateral.

In my world, in the mortgage world where they sell the loans off, that doesn't work. If you have collateral that you're going to put up, whether it's your primary house, an investment property, something else, as collateral, so you to get money to do construction or to have your six months of principal interest taxes and insurance. That community bank is going to help you out with that.

On the lending side, I don't use collateral at all. That's not part of our deal. That's why you go to community bank. However, those community bank rates are pretty hefty. They can be in the six, seven, and eight. But, again, you've got to get started somewhere, so you have to show a track record.

[00:13:45] WS: If you can answer this, how much leniency does our banker have in that track record? The reason I ask because that relationship is so important, right? If we have let's say, three entities over here or this banker knows me, we've done this many deals together over this many years. But ultimately, I really need to start a new entity or something like that. How much is that track record taken into account or just the relationship in general or just other things the banker may know about me?

[00:14:14] DB: Well, sure. These community banks, you would die if you knew how you got your loan approved. They still go to loan approval meetings every week and they have a file folder. I mean, we're kind of going back to the '50s here. You have a file folder, everything about the person. Your bank loan officer stands up at that meeting and says, "Bob wants to buy a new property. Bob has been banking with us for 20 years. I know Bob personally. Bob has this, this, and this. Let me give you the strengths of Bob. Bob is going to put up his house as collateral. Bob is doing this." They've kind of present your case. Then all the bankers around the table from all the other branches, they kind of get to raise their hand and vote on you. It's crazy. I mean, it still goes like that, so you have to have someone to talk on your behalf of why you're a very good choice.

A lot of people establish a banker relationship with some guy at a bank, some girl at a bank, and they became that person. If that banker moves from bank to bank to bank, they follow with them, so that becomes that banker's book of business is pretty important. If he gets promoted or he goes to a different bank, all those people usually go with him just because he knows them. He can get them deals at the next bank. That banker relationship is super important.

A lot of people say, "Well, I deal everything online," or – This is not the time for online. This is one-on-one relationships, relationships that you've had for years and years and years. If you don't have them, you need to go make them so that you start somewhere because if not, we're not going to be able to help you anywhere. Nobody can, and that's the sad part.

[00:15:48] WS: What about credit union versus community bank? Or is there a difference? When you're saying community bank, does that also include just kind of any local bank or is that a credit union as well?

[00:15:59] DB: If they have local officers, credit unions are fine with that. But you have to really see what their lending procedures are. The community banks that I've been at doesn't mean they're small. I was at one that had 15 locations. I was just the vice president of mortgages for my location, but they had commercial guys just like me that sat on the next desk, and they all are folks, small bankers. We had probably six people in our building, but they represented the whole. It was part of a great big bank umbrella.

You just have to find – Credit unions and smaller banks all do this procedure, so you just have to go and ask them, “How do you do your commercial loans?” That’s really the only reason why we still have standalone banks is to build those relationships and do those commercial deals. Me as a person, I don’t have a person in my checking account at Chase or Wells Fargo. I don't. I just deposit my checks and withdraw money and move along. It can be online. But when you do commercial business and they have a local area that they lend in. So I have had banks before that couldn’t take my clients if they built in another city or if they were buying property outside of their little code area.

Most community and credit unions can only operate with a contiguous county around them. You take the county you’re in and you go all the way around it. All those counties, they can probably lend in but they can’t lend in three counties away. That’s out of their “jurisdiction.” So, you have to figure all these things out before you start looking at properties. If you find a great property out of your bank’s jurisdiction, where are you going to get the money? You kind of have to plot and plan a little bit.

[00:17:43] WS: Any tips on helping us become that professional borrower? Just that relationship with the banker or just having that, whether it's credit score versus a track record, whatever that may be.

[00:17:54] DB: Sure. Well, you have to keep really good records and you have to make sure your taxes look good. If your taxes – Bankers understand taxes, so most self-employed people write everything off. For me, as a mortgage lender up to a fourplex, you’re going to buy a property, you’ve got to have tax returns to support it. But I now do loans as a broker called bank statement loans. That allows you to buy off of the income, the inflow of money in your bank statements, not on the outflow.

For people that don't look good on paper, bank statement loans are a great way to make five properties. You can’t buy commercial that way. When you go to a banker, you take your taxes in and then you sit down with them and you analyze them. They're going to analyze, "Okay, we're going to write back your depreciation. We're going to write back this. We're going to take some of these expenses." But the bankers will help you learn to get package-perfect ready, picture-perfect ready for them, because they all look for different things. You'd got to have good credit scores. You'd got to have a lot of money behind you.

When I did my first property, it was maybe a $250, 000 property that I bought. I showed them that I had assets of over 300,000 in investments, mutual funds, because what they were lending me was under what I had. I could get cash for it but I'm choosing to get a loan on it and move forward that way. You've got to show them that you have assets and cash. There's a joke that goes around saying, "You only get a banker to help you when you don't need a banker to help you," and that's true. You have to have assets so that they know you're good for it. But you can't get assets, so you got to start small.

That's why a lot of people started with this. Not a fourplex or a fiveplex. They start with one house and they move to two houses. Then they move to three houses, because your tax returns are going to support only half the story with what you can qualify for. The other half is how much money you have behind you. You can't really become an investor on a shoestring. I know they have all these seminars and workshops. I go to those too. It's very rare you can find a property for sale by an owner, and they will finance it for you, and you'll do owner financing.

[00:20:02] WS: For sure. Very rare and you're going to look at long time. But what is the status on, say, are lenders way behind right now? I would imagine most are but what should we expect right now if we're going to the bank today?

[00:20:14] DB: Well, it's not all the lender's fault. It's a lot of the auxiliary businesses are way behind. I have appraisers now not wanting to go into people's houses. They're making the lenders take pictures, supply pictures for the clients. It's crazy right now. To have an appraise or do a desk appraisal means they're not going out and taking their own pictures and walking around. They're counting on you, the loan officer and the client, to supply those, and they're staying at their desk, which is crazy to pay somebody full price to do half their job. But that's what's happening. Survey companies are way behind, so if you need a new survey, you're waiting four to six weeks. Appraisers are probably four weeks behind.

The first thing I do when I get a deal is I order the appraisal and get in line. That doesn't mean I'm sending him out that day. That means I'm placing the order. They pick up the orders and it's sometimes two weeks before they can get to you, so the lead time is different. Title companies are still understaffed. In some areas that they're in rural communities, they're understaffed. If they're in the big cities, everybody is still working from home. Some of the offices are open, but the whole process is slower because everybody is learning to work remotely. I mean, my lenders are all working remotely, and that just slows the process down. They don't have someone to yell at down the hall or take a file to. They're waiting on emails, and you know how slow that can be.

If you're going to buy a property, give it 45 to 60 days to close. You're going to need that long because there's going to be a hiccup somewhere. I feel like most investors that are new think everything should just go looking to split. That's not the way it works, and patience is needed right now because nothing is going as planned. I have buyers right now that are trying to close in two weeks, and they're nervous as can be that what if it doesn't go on time? The good thing about this is, and it's a joke but it's not funny really, it's no one ever dies because they can't move into a property on the right day. They may be very inconvenienced. Moving vans may be waiting. You may have to live in a hotel for a couple days or a week or live with in-laws. But no one dies on my watch.

I try to give my people – I set their expectations to where are you going to go if this doesn't close. For my investors, "What are you going to do if this doesn't close on time? Give me some options," because they've got renters moving in and out, new leases happening. There's a lot of moving parts, and I don't think people understand all the moving parts. Just in one transaction, you may have 25 people to do that one transaction. Those people are also doing other transactions, and that just means that it's not going to go as fast.

No one can close a house in 30 days, investors out there listening. That's just not going to be possible right now, so don't believe it. If lenders tell you, "I can get this done in 30 days no problem," big red flags, problem. That doesn't happen right now like that, so just be aware. It's going to take you twice as long as you think. There's going to be a problem somewhere in the cog of all the wheels.

[00:23:19] WS: One of those 25 people are going to be way behind, right? At least one if not five or eight.

[00:23:23] DB: Exactly, and that's going to throw everybody else. If your appraisal is two weeks late or the guy – One of our appraisers, he appraised the wrong property. I had to go back out there and do it all again. Okay. Well, no, we didn't have to pay him. But now, we're a week behind. So now, somebody has to go back and lease another place. Now, somebody has to – It just makes everything else be bad, and people are not wanting that right now. They want it their way, they want it fast, and they feel like, "Well, it's not my fault it didn't go well. It's somebody else's fault, and they should pay." No, it didn't work like that. Nobody gets to pay. They just try to fix it and keep going.

[00:23:59] WS: Sure. Debbie, what's a way that you've recently improved your business that we could apply to ours?

[00:24:04] DB: I do a lot online now and I meet up with a lot of clients online. Meeting online is really important because we're not seeing people face-to-face. Of course, I think some of them like it. I did have a client come see me last week and come to the office. She sat here in the office and looked over my shoulder at my computer and saw what I was doing. I can also do that in Zoom calls.

When I lock loans, I lock them through Zoom calls. I do a Zoom call just like we're doing. I get them to see my screen, and they can see the rates and see what I do, and it's in real time. That is much more convenient for everybody. It makes me work a lot faster. Actually, than meeting – Because people sit in front of you and they want to talk for 30, 45 minutes about one thing where I can get them on a call lock their loan, and be done in 10. It makes the process go faster.

They also have to have more communications capability. If you can see my office, I've got like five screens and two computers. I've got one computer doing something. I've got somebody else over here doing something over here. You just have to double down on technology. If you are a client that does not have a scanner, your bankers are going to hate you because they're going to ask for papers, and there's no way to hand-scan every single page. They won't accept them like that. Some of my borrowers are like, "I don't have a scanner." I'm like, "Well, there are Staples, Best Buy. I mean, buy your own. If you're going to get into business, you need to be professional."

[00:25:28] WS: What's the number one thing that's contributed to your success?

[00:25:31] DB: I think it's because I'm available 24/7. This is a 24/7 business. As a banker, the guys that I work with, they're like, "Why are you doing open houses on the weekend and why do you answer your phone on Saturday afternoon?" Because that's when people need me. I am on really 24/7.

My kids grew up with me answering the phone every day. Nights, weekends, vacations, business goes on. I think you need to find a lender that has that same capability or you're going to miss deals. When I need a pre-approval out on a Saturday afternoon and it's a multiple-offer transaction and people are putting offers in, they're not going to lose out if they can't get a hold of their banker to get them a pre-approval letter.

That's really important. I just think it's because I'm so accessible. I get a lot of business because people try to call their bankers on the weekends, and they can't get a hold of anybody. That's because they don't have that relationship. Everybody's got my cell number. My cellphone is the only number that I have, so they've got me 24/7. I think that helps a lot.

[00:26:28] WS: For sure. How do you like to give back?

[00:26:31] DB: I give back with a lot of education. I teach people the transactions and how they work. I get a lot of first-time homebuyers because the agents know I'm going to walk them through the process. A lot of first-time investors because I'm going to explain to them, "This is how you do an investment property. This is what I mean." I have to-do lists for people.

Over COVID, I started an eight-part series that's a workshop that I now send to clients and I sell online just about money basics. It's called 'Everything Money,' and it's just got an overview of what is your credit score, how to make it better, what is the psychology of your money.

Psychology people forget about. It really makes a big difference in how you feel about money, what kind of deals you do. If you're a nervous Nelly, you probably want to start out with one property and sit on it for five years until you can do this again to do a second one. If you're nervous about the process, you got to come up to speed really fast or you're just consider it a part-time gig.

If you're going to be a professional investor, you're going to have to learn to act professional, be professional and a lot of those people don't have a reference point for that, so I try to help them come up to speech where they're going to be picture-perfect ready time and time again.

But it's all about how you view money. If you're scared that you're not going to have renters, don't get in this game. If you're thinking, "I don't want to talk to people about their credit scores," don't get in this game because knowing your client, pulling credit, knowing if they're a good investment or not to be in your property, that's half the battle. If you're not comfortable talking to people about their money and their finances, this isn't the right game for you.

I think they find that out quickly with the first or second transaction. "I don't want clients calling me." Well, then get a property management company. "Well, now, I don't make as much money." I know but you're not getting the toilet calls at 2:00 in the morning when it overflows. So, you just have to figure out what is your skill set and how much are you willing to be inconvenienced? I've got some investors, they have a property management company and swear by it. Others do it all themselves and they get phone calls like me all the time and they're fine with it. It just depends on what else you've got going on.

[00:28:41] WS: Debbie, thank you so much for your time today. It's been great. I know there are so many listeners who are either trying to get into this business or maybe they've done a few small rentals and are still trying to grow their portfolio. We want to become that professional borrower for sure, so I'm grateful for your time today. Tell the listeners how they get in touch with you and learn more about you.

[00:28:59] DB: Sure. Well, I have a website for my radio show. It's called Money Strategies with Debbie. It's got my podcast, and then your interview will go up there too. A little bit about what I do how to get a hold of me, I have a direct telephone number. It's (979) 220-3018. They can call me nights, weekends, any time, and I'll be happy to lead them down that process. I'm licensed in Texas, but I can help you guys anywhere.

[00:29:24] WS: Awesome, Debbie. Thank you again.

[00:29:26] DB: Thank you for your time.

[END OF INTERVIEW]

[00:29:28] 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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