Episode 1478

[INTRODUCTION]

Edward Brown (EB): The interesting thing now is the fact that the interest rates have gone up. And obviously, we've raised our interest rates for our borrowers a little bit. But it is a supply and demand issue with regard to how much money is out there chasing it, right? But, the interesting thing here is the fact that even though the real estate market is cooled a bit, it doesn't look like it's falling off a cliff. Because it's still again, a supply and demand issue with everybody needing a house, everybody needs a place to live.

Sam Rust (SR): This is your daily real estate syndication show. I'm your host Sam Rust. Joining us today is Edward Brown, who is the CEO of a large company based in Marin County with over 40 million in alternative lending in the lending space. Today, he assists Pacific Private Money with capital raising and investor presentations.
And he also hosts two radio shows. Not one, but two -- The Best of Investing with Mark Hanf and Sports Econ 101, a national sports and business show.

[INTERVIEW]

SR: Edward, welcome to the show.

EB: Thank you, Sam, for having me.

SR: Pleasure to have you. Sports Econ 101. I know we're gonna get into real estate, and notes, and funds, and all the fun stuff. But I've got to ask, I'm personally fascinated by the intersection of sports and business. This is a wild time in college sports. You've got NIL and new TV deals, you've got new TV deals happening, about to happen with the NBA. Where do you guys focus in your show? And what do you personally find fascinating about that intersection?

EB: Good question. So I've got a couple of co-hosts, one is the son of a former major league baseball player, and then one of my other co-hosts is a local TV anchor for CBS. And, what we try to do is match up sports and business. A lot of times it's it's kind of little more on the sports side than the sports and business because there's only so much that you can talk about the aspect of business and sports. But we tried to kind of match the two. Yeah, when LeBron James got overwhelmed over to the Lakers, you know, and it gets this huge contract. The question is, like, as an example, are the ticket prices automatically going to go up? They said, "Well, yeah." But wait for it though. Hold on. There's a supply and demand situation. I mean, you can't charge a million dollars a seat, otherwise, nobody will show up. So there's some kind of a metric as to how much is the most that you can charge for tickets to watch Lebron James? Yeah, stuff like that.

SR: Yeah. What got you into radio in the first place? You're on two shows. You've been doing it for over a decade, at least the best of investing with Mark Hanf.

EB: Yes. Long story short, I helped finish off a book by this financial advisor who was so awesome. I'll say that Princeton University and Fidelity Investments would use this guy Ken Widens for research. And so, the one aspect of his book that he was writing that he couldn't finish was the rate of return on mortgage investments. So he and I got to know each other, I finished that part off. And then he asked me to be a guest on his show to talk about interest rates and all that kind of stuff, mortgages. And when I did a decent job, he asked me to co-host that show, which was on a major station in California. And then eventually I started my own show. And then I got recruited, I guess, is a good word for the sports and Business Show.

SR: That's fascinating. I did a radio show back, man, it's probably been 15 years ago, and it wasn't very long-lasting. But it's a great experience. And it's a fantastic medium that gets overlooked a lot. I mean, we're sitting here on a podcast, it's really just a new-age radio show, right? That doesn't have quite the syndication reach that a lot of shows do and is meant for millennials and Gen Zers. That skill set is really valuable.

EB: Yeah, you know, I really appreciate that because it does open up a lot of doors, you know, just the fact that you have a radio, a real radio show, that airs on real radio stations. Obviously, we're on iHeart Radio and other kinds of podcast situations but like the sports show is nationally syndicated so we're on 100 stations across the US and on Sirius XM as well.

SR: That's fantastic. Well, let's pivot a little bit Edward and get to talking about some real estate. Pacific Private Money, one of the largest private lenders in the space across the country, may be the largest that's kind of a hard one to quantify. But, certainly in the upper echelon. And you guys do a lot around both performing and non-performing notes.

EB: For Pacific Private Money, we're primarily originating mostly bridge loans, really kind of our niche. We do have another fund that buys discounted notes. That's the one that will be either performing or non-performing. We originate obviously that are performing.

SR: Yeah. So if you could maybe sketch what kind of product you're typically originating, and then maybe let's talk just a little bit about how the current environment is affecting that positively, and negatively, and where you guys see opportunity in your niche.

EB: Okay, so we have a specific type of money. We have four different funds. Our main fund, the one that we're primarily focusing on right now is called our freedom fund. That fund primarily focuses on owner-occupied consumer bridge loans, mostly in California, but we're bridging, we're going outside of California. We're one of the few lenders licensed in California to do these loans. I think the reason is that it's a fairly expensive barrier of entry because you've got continuing education, licensing software, legal, it's pretty expensive.

And if you're the typical fix-and-flip lender, you've probably been busy already making a lot of money. You say, "Why would we want to spend $80 to $100,000 to get into this other space and learn it and all that?" Well, we decided to take that leap some years back, then we're not the only ones. But we're one of the few. And like you said, we're probably one of the largest in the country, as a private lender, for owner-occupied consumer bridge loans.

So typically what will happen, and that things have slowed down a little bit, but when things were fairly hot, what was happening is that you'd have somebody who owned a house, who didn't want to sell the house, first, wanting to buy the next house, make an aggressive offer, close quickly, and then have time to fix up their old house, not move twice, go through the emotional and expense of that. And so what we do is we would help them buy the next house, and we'd cross-collateralize on the existing house if there was enough equity. And that gave them enough time.

And I wrote an article about this how you can some people would say, "Oh, well, that's too expensive, you know, to have two loans at the same time." And it was "Oh, man, a slowly rising market," we did the math, and it actually makes financial sense. There's no prepayment penalty with these loans, someone could pay us off and you know, a week, or we actually had someone pay us off in a week one time, but because we charged points, it was fine, our annualized rate of return was great. So that's kind of been our primary focus on that specific fund.

And, I was mentioning to you before we did the show, that it's a very unique fund because it's almost like a money market account for the investor. A minimum investment turned $50,000, they earn 7% with that. Obviously, you can reinvest distributions at $500,000, we pay 8%, and at a million we pay 9%. And the beauty of it is that even though there's generally a one-year hold, we do not charge an early withdrawal penalty, they just give us 30 days' notice. So I don't know any other somewhat liquid investment that's paying that higher rate of return.

And the reason it's conservative is the fact that we're originating notes. And then we have four or five very large institutions that love them, the loans that we do, and they buy our loans. So every two to three weeks, we're turning these loans over. And so, when we get the millions of dollars back, if anybody wants to redeem, boom, we've got the money to pay them. Otherwise, it goes back on the conveyor belt, and thus more loans.

The interesting thing now is the fact that the interest rates have gone up. And obviously, we've raised our interest rates for our borrowers a little bit. But it is a supply and demand issue with regard to how much money is out there chasing it, right? But, the interesting thing here is the fact that even though the real estate market is cooled a bit, it doesn't look like it's falling off a cliff. Because it's still again, a supply and demand issue with everybody needing a house, everybody needs a place to live.

And specifically in California, there are so many regulations on building a house, there's only so much of a supply. And yeah, we lost a seat in the Senate and all that. But there's still a big demand for housing. The interesting thing that we're finding is the fact that there are a lot of mortgage companies that were primarily in the refi market. Now that market straight up quite a bit.

SR: That's not where I'd want to be right now.

EB: No, exactly. So what has happened is a lot of mortgage companies have laid off those brokers. So now we become a bigger fish in a smaller pond. So even though maybe, you know, it's slowed down a little bit on the volume, not for us. We've got we could do at least $15 million a week in loans. So the reason we're paying such a high-interest rate is we're just cutting our margins down, and we're just making it up in volume. You know, we're not losing money, obviously, we're just making a smaller profit.

SR: And I would imagine your average loan size is a little bit larger. Maybe you're in the seven-figure range, the low seven figures.

EB: Yeah, I'd say somewhere between $800,000 to a million. I mean, we'll do some loans of $2-3 million and other ones would be you know, $3-4,000. You know, again, primarily California, you're gonna get the larger amounts.

SR: Yeah, your average home price is going to go up a decent amount in California.

EB: Yes, correct. So (inaudible very low. Because again, these are loans that are made to individuals who ordinarily could go to the bank, if they had time. Or their credit scores may be, you know, two points lower than what the bank wants, and for whatever reason, they need to go private. But in these institutions, our buyers are very picky. So, they've given us like a long laundry list of you know, this is our box, and you can only sell us loans that are in this box. So we primarily fit in that box. That's pretty conservative. So the fall rates very well.

SR: You're in an operations-intensive business, right, because you need to write loans at a standard that you can then sell those loans off to your large partners and you're interfacing with a lot of customers, there's a big operational component to that business. Now, how do you guys maintain organizational cohesiveness as you're trying to work these loans through the process?

EB: We have our various departments. You know, our underwriting department is made up by ex-bankers. And we have loan processors, just very similar to what a bank would have. But, I guess the big benefit we have as being a private lender, we don't have 11 levels of approval. We don't have to have loan loss reserves like the typical bank. So we we can think outside the box. But, you know, we're not a one-man show, I mean, we probably have at least 50 people associated with us, either as an employee or as an independent brokers.

SR: So you've spoken to the market cooling a little bit, we've certainly seen that but not dropping off the edge of a cliff. What do you guys look at as leading indicators, obviously, you're an adjacent business, we're in the commercial multifamily business, buying and holding large apartment complexes, and you're doing large single-family transactions and kind of putting filling up your queue? But when you guys survey the landscape, what factors pique your interest?

EB: We're going to stay away from high price per square foot. So, like in the Silicon Valley, and this, even when the market was hot, you know, we were seeing appraisals coming in at $2,500 a square foot, maybe, but you know what, that's still a little bit too risky. So we would just say, "No, we're not gonna give you a 70% loan to value, will give you 50% loan to value on something like that." So we've tapered it down a bit.

We are probably now closer to 60-65% on average LTV, because as the market cools a little bit, there may be an adjustment, but our loans are fairly short-term. I mean, we you know, as a great borrower with an 800 FICO score, do you want to pay us nine and three quarters percent interest, you know, even though interest rates have gone up, and you can get a loan from a bank at, you know, five and a half or 6%? Why do you want to borrow from us at nine and three quarters, right? Well, you want to get rid of us as quickly as possible.

So our loans are really not that affected by the market unless you have an absolute overnight crash. Now, you know, the 2008, great recession was more of a prolonged decline. So it took about three years to have, you know, on average about a 25% drop, well, that's not an overnight fall off the cliff, right? I mean, that's a prolonged decline. So again, if we're doing loans, and typically our owner-occupied consumer bridge loan is going to be written for 11 months. So, we were giving these borrowers 11 months to get rid of us, we're not that concerned that within 11 months, you're going to have a drop of more than 30%.

And, here's the funny thing is that even during the Great Recession, even though some borrowers were underwater, they still paid their mortgage, and they wanted to pay the mortgage. You know, not everybody wants to just throw the towel in, you know, on your personal residence, especially when you just bought it.
SR: But then you're lending to a good subset of the population, right? You're in California, on fairly larger loan sizes, those folks are probably working in tech or something associated, that generally is a growing industry, even in a downturn.

EB: Yeah. And then we'll also have situations where you have a retired couple, who own their house free and clear, but they want to move from a two-story house to a one-story house for ease of their physical abilities. And yet, because they're retired, the banks won't make them a loan. So yeah, so you know, we'll have a situation where the borrower has a house free and clear for $2 million, and they want to downsize to $1,000,002. And what we'll do is we'll lend them the entire $1,000,002. And even though you think it's 100% loan to value, we get a first mortgage on both properties. So we're actually you know, 30% of whatever, LTV. So it's very conservative for us. But, again, you got a situation like that, where nobody's intact, they're just a retired couple wanting to downsize.

SR: They don't want to touch cash flow. And they can access their equity and kill a bunch of birds with one stone.

EB: Exactly. And they don't want to move twice. And they also want to time to maybe their current house, if they had time, they could fix it up versus if they tried to sell it right there. You know what, it hasn't had any work done on it, they're gonna get a lower value. So we're giving them the tools to get the highest value.

SR: So you're in investor relations, you're at the top of the funnel for capital coming in. And there's a lot of folks in your shoes that are going to be listening to this show. How are you meeting new investors? What are you doing to put more people into the top of that funnel right now?

EB: We have actually done a fair amount of radio advertising. We've gotten some personalities who got to know us, trust us, like us. And so they've given us some endorsements. Other times, you know, just the fact that we have a radio show has helped. It's been a while, you know, because COVID and all that, you know, we're doing in-person type meetings, but we would do some blast emails to people who somehow knew about us and invited them to a seminar. Now, we're back to doing webinars because I tell you, this zoom thing is great because even like when I was doing sports when I want to do a video in a sports show before COVID, I'd be talking to some famous athlete who's in Washington DC and then I have to kind of put the phone up to the microphone. I mean, it was such a hassle. Now with Zoom, I tell you, it's been great. Nobody needs to come into my office anymore. You know, the studio.

SR: For as much as we've moaned about Zoom and Teams and all the various technologies, they really have enabled us to push life forward, even during the pandemic and other associated issues. And now we get to leverage it for conversations like this.

EB: Yeah, this is perfect.

SR: So if you could describe for investors your freedom fund, you know, obviously $250k minimum, where do you personally think that that sits on the risk-reward continuum? You know, we see a lot of investment opportunities where you can go buy something that's completely vacant, and you might be able to double your money in 24 months, down to a money market that's maybe paying you 0.2%. So that's a really wide spectrum. And how do you think through that, when you're talking to investors, they say, "Hey, how risky is this?"

EB: That's a great question. You know, I've been in this business a long time, my background was, you know, accounting tax, I used to do financial consulting, and all that kind of stuff for many, many years. And I've got to say, you know, trying to be completely brutally honest, it's got to be one of the most conservative with a high rate of return. Because if you think about it, even though we do have buyback provisions, if the loans go bad, the kind of loans that we're doing, it is so rare that these loans go bad. And again, the big boys who were buying the big institutions are buying, they've given us very strict parameters as to what kind of loans they'll allow us to sell to them. And so the loans basically, almost don't even have a chance to go bad, because these people are refinancing, you know, and we don't even own the loans on what we will do loans for maybe two or three weeks. So I just don't know any other investment out there. Not just real estate, but I don't know any investment.

But in today's market that's paying at least 7% with that much liquidity, I mean, and here's the deal, even though we asked people to give us 30 days notice, I've seen situations where someone put a request in and they got the money three days later, because they just happen to hit it at the time when we did the trade. And we actually have contracts with these large institutions where if we give them a loan that fits into that box, they have to buy it. And the thing is if they went bankrupt, well, then what we do is just portfolio the loans. And these loans are only 11 months at the longest anyway. And, we can always sell the loans to other buyers. So is it risk-free? No. I mean, if the market Absolutely. Just absolutely got decimated overnight, and the buyers dropped off. And the real estate, you know, dropped so much. And the borrowers didn't pay and, and, and, and, and...

Yeah, it's possible, are you gonna lose all your money? I don't think so. Because the house is still going to be worth something, right? But let's put it this way. I've had money in there myself, a very large amount of money. And I've used it for a temporary situation where it's like until something else came along. It was a great place to park money. And we've had that. It's interesting, about a month ago. Very, very interesting. I got a call from somebody who said, "Yeah, I've been watching you guys for about two years. And I haven't done anything with you." Whoa, okay. "I've heard about your freedom fund. And I now understand that you raise your interest rate," because we used to just pay 6% no matter what, how much money you had in there. Then when interest rates were going up, and we had so much demand for our loans, we decided to raise the interest rate for the investors so we can get more capital. So he says, "I understand that a million dollars, I get 9%." I said, that's correct. He said, "I'd like to meet you in person because I don't want to just write a million-dollar check right off the bat to somebody I don't know." And I said, "Yeah, absolutely." And so you want to make sure we're not running this company out of a station wagon around the country. Yeah.

So I said, "Well, let's meet in the office," and we sat down, met for about 30 minutes, and went through all the documents. And lo and behold, he wrote a check for $3 million right on the spot. And less than a week later, he called back he said, "You know, I've been thinking about this more and more, I'd like to add another million." And he didn't even get his first check yet. So, I mean, that's a lot of confidence in something like that. But again, I've had a lot of money in it. And I slept very well that night.

SR: Well appreciate you coming on the show, Edward as we get ready to wrap up here. What's a daily habit or regular habit that has contributed to your success?

EB: Boy, yeah, okay. I go through my emails.

SR: An hourly habit.

EB: Yeah, I tell you, I get back to people right away. I don't let things linger. And I think that's really helped. Even if I'm on vacation. I literally just came back from vacation. And while I was on vacation, I texted or emailed a couple of people to say, "Hey, I'm on vacation right now. Can I get back to you on Monday?" Most people are very, very appreciative of the fact that you know, "Gosh, this guy's taking time out of his vacation just to at least get in touch with me." And so, I think from a success standpoint is to treat everybody with respect and get back to them quickly.

SR: Well, thank you, Edward, for joining us. Thank you to our listeners for joining us on another episode of The Real Estate Syndication Show. I'm your host Sam Rust signing off.

[END OF INTERVIEW]

[OUTRO]

WS: Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about The Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

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