

EPISODE 1272

[INTRODUCTION]

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Mauricio Raul (MR): The easiest way to get accredited, if you're not, I'm gonna say the easiest path or the shortest path is to go out there and get yourself the series 65 license and get yourself registered under your state.

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Whitney Sewell (WS): This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today, we welcome back our guest, Mauricio Rauld. He's the founder and CEO of Premier Law Group. You've heard him numerous times on the show. He's an expert around the legal aspect of our business, and he's helping us to ensure that we're not operating in any gray area, which I do not want to operate in any gray area, and I know you as the operator, do not as well. And you as a passive investor, want to work with operators that are also doing everything they can to be as legal as possible, which is what we want. And, Mauricio is helping us with that.

And today we're gonna discuss – maybe there's an option for that sophisticated investor that wants to become accredited. A way for him to do that, if he doesn't have that million dollars net worth or maybe the \$200,000 of income yet, annually, there's another way that potentially he could become accredited. I've not heard many people talk about this either, but there is a way to do it. There's a commitment to make that happen. Mauricio is gonna go into that. But then also may be some potential changes in the near future that will make this process easier for a sophisticated investor to become accredited.

So it could change our industry in a big way, and how we work with investors, what investors can invest in these types of deals, and you're gonna hear some insight into that today from Mauricio.

[INTERVIEW]

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WS: Mauricio, welcome back. I'm grateful to have another discussion around some things that have changed in our industry, some definitions of maybe different terms that we think we know well, or maybe some things that we didn't realize and you're gonna help bring to light or help bring understanding to us. The things around accredited investors and maybe some ways that people might become accredited, but they didn't know it, and that could be definitely helpful for the operator and that passive investor, but get us started with some of those things that we need to know.

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MR: Yeah, I think there's a lot of changes and there's a lot of changes coming through, but I think by the end of this year, we'll have a lot more clarity. But I think it's gonna change new things. I was given some thoughts over, I'm pretty active on LinkedIn, if you guys are not on LinkedIn now, I recommend you go over there, but I had some thoughts on what this going on. But yeah, on the topic of accredited investors, for example, there's always been for many, many years now, there's been this debate as to whether your net worth and income should be the appropriate management to figure out if somebody's accredited or not because as we all know, there are plenty of really rich people. So there are a lot of people who don't are really smart but don't have tremendous mean.

So there's been a lot of debate over the years as to where this is an appropriate measure, and what was great about last year is that the SEC actually came out and updated their accredited investor rules and started to allow people to come in as accredited investors that didn't have the net worth or income. Now the prospects are bigger than the actual thing, so what they said is like, "Look, we're going to start certifying people, so if you don't have a million dollars in net worth or 200 grand a year, then come in, take a course, we don't know what that looks like yet but take a course, take an exam, pass the exam. Therefore, you're gonna be certified from somebody that we've certified and you're gonna become an accredited investor that way." That was the rule that actually became effective, I think early last year. Actually, the rule came out even the year before, but it actually became effective early last year. Up until then, the only ones that had actually been certified right now are people who have basically investment advisory licenses. So, if you're a registered investment advisor, for example, that you have a

series 67, series 65, series 82 that's active and in good standing, you are an accredited investor today, irrespective of whether you have the net worth or income.

And then the idea was over the net in our minds, the next six months to a year, we were gonna get these certification programs. Again, whether they were self-study, a weekend course, a semester, we didn't know what it looked like, but we're gonna start rolling that out. That interestingly had not happened and has not happened. So as it stands right now, the easiest way to get a credit if you're not, I'm gonna say the easiest, I'm not saying it's easy, but it is the easiest path on the shortest path is to go out there and get yourself a Series 65 license, to get yourself registered under your state.

I did a checklist, which I'll share with you, Whitney, if you wanna put it on the show notes. But super easy, series 65 is probably the easiest one of all they get, and it's probably not cost you a little bit of money 'cause you probably wanna get a consultant and get it done, right? In my county, five or six friends kinda set it up, you gotta study for an exam, maybe take an exam and got a pass. Compliance stuff is in there. But if you really wanted to become accredited, you feel like you're missing out on a lot of these investments. You could go down that path. Then hopefully six months from now, we'll have some other probably easier ways to do it where you can take a course.

But then something else has popped up and so by the way, this has been, it's been over a year now, Whitney, and we haven't received any of these certification programs. So a lot of people like, "When is this coming?" We've had Covid and met a lot of stuff going on, so I get it, but it's finally, back on the agenda for the SEC. They actually had a meeting in February this year on this topic, and they're actually about to come out with some additional proposed rules in April if they stick to their Timeline.

There's a concern, however, and this makes a ton of sense to me. I want to share with you guys that there's a concern that they're going to be upping the limits of accredited investors. Upping that million-dollar limit. Now, there's an article out there on a lot of media that pointed to an article, I posted this as well, all over social, they were talking about 10 million dollars, which seemed really ridiculous. They said they're thinking about raising it from 1 million dollars to 10 million. I wasn't able to find, to be honest, you, I looked at the source and where they came from, I was trying to find the source within the source, and then nowhere doesn't really say 10 million. They were all about increasing it, but not giving a number. In fact, that you're

talking about specifically, the 10 million mark actually came about, not necessarily your income, but the size of the deal. So if they were to the size, the deal was above or beyond 10 million, that would be sort of a cut-off.

But that got me thinking a lot, and I do believe this is a personal thing I've gotten known as no facts to back this up to other than the trajectory world this is doing. I do believe that if they're going to allow, so when they allow people to become accredited via certification, it makes sense that they bag up the accredited investor limit from a dollar amount. If you think about it, the million dollars started in 1982, it was when they came out with this rule of a million dollars, and as we all know, inflation kicked in and a million dollars isn't what it used to be. I actually checked I do my due diligence, I check with Dr. Google, Dr, Google told me that 1 million dollars back in 1982 is about \$2.7 or \$2.8 million today. So my thoughts are, I don't think they're gonna go to 10 million, or even if they propose 10 million, that just means it's a proposal, you'll have all this comment, you have basically an upper or in the industry, and so they'll revise it.

But my gut tells me that they'll do two things – one is that they will up to limit from a million dollars, probably do something closer to three, so that it kind of is in line with the inflation that has come out, I would say 3 million; and then they'll also, in addition to that, a lot you just get certified. So there's gonna be a lot of people in the middle of where they used to that obviously between that one and three million mark where they used to be accredited yesterday, and now they're not because they don't have three million. Well, those guys can then you can go do the certification program, which might just be a self-study course, kind of like with the Series 65, as you can. If you wanna take a course, you can, but there's no requirement. The requirement is to simply pass the exam and get certified.

So I think combination, now that they're increasing or there are a lot of people that are really more accredited investments to come in via the certification program, it doesn't strike me as impossible or crazy for them to up the limit, and I think three million is gonna be what the number comes out to. But they're excited about April, 'cause maybe not excited is not the right word, I'm anticipating April's proposed rule to see what they're saying, but I'll be definitely putting a lot of content at once I see what the proposal will come out with.

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WS: What is the time frame for April? Do you know when that work comes out?

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MR: They don't say that specific, what they do is the SEC comes out with an agenda and it's like, "Here are the things that we're planning on disgusting in the spring or the summer or whatever. So we basically have a window for the next six months of what's on their agenda." And like I said in February, one of the sub-committees had a big thing, and I sort of actually in favor of this expanding. And they talked about April, but there's no specific day though, who knows? It might even be May. We're talking about the government after all right.

But it's coming here in the next couple of months here. And then those proposed rules, and just so you guys know the process of when you see something like that, it doesn't mean it's the end of the world. They first come out with this proposed rule, which is very thorough, it's usually a couple hundred, if not four or 500 pages, and then they put it out for comment, so anybody who's in that industry, attorneys, regulators, sponsors, passive investors, they're gonna have an opportunity, usually within a 60-day window to provide comments and saying whether they think it's a good idea, bad idea, so maybe some tweaks or whatever. The SEC then reviews all those comments takes them into consideration and then usually will release a final rule, three or four quarters down the road. Not always, as we've seen, a couple of proposals that we were excited about have kinda died.

So I would expect that if they do come out with a proposed rule in April, you're probably looking at some final rule towards the end of the year or at the beginning of next.

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WS: Okay, all this year would come out towards the end of April, that's why I was just letting out even know that that may have come out by now. They might have heard this or at least the timeline of what they're gonna discuss, right? Not a final thing.

So, as far as a passive investor right now, it sounds like that's not gonna happen probably in the near future, but maybe by the end of the year, there may be some changes around that. If they're sophisticated, then they could go through to get a Series 65 license and be considered accredited, but they're looking at some money and time invested there to make that happen

significantly. But maybe they could wait till the end of the year and they may have an easier process of becoming accredited through some type of certification.

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MR: I do think the certification route is gonna be easier, but the certification routes have already been approved. That part isn't a proposal, that certification program is already part of the final rule that came out a year, a year and a half ago. S the only thing it's missing from that is the implementation, meaning the SEC actually certifies certain programs that they can go to each of the exams and give whatever training.

So that theoretically can come out any minute now, literally tomorrow, we could have an announcement from the SEC saying, "Hey, Life Bridge is now certified to give these licenses or whatever." That could happen earlier, but any increase in the limits or your expansion of those limits would happen probably at the end of the year or the beginning of next.

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WS: What about, let's say somebody as sophisticated, right, they do say, "Oh okay, I'm gonna go make that happen. I'm going to get my Series 65 license so I can have the same opportunities to invest in these projects." What do they need to show the operator or what does the operator need to do to verify that certification? Do we just have their certificate on file somehow? What does that look like?

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MR: Yeah. It depends on the exemption, right, so if you're doing a 506(b), then you don't have to. You can check the box, you can provide it, which it's already there, so it's already there in terms of your licensed investment advice when you just check the box, and then if you're verifying. And again, I still outsourced, but what they're gonna do, those licenses are public record.

So just you're gonna be able to search that person's name, so the verification companies would be very easy for them to just pack and figure out where they're at and just make sure that they're an investment advisor and that they're in good standing with a particular state and obviously can.

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WS: What would be the first step or two of that person to be able to go down that path? I've heard of so many people recently going and getting licensed, right, whichever license they're getting instead of being that co-sponsor type route, they're becoming a licensed broker-dealer, those things, but what about this investor, how do they begin a process like that?

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MR: Step one is honestly to take the exam, they issue the exam. Now you can actually do it online. And so there's a process for that. The hardest part is gonna be passing the exam, and I forget that you're gonna get like a 78% or 80% correct answers in a multiple-choice. But then the hardest part is gonna be you have to then register with your state.

And the challenge is usually a Series 65, we'll have a lot of entity, but they will actually hang their license under an investment advisory firm. But that's probably not gonna work for you because obviously, the investment firm wants you to go sell whatever they advise their clients or whatever, so that's not really what you're doing.

So you're gonna have to actually create a separate LLC and kinda have your own investment advisory firm that hangs your license and your own firm. So that's the part that gets a little bit more complicated, which is why there are plenty of consultants to do that, so you're gonna have to register your LLC as the investment firm so that you can then apply to the state under your Series 65 license.

So again, it's the easiest, but not necessarily easy, and that's why I put together a checklist that I'll share with you and you can share with your audience.

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WS: Sounds great. Any other dos and don'ts as far as that sophisticated investor becoming accredited through this route that maybe I don't even know to ask you?

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MR: I think the biggest one that I see a lot is not just getting the license just because you pass a Series 65 exam, that doesn't cut it 'cause I get that question a lot. "Hey, I took the series 65, I

pass. Am I an accredited investor now?" And the answer is no, you're not. You have to actually go through the process of registering with your state and getting all those licensing approved. So that's probably the big no, no.

And if I had a crystal ball and I knew when these certification programs would come out, I would say, wait for the certification, unless you're really desperate, but would only obviously go through this exercise if you were really somebody who wanted to invest in multiple. It's probably not worth it just to do it for one investment, but if you're wanting to have access to all these and do this for the next year, and you've got three or four opportunities you want, then series 65 is definitely your easiest path right now.

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WS: Okay, Mauricio, so grateful for your time and just helping educate all of us in this space so well. We have to know people like yourself with your expertise to make it in this business and strategies. So grateful to know you and have you back. How can the listeners again get in touch with you or learn more about you?

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MR: I'd love for them to join our live, we do a live. I do live every Wednesday, where we pick a topic and then we open it up to open Q and A, so it's been a really great format, and you can sign up for that at mauriciorauld.com/live.

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Whitney Sewell: Thank you for being a loyal listener of The Real Estate Syndication Show. Please subscribe and like the show, and share it with your friends so we can help them as well. Don't forget to go to lifebridgecapital.com, where you can sign up and start investing in real estate today. Have a blessed day!

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