EPISODE 1179

[INTRODUCTION]

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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.

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Sam Rust (SR): So, this is your daily Real Estate Syndication Show. I'm your host, Sam Rust. Joining us today is Heather Dreves. Heather has been in the private money industry, helping clients passively invest in alternative assets through high-yielding real estate funds and trust deed investing. She's been in the industry for over 18 years, and currently holds a position as the director of funding, and also holds the seat as a fund manager for Secured Investment Corp. Heather, welcome to the show, thanks for joining us today.

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Heather Dreves (HD): Absolutely, thanks for having me.

[INTERVIEW]

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SR: Heather, as I was diving in doing a little bit of research into your background, one of the things that stood out to me is you quickly moved from an original position with Secured Investment Corp into your role now as a fund manager, director of funding, and you've raised a lot of capital for really a couple of different vehicles. I wanna unpack some of that a little bit, but maybe before we dive into the money-raising side, we can talk about the funds that you guys are raising for and trust deeds investing. I have to say, I'm not all that familiar with trust deeds, it sounds like note investing to me, but maybe you could just provide a definition for us and what you're focused on from an asset class perspective.

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HD: Yeah, absolutely. Well, and I think it's kind of interesting to explain how we got to raising money for funds. When I came on board 10 years ago, we sold trust deeds and I jumped at it, it was diving for dollars. On one side of the business, we had borrowers and brokers coming to us for their funding needs when they were purchasing investment properties, we had very clearly defined guidelines in an underwriting process, and as soon as it was cleared out of there, I was on the phone dialing my database of investors that like to buy trust deeds, and that's really how this all kinda got started. That's what people did in the past, they were essentially matching investors that needed capital with people that had capital that wanted to fund these deals, and it was this perfect relationship but it was extremely clunky, it took time. We personally work with a lot of clients that you self-directed accounts, self-directed IRAs and self-directed 401Ks, and if you have any background in that, those custodians do not move quick. Even if the investor said, yes, I'm ready to go there was this four to five-day process to get the money in. We quickly realized that it was great, we were able to help deploy capital, we were able to help provide funding, but we needed to figure out some kind of a vehicle that sped that process up. On the other side of it, we have a lot of investors that like that real estate asset class, the trust deeds backed by residential real estate in a personal lien position, and that's really what a trust deed is.

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HD: When you buy a trust deed, you are the lienholder against that property. A lot of people really like that we don't write loans more than 70% loan to value, so these are properties with potentially 30% equity plays in them, but the (inaudible) with buying trust deeds, if someone might not make their payments and now you have to be prepared as that note holder to initiate foreclosure, and that's, I think the scary part for people is in a perfect world, everybody pays and they get paid off, but that 2-3% chance that they might not, you have to be prepared. And so, when we looked into it, we said, why don't we create a fund and raise money for people that don't really wanna take the risk on buying a trust deed and foreclosing, but they can still benefit by investing in trust deeds and now they're more diversified. What I mean by that is we have hundreds of notes in our buttons, and we have clients that can put as little as $1000 in our funds, invest that way we manage it for them, and then we still have the option on the other side of buying the trust deeds for really active investors (inaudible) that they might take something back and instead of earning 8-10%, they could potentially have a 30% upside in this property if they take it back.

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HD: It really was just kind of trying to provide a better service for our borrowers and close quicker, providing it met our guidelines, but then still having that opportunity for our active hungry trust deed buyers, and then also having that option for our very passive clients that just really wanted to park some money and earn great yields on it, but have us manage it for them. And so that's really kind of where all evolved from.

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SR: So, you guys have a complete ecosystem where you're originating a lot of these loans, and then you can potentially package them into a fund, or you can sell them off individually for investors who want a little bit more upside and are willing to take that operational risk.

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HD: Yeah, absolutely, so all of the loans that we originate on our fund are our Power notes, so we don't buy anybody else's notes, these are ones that we originate, underwrite, do all of our due diligence and we hold those in the fund. And then the same notes that we put in those funds, we sell those off, so what that does for the fund is it boost yields, we sell off the risk, but we keep an interest drift. Let's say we hypothetically fund a deal and we charge the bar over 11%, we fund it in our fund, and then we sell it off, we're gonna sell it off at 8 to 9 and keep a 2-3% interest drift. So, the fund keeps getting a little bit of an interest payment, but I've already got its principal back and go originate more. We turn our funds probably two to three times a year instead of originating $30 million in paper, we can originate hypothetically $90 million because we continue to sell that paper off and it’s this turning of the money.

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SR: It's another version of incident baking, but minus the very complex, like, policy, essentially. It's the real-life version of it. (Exactly.) I'm just curious, who are the customer on the lending side for that type of a product you're charging 9-11% interest, is this fix and flippers, is this, it's more of a hard money loan type situation for the consumer?

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HD: Yeah, we call it private lending, the people that our avatar borrowers are, they’re movers and shakers, they're out there finding off-market deals. So, we only lend against residential, single-family, one to four units. I would say 90% of our borrowers are purchasing these to fix and flip, but as market shift, you're gonna see that strategy change, right? You're going to see some of these guys buying these properties to put tenants in them. We are a bridge lender and our average loan term is 12 months, we don't lend for longer than 24 months, so we're very short-term. So, most of our borrowers are very sophisticated, they work those rates into their numbers. We're quicker, we're faster, we don't ask for as much as a bank would. And the other big thing that a lot of people come to as far as we can look at future value, we can say, okay, this is a very distressed property, but this is their plan, this is what they're gonna do to rehab it, and we can see that after repair value, most traditional banks aren't gonna do that, they're gonna land off the as-is value.

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HD: It's really a cost of doing business for these people to a lot of people say, well, they must be terrible borrowers if they're paying that much. No, I mean, our clients have 700-800 credit scores. They're clipping 50 to 100 homes a year. And time is money, they know, especially once they've gotten in our system and they understand what we ask for, it's a very quick process once we can get an evaluation back on the property and understand and wrap our heads around what the properties were, the rest is just checking the box, right? Do they have decent credit, do they have money down? All those types of things. So that's our avatar borrower.

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SR: That makes a ton of sense, you're providing that convenience in that execution so they can go out and focus on their business model, which is flipping homes, flipping that cash as fast as they possibly can. (Yes.) So, on the investment side, got the origination side, coming over to folks who are wanting to generate some passive income, you've got a couple of different funds listed on your website, I was kind of curious, there's one that's an accredited investor fund. I think a lot of our audience is familiar with 506-C funds and regulations around that and verifying accreditation, we've just been through a couple of those ourselves, but I also noticed that you've got one that anyone can invest in, and I think you mentioned earlier that the minimums are closer to $1000. Could you enlighten us a little bit as to the exact structure that you guys are using and how you go to market with lower minimums and no need to verify accreditation status?

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HD: So, they change the securities laws a few years back, and they open up the opportunity to open up what's called a Regulation A-plus fund. And really all that means is you can have non-accredited investors enter the fund. And the only rules that the SEC makes is they can only invest up to a maximum of either 10% of their total assets or 10% of their income, and that's how the SEC regulates it and make sure, really what the SEC's out there to do regardless of what we all think, they're not there to just make our lives difficult. They are there to protect the investors, and I think that's really important. And so, they say, great, you can let non-accredited investors into this fund, but the maximum that they can invest is that 10% threshold, that way somebody's not putting all their eggs in one basket, right? We were one of the very early adopters of Reg-A fund back a few years, especially a Real Estate Fund, there are not many of them out there. Usually, they're technology crowdfunding types of opportunities, but we have a huge challenge because we have this accredited investor fund, which was great, and we have a ton of accredited investors, and then we had trust deeds. Well, our minimum trust deed is $30,000. If someone wasn't accredited, they had to have at least 30,000, and not everybody does, and we work with a ton of clients that use self-directed IRAs, or they have an old 401 from five employers ago that they never moved. And we're thinking to ourselves, what a great opportunity for small dollar balance IRAs, 401 case, I had a guy today, he bought a trust deed from me, he called me this morning and said, I've got five grand just sitting here, can I just put that in your fund? So, these small-dollar balances, that's what this fund was really opened for, because we wanted to give that opportunity to invest and create wealth to everybody, just not high net worth individuals. And so, we opened up what we call the Circle of Wealth Fund III, it has a minimum of $1000, and like I said, you can go up to 10% of your assets or 10% of your estimated income in $1000 increments. It's got a tie-up period of a year, so they have to stay invested for 12 months. And the really neat thing about both of our funds is they can actually reinvest their earnings, so they're really just compounding it, and that fund pays out monthly, so it's been targeted and hitting 8-10%, but when you're compounding your earnings, it probably is an additional half a percent, because you're just rolling those earnings right back into your equity and growing that every month.

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SR: Oh, that's fantastic. I love the ability of the Reg A+ to be able to let smaller folks in, and we started our syndication group 3 ½ - 4 years ago, and did a lot of 560 B offerings where you're limited and you can't market widely, which does active your model as well. But as a result, we had a lot of friends and family who didn't maybe hit the million-dollar net worth threshold that we're able to get into some of earlier projects and do very well, and so we wanna continue to innovate, continue to operate well within the law, but also figure out ways for those smaller folks to be able to get big yield on their money.

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HD: Oh yeah, and it's been a great opportunity for our core clients that have exactly what you said, friends and family that aren't necessarily at that accredited threshold yet, and they still, they believe in it, they see the returns we're getting, so it's been a nice safe way for them to refer friends and family, and we have funds of clients in that fund that came directly from accredited investors that we were already working with.

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SR: Is that an evergreen fund? Meaning that you can always accept funds in, or is that a closed-in fund where it's open for a year or so, and then (inaudible).

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HD: No, it's an evergreen fund. We extended it after the first 12 months. With evergreen people can add to it. It's an online process, it's actually pretty savvy, even set up your user account, and we can help direct them on how to do that, but then they can go back, they can check their earnings every month on the 15th, we roll their earnings or pay their earnings out. They can add to it as they go along. I've had a lot of clients that I'll have multiple profiles, they'll add some money under their name, then they'll go fund their IRA accounts. A lot of these self-directed custodians also allow for HSA investing. That's been a great option. College savings accounts, there's just so many different opportunities out there right now, and it is friendly to all those.

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SR: That's fantastic. The back-end work of all of that sounds intimidating, speaking from a little bit of experience, I know we use a software portal, I assume you guys use a third-party software of some kind to keep track of all that and payout investor distributions, etcetera?

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HD: Yeah, we have an online platform, but we also, another side of our business is we service all the notes that we originate, so we have a loan servicing company, and we have a pretty sophisticated software system that does the waterfall payouts for the fund, and that's what we use for the fund management side of it. Because a lot of people reinvest, and then you have some that are having our names paid out, so I'd love to take credit for everything, but there is a massive team behind me to include accounting, compliance, fundraising, origination. I just got out of a meeting, one of the other things we do with our funds is we invest in our local market, so we take a portion of our fund balances and we buy properties specifically in Spokane, Washington, and quarterly, in Idaho. I just got out of our property meeting where we meet with our acquisitions specialists, we meet with our contracting crew and our property manager every single week to manage all that, so yes, there's a lot that goes into the back end to managing funds, for sure.

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SR: I noticed as I was browsing LinkedIn that you had several back-end developer positions listed at your service, it's like, ah, I think I know what those people are gonna be doing.

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HD: Yes, we are a pretty big organization, we have about 100 employees, corporate office, that's the only office we have in downtown Cortland, Idaho. People don't realize where that (inaudible). We've got a lot of things going on here. Bottom working part.

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SR: So, in your LinkedIn profile, either you say that you've raised over 200 million since 2012 in your role as a fund manager at Secured Investment, you've raised, that's a lot of money, it's been deployed into various assets. What's some of your best advice for reaching out to investors for marketing, you have to have a massive funnel to be able to raise that amount and not even 10 years. What are a couple of your favorite methods for getting new investors?

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HD: Well, you know, this is a relationship-driven business. I had an interview with someone today, and this guy was coming from a sales background, and he came from a very transactional sales background, keep my investors very close to my chest, and I have huge relationships, I have people that I've done business with for 20 years, and now, send me referrals and friends and family. And I think the one thing that I've always just prided myself on is being transparent and honest with people. People, when you're raising capital, there is risk in all this, right? And anybody that tells somebody, there's no risk in investing is not being very truthful with them, and I probably scare off more people than raise capital from because I want to be transparent and honest with them. I expect my staff to be honest with people, hey, if there's a problem, call them and tell them, don't try to hide it, rip the band-aid off. And so, I feel like as a fund management team and me

personally, we put a lot of pride in that, and I think that's why our funds have been successful, that's why people keep investing with us. Some of the new resources that we've gotten involved with to raise capital are different types of groups with really high net worth individuals, so right now we're focusing around dentists and doctors. And there's a lot of groups of those types of individuals out there that are looking for other sources outside of the financial advisor, and I just don't think people are educated about it.

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HD: So, attending some of those events, kind of embedding yourself in the most types of groups helps, we've raised a lot of capital doing that. We attend a lot of self-directed IRA events. You know, everybody wants to pay less taxes, and for the time being, IRAs are a great tax-deferred strategy. IRA custodians put on a lot of webinars, networking opportunities, so we're involved with quite a few self-directed IRA custodians out there, but really just word of the mouth. It's kind of a secret society. It's funny, all these years I've done this, I'll ask my clients, can you give me referrals? And their biggest thing is, well, I don't wanna tell everybody because there might not be enough opportunity to go around, and I wanna still be able to invest. It's kind of funny, I've had clients that random people call me and say, hey, I checked my neighbor's mail while he was out of town, and I saw he was getting checks from you. What are you guys doing there? So, really treating people right and being honest and transparent and setting their expectations properly. I think some people that go out there trying to raise money wanna promise the world and you're gonna see 20% returns when maybe they probably know that's not even achievable. Set their expectations, accordingly, with what you can deliver. We also are involved with a company called Verivest, and you had asked me about that when we first spoke, and I can speak a little bit about that 'cause that's actually helped us raise some money too.

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SR: That would be fantastic, just a little bit of background or maybe what I know to catch our audience up to Verivest. According to my understanding is like an accreditation platform of a sense that goes through and basically provides kind of like a Better Business Bureau stamp on businesses that are raising capital from folks, so they have regular processes and auditing and things of that nature, and if you sign up for their platform and jump through their hoops, they essentially will give you broad-based certification, am I close to the target on that one?

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HD: No, that's fairly accurate. So, their big thing is they, they're very passionate, and you probably know this, there are a lot of really bad fund operators out there, people that are not very honest. And unfortunately, investors are very trusting. Verivest has this passion about weeding those types of bad operators out of there, and you've got all these investors that are looking for alternative options, but they don't really have a resource to go to, to say, is this a good fund manager? Are they in good standing? Because as you know, accredited investor funds are exempted from a lot of filings, right? As long as you're only allowing accredited investors in, there's not a lot of oversight. So, Verivest is an online platform where companies and fund management companies like us can go to them and say, please do compliance on us, and we do this because we want to. We are not required to do this. Our funds are fully audited, but an auditing firm only comes in every 12 months, right. There's a lot that can happen in a year. So, Verivest, to be a gold sponsored Verivest client, which we are, they do compliance on us every quarter. They do an audit on us, they work with my accounting team, they do a sampling, and they're really just there to say, Secured Investment Corp is a good fund management company, they are in good standing, they are being compliant, and it's a way for investors can go to the Verivest website, there is no cost to go there and they can actually look up companies and just see if maybe they are Verivest approved. If they're actually looking at a fund management company that isn't on their platform, Verivest can do a compliance on them, they can say, I'm gonna invest money with you, but I want you to be in compliant with Verivest and Verivest will do like a small due diligence on them. They're really just there to weed out bad fund managers, because there's a lot of them out there and it's pretty scary.

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SR: It is, I hesitate using the words Wild West, but there's definitely a lot of bad actors as there are in any industry, money, this is not unique to real estate or to raising money, but it's a pitfall that point out to investors all the time, make sure you do your due diligence. Do your due diligence on us, any time you're looking to place a significant amount of capital, you wanna know who you're getting into bed with. It's more about the partnership than it is the stated return. And I think that's something for us when we take investor calls, if the investor's first question is, what are our published rates of return, alarm bells start going off in my mind like, you might not quite be ready for this because you're focused on the wrong thing. Sure, rates of return are important, but it's secondary to who the company actually is, the quality of their business model, etcetera, etcetera.

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HD: Oh yeah, it's totally, and I tell my staff this, I said, it's great that our fund has history and it's provided these types of returns, but this is a partnership, and more than anything, I want them to be a good fit for us too, and we've told people right upfront, this isn't a good fit for us. And we've turned money away because it is a partnership and it's a long-term investment regardless of whether that they can get out in 12 months. The majority of our clients are in with us for years, and that's where I kind of talk again about the relationship, it's very relationship-driven, and they are investing in us as a team, more than just the fund and whatever types of returns they're thinking.

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SR: You guys are running a well-oiled machine. That makes a lot of sense. When you figure out a target demographic that you wanna go after, how do you start marketing towards those people specifically, is it just looking for industry groups and publications to advertise in, is it more granular than that?

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HD: Probably looking for groups to join and be part of. We've got a couple of different groups that we belong to that educate dentists about how to invest their money outside of more traditional resources. And we bought mailing list, that's another thing that we've done. And then followed up with calls and those types of things, so kind of a collection. We've done a little bit of LinkedIn advertising, we're kind of dipping our toes in that, and then Facebook, but most of your sophisticated professional people aren't on Facebook, in my opinion. Now that's more for our other fund, that's a $1000 minimum. But, you're higher network individuals it's really trying to find those events, they're like a secret society that hard to find and they're hard to get into, but once you get into them, they're very beneficial.

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SR: Yeah. Getting into that right environment a couple of times we've had unwittingly, some guy within a professionals group join our investor base invest, and then he opens the doors. We had one, a guy at Intel that opened, it was an investing club at Intel, and we were able to present there, and before you know what, we had 80 people investing out of Intel, it's just little things like that. You never quite know and it's hard to replicate, but if you don't look, you'll never find.

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HD: That's exactly right.

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SR: You guys are running a very cohesive, inclusive business, and by inclusive, you're taking into account all sides of their business from origination to investors, that's really difficult operationally to grow and scale like you guys have done. What do you attribute your success or the success of the company as a whole to be able to navigate growing pains, and be at the level you guys are?

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HD: We focus on the client, we actually have a motto on our wall out in our bold pen that says, we get more of what we want by helping others get more of what they want, we do truly believe that we are a very broad company, we have real estate education, we have originations, we have servicing, and we talk a lot about, our motto here also is what we call a Circle of Wealth, and we've got it on several walls in our office. And we talk about the fact that not everybody is gonna come in as an accredited investor and be ready to deploy capital, but that's our goal for all of our clients. Everybody enters our Circle of Wealth at a different point, maybe they're brand new to real estate investing, they're gonna come in through education, and we have clients that have done that and now are accredited investors, they've been successful in their real estate investment strategies that we've taught them. They borrowed money from Congo capital, and now they've completed the Circle of Wealth, and now they're investing in either our funds are our trust deeds. And that's really our goal for everybody, and we know that everybody kinda has a barrier of entry at a different place in that Circle of Wealth, but really, it's just focusing on the clients. The money and the success of our company is in direct relation to our clients being successful. If our clients aren't successful, neither is our company. And so, we really focus around our clients.

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SR: What, you've touched on there really is that abundance mindset, it gets talked about a lot, but it is hard to live out, kinda going back to what you're saying earlier, some investors just don't wanna tell other people 'cause they're worried there won't be a spot for them. And we all have that bone in us, we wanna keep something good to ourselves, but getting out there sharing, giving people what they're looking for, often is the smoother path to success, it might be a little bit slower, but for the long haul, it's more sustainable.

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HD: Oh, absolutely, and I've seen that with our investors, they may not be ready to do something with us now, but at least giving them the tools, they're gonna go out there, especially if they're new and they're gonna look at other fund managers, and even like Verivest is a perfect example, I've had clients call me that are looking for self-storage investments, we don't offer that, but I'm more than happy to send them off to someone that I know that's a good fund manager or a syndicator. A lot of them are through Verivest because I know that when they are looking for that residential real estate investment component for their portfolio, they're gonna come back to me because I was able to point them in the right directions. Really, again, it just all circles back for the client and taking care of their needs and trying to help them accomplish what they're trying to accomplish, whether that's with us or someone else.

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SR: Heather, as we're getting close to the end here. Could you share with our audience a daily habit or two that has contributed to your personal success?

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HD: You know, I get up very early in the mornings. I get my mindset right. I read 30 minutes in the morning before I do anything else. I've got some devotional literature I read, and our company is big on reading. So, we have a book of the month club, and we actually pay employees $120 to read the Book of the Month, and then do a short four-paragraph essay on it, and so I will read a portion of that if I wait till the end of the day, it never happens. As you probably know, with families and jobs, and life kinda gets in the way, so I find that if I don't do those things in the morning and commit that 30 to 45 minutes, it doesn't start my day, and then exercising daily.

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SR: I love that reading and exercising. People will try to over-complicate life, but if you read good stuff and you work out regularly, the success or growth, at least, it's just going to happen. (Absolutely.) Well, Heather, if folks wanna reach out and learn more about what you do at Secured Investment Corp and are interested in your funds how can they reach you, get in touch with you guys?

0:26:44.8

HD: Yeah, that's a great question. So, we've got a great website. They can always visit us at

Secured Investment Corp dot com. So, SecuredInvestmentCorp.com, we've got all of our trust deeds on there, you get should all visit. Every day when we close loans, we upload our trust deeds there, so a lot of our people will go shop there, and then we've got information about our funds and they can even schedule an appointment with myself or our team to talk more about the funds if they'd like to explore that. So, just to our website, SecuredInvestmentCorp.com.

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SR: Fantastic, well, thank you, Heather, for joining us today. Thank you to our audience for joining us on another episode of the daily Real Estate Syndication Show. I'm your host, Sam Rust, signing off.

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