

Iflipuflip Season 1 Episode 8

Hey everybody and welcome to iflipuflip the real estate podcast, and today I'm going to talk to you about how to talk to a lender. You know, obviously one of the most important things to being successful as a flipper is having access to enough money, or having access to enough funds that you can buy, fix and sell properties and as you grow your business obviously you want to have access to more than one lender, you want to have access to more than one avenue of hard money lending or private lending so forth and you have to learn how to talk to these different lenders.

I think that's one of the things that has helped me grow my business I understand how to talk to a lender, I establish myself as a very credible flipper to them and I'm also not scaring them away from trying to figure out how to work with me. I try to make it very easy for them and because of that, it enables me to always have access to larger pools of funds, large money that I can also flip houses with, whether that be a \$500,000 flip or a \$100,000 flip I've always been able to reach out and talk to different people and get the money, and obviously that is one of the most important things you can do as a flipper is make sure you have access to those funds, so I want to talk to you a little bit today about how you talk to a lender, what is it that I say to a lender that enable me to get these funds and get access to these funds.

I think there's three main points I want to cover today, on dealing with a private lender and someone that is interesting in funding deals for you that is a good way to start the conversation again, any type of lending that goes on is always going to be about a long term relationship, I never look at this as a one flip and I'll talk to you in six months, I'm always trying to build relationships and I think that's one of the most important things you can learn about real estate is that real estate is a relationship business and you always have to be building relationships.

I'm going to be talking to you a little bit about the three things I do that really help me with these lenders number one is I try to, what's the best way to say this, I try to, I'll use this word, I try to lure them in meaning that, I think a mistake that a lot of investors make or flippers make when they're trying to go after someone who is a potential lender, is they handle where they immediately put themselves in an interview situation, they immediately surrender and give all the power and control and knowledge to the passive investor or the finance person, and they immediately becomes the person that is answering all the questions and having to prove their worth, and I think that's a big mistake that flipper's make. You have to understand, especially nowadays with all the self sort of NRA's out there, all the money that's in these NRA's, there's quite a bit, probably more now than ever, of people wanting to lend money on short term buy, fix and sell properties.

Obviously when you talk about more long term it's a little bit more difficult on the private lenders but on the short term buy, fix and sells, there's probably never been a time where there's access to more money than there is now. So these lenders, you've got to understand, they want to deal with you, they want to work with you, they want to lend their money, that's the business they are in, you just have to approach it in a way that really attracts them and lure's them into to you versus the other way around

and I'll give you a little bit of an example here. I never go up to a lender, a potential lender if I'm at an event or somewhere, I never go up to a potential lender and say hey, my name is Andrew, I buy, fix and sell houses, I heard you do little bit of lending and I just wanted to reach out with you and see if that's something you're interested in. I never go about it that approach because basically, I'm getting right into what I do and once I do that with that type of approach now I have to answer all the questions and he's going to say basically stop this conversation, I'm going to take control of this conversation and now I'm going to ask questions I want from you and he'll always sort of view you as that, he always view you as the person who's needing money.

What I do is I lure them in by having a normal investing conversation with them, I walk up to them and give them my name and immediately ask them what they do, I don't tell them what I do, I try and get them talking about themselves and what they do, their family or why they invest, why they're at this meeting right now, why they're at this association or whatever it may be, I don't go into it leading with I fix and sell properties, I go into asking them questions, getting them to talk to me and really what I'm doing is basically I'm staying in charge of the conversation for the most part even though I know in the back of my mind I know I'm eventually going to ask this person on the possibility of lending money, I never want to give control of the conversation, as soon as I give control of the conversation to him he already has control of the purse string, pocket book, check book, whatever you want to call it, I don't want him to have control of everything over me so I try and keep this in my court as much as possible again, the first thing I do is try and get them talking and engaged about themselves, what they do, how they got in this business, why they're in this business, what they're trying to accomplish in this business, how many deals have they done and I just keep asking questions but you've got to be careful, I don't mean I'm peppering them with questions right, I'm communicating a bit with them, I'm communicating a bit about myself and then back to them so it doesn't feel like I'm playing twenty questions in a row with them, I'm telling them a little bit about me, they talk a little bit about the city, I may talk a little bit about that section of the city and why I like it and then boom, I'm back to a question talking to them and the key is to engage them without really divulging who I am.

The other thing I want to do here with the second point is, I want to make them ask me what I do. While I'm in this conversation and I'm talking to them and engaging them, never will I come out and say I buy fix and sell properties. What I'm going to do is I'm going to keep this conversation moving, I'm going to keep this conversation at a pace where I'm in control of it and I'm simply waiting for the moment where they are going to ask me what I do. Now I don't want that to happen right after we shake hands, I don't want to shake hands and say my name is Andrew what do you do, and they start telling me about themselves and then as soon as they get to the end they ask me what I do, that's not going to be a good start to this relationship. What I want is I want to introduce myself, get to know them, try to ask them many questions and remember I said I'll chime in on something, if they're talking or referencing a certain part of the city that's good for rental properties and I know a little bit about that area, I'll chime in on that conversation so the conversation is moving so there's not quiet time, as soon as I get down to talking about a certain part of the city then I'll ask them another question about their business or what they do, etc.

So there's never really a slow time or a down time where I'm never really allowing them to ask a question at the beginning and as you do this more and more, and I can tell you there's certain questions as we go through this conversation, that their next question is going to be about hey, what do you do, and that's the big thing I want to have them ask me what I do, because if I can get them to ask me what I do well first of all, what does that do to the conversation, one thing is does to the conversation is it puts them asking me and normally the person asking the questions is submitting a little bit of authority over the conversation, they're the ones asking the questions, and I want them to ask me the questions, I don't want to walk up and say hi, I'm Andrew I flip properties.

I want them to find me intriguing enough in me and what I'm doing and my knowledge about the city or the area or lending or financing, I want them to find that intriguing enough that they are asking me now well what do you do? And when they ask me that question well what do you do, I think this is the biggest thing that helps me get capital as far as flipping properties, and that is when I say what I do I say it in a way that I answer the questions I know they're going to ask me, does that make sense? What I mean by that is when they say what do you do I don't just say I buy and sell properties because as soon as I say that they can immediately classify what I do and their done with the conversation, or they know where this is going to go now, they're the lender. What I do is answer their questions I know they're going to have in their head as soon as I say I'm a buy, fix and sell guy I want to go ahead and answer as many of those as I can and for a couple of reasons number one, if I can answer the questions they have, without them having to ask those questions it puts me in a different position, it puts me I always feel I'm in a position where I'm basically speaking there language, right? You know just like in the construction world when we buy, fix and sell properties, there's certain wording or certain lingo that the contractors use that someone who is not in that world would not understand.

What I want to do is there is certain lingo and philosophies in the lending world and if I don't understand what they are and I don't understand those questions, then I'm always sort of back peddling, answering those questions after they ask me those questions then I'm going to stay in that position, first impressions are so important in this business, so again what I do is I try and answer those questions without them having to ask them so I'm on the same level or same playing field that they're on. It would be like going to a construction site and their talking about tile and someone asks you to go get a tile saw and you bring back a chainsaw. Well you obviously don't understand what I'm doing or what I'm talking about or what I'm trying to accomplish by laying tile so I'm not really sure why we're going to continue this conversation because I'm going to now have to teach you about laying tile. Well that's what a lot of flippers do to the lender. The lender's have certain things that they want and you don't even understand what they want so when you bring them back the wrong tool or the wrong answer, they immediately classify you and put you in a different category than everybody else, there not there to teach you about money or get you money, they're there to find a legitimate flipper to flip properties quickly and understand flipping and their world as well and that's what I always try to do.

So I'm going to give you the three questions that I mainly try to answer for these lenders without them having to ask me these questions. The first thing I want to cover is security. I think every investor out there who is lending money, one of the first things they want to know before the return of their investment is they want to know about security because a return is one thing, it's almost what their

betting on, investing in, they're playing this game to get a return on their money, but the last thing they want to do they want to do is lose their initial investment and that's why they always want to know about security first, first let's talk about how I'm not going to lose my initial investment then we can move on to the topic of what I'm going to make on this money, so I want to immediately cover off the bat security, so if I'm talking in this conversation, and I say I buy, fix and sell properties I'm going to immediately answer the question, you know one of most important things, the reason I think my investors are happy, Frank, Frank is one of the guys I'm talking to here, Frank, one of the reasons my investors stay happy is I'm always able to offer them a lot of security on their property and what I mean by that is there's a couple of different ways we structure deals and I don't know exactly how you structure deals, I'm sure you have a great way to do that, how we structure deals is we want to give the investors the most security possible so we'll either buy the property, and of course they can take first lean on this property that always puts them in first position or secondly, we even do deals, participation deals, where they buy the property and they own the property and they have title on the property and we don't even own the property itself. What I just did without them even having to ask me a question Andrew, how do you structure your deals or how is my money secure, I went ahead and in general conversation I have answered that question and where they say well this guy obviously knows what he's talking about and doing because we structure the deals the same way, and I started taking away reasons to why they won't fund for me, I go ahead and start knocking these reasons out and I'm creating a lot of comfortability and security and credibility between me and this person that is looking to invest in me so the first thing I do is establish their security.

The second thing I want to talk about is their return, and by return I'm going to talk about the type of return we have done in the past, the type of deals we've done in the past and so I immediately from there, I say once we have structured the deal Frank in this way, really at that point we're determining with my investors what type of interest or what type of money are they looking to receive and what can we pay and again, I keep this very vague, I don't know exactly enough information, if their a credible investor or not, so always keep this information very, very vague because I don't want to get in a situation where I'm talking to someone who is not a credited investor and I just met them so I keep that very vague, I may talk about past deals we've done as more or less examples but I never, ever say this is what we can offer you, I talk about more past deals that I've structured like this, it really depends on the investor and what they're trying to accomplish, are they looking for very quick returns, are they ok with the money just sitting there so I keep this part vague and try and lean on other examples and I always say, just because it happened here doesn't mean it's always going to happen that way but here's some stuff we did in the past and this investor liked this over here because of this again I'm not sure if we can do this right now but these are some different types of ways we have structured deals with the return, and I try to talk to them about the return on the investment and just for me, and different people have different thoughts and feelings and so forth and you as an investor listen to this you just have to determine where you fit into this category, but one of the things I never try and do is guarantee returns. I just don't like guarantying an investment, that may sound weird but the asset that they're initially buying, their initial investment, that's guaranteed, I don't guarantee it the house guarantees that, they're initial capital and so I never try to guarantee and investment, it's just my opinion but this is an investment, it's real estate, this isn't a saving account, this isn't a CD, markets go up and market go

down, I've been caught in good markets and I've been caught in bad markets and if I have to personally guarantee this person's return, that's a risk I don't feel comfortable making. Now I don't tell them that, it might scare the away, but that's just my thoughts when it comes to the return, I try to be very cautious here of course in this initial conversation divulging too much information on either way there on past examples.

The third thing I try to talk about is the rate of return and this is very, very important because I try to get the investor to focus on the rate of return than I do on the return on the investment because the rate of return I can control a little bit more, meaning how fast we get the property done, how fast we get the property back on the market and how fast it sells so I have a little more control in that area versus the guaranteed returns again, I just stay away from all guarantees, even guaranteeing this house will be done in five months or six months, I just say that here's the stuff that we do, we try to focus on the rate of return you know, let's just say for example an investor is going to invest \$100,000 let's say they were going to make \$15,000 back maybe as a joint venture with me on a certain deal, well they're going to take that \$100,000 and because we're professional and we know what we're doing, they're going to be able to turn it at least twice, maybe one and a half times maybe two and a half times, it just depends where everything fits in the market at the time but instead of them making \$15,000 on a \$100,000 they may be able to make \$30,000 on the same \$100,000.

So I try to focus a lot on the rate of return as well and again, I want you guys to understand, these are questions that I'm sort of, this is a conversation that I'm having with the investor where I'm sort of talking about all these different things, when the opportunity's right I try to answer the question before they ask the question, remember if you go back to the beginning of this conversation step one was to get him engaged in the conversation and not about lending to me, I just get him engaged and lure him into the concept of what we're going to be doing, I get him engaged in the conversation, I get him to ask me what I do, I just don't go up and say what I do, maybe he doesn't care what I do so I'm not just going to go up and say I this I get him to ask me what I do, I get him involved in wanting to know more about me business and then once I do that I answer these questions that I know he's going to have, every single private investor, harmony lender, any type of private investor that you're going to deal with they're going to want to know these three things number one, what's my security number two, return on investment number three, what is the rate of this return and I always thought the rate of return was the one that was the cherry on top, always sort of pushed me over, I feel like a lot of investors or flippers may talk about security and return but they never talk about the rate of return and I think the rate of return is extremely important because all of a sudden you may be looking at ten percent interest and he's going to be thinking that's annualized but your thinking no, I'll pay you ten percent every time I flip a property I'll pay you ten percent on that money, well now all of a sudden that 's maybe twenty percent a year on this so I always try to talk a little bit more about the rate of return as well.

I'm going to give you one more point here, this podcast has gone a little bit long but I'm going to give you one more point when you're talking to an investor and that's an exit strategy. I always try to talk about, in the initial conversation doom and gloom scenario, but I do want to talk about exit strategy hey, in case this flip goes bad what is the exit strategy because any investor who puts money up if it goes bad, they want to know how to get it back, how do I get this money back do I foreclose on this property,

do I have to go through a lawsuit with you, how is this process? So I'll talk a little bit about how we set up some catch falls that are basically in there so if this happens or this happens then the property's deeded back over to you or in deed of lieu foreclosure, whatever the process may be, or if they own the property outright I give up my rights after so many months I mean there are so many ways but I want to talk about the exit strategy without him having to worry it's like ok here, if I invest with him my properties secure, I got a decent rate of return, it's not guaranteed but it's a pretty good return, the great thing I love is the rate of return, I could turn this money maybe twice a year instead of just one time, and I have a catch fall, sort of a safety system so that if this goes south or something happens I can quickly get out of this property by perhaps getting rid of the flipper himself or deed of lieu foreclosure so man, this actually looks like a pretty good deal for me as an investor.

Now, I've addressed all those issues again, really without him having to bring them to me so what that's doing is let's just say he's at an event and about ten people come up to him looking for money, hey my name is Freddie and I'm looking to borrow some money versus hey my name is Andrew, nice to meet you, what brings you to out to the local REIA tonight, ok great that sounds awesome, I don't lead with what I do I close with what I do so I answer his questions, I get him engaged, I get him interested I what I do, I'm able to present what I do in a very knowledgeable way without coming across as desperate, and that's one of the worst things you can do as a flipper is sound desperate, like you're really, really, really needing this money. I don't need your money that bad ok, there's plenty of money out there, you're not the only guy in this room who can flip properties so I'm always looking to work with these people, build a relationship, I'm not trying to get them to commit that night, ok go get me some houses I'll do a deal, I know this is going to be a process, it's going to take some time, he might want to come out and see some current projects or go look at some projects, that's all great that's awesome, if he wants to do that let's go have lunch and go look at a some houses but I'm always looking to build a relationship with these investors not just a one off, one time deal alright see you later I'm off to my next project I don't care about your project etc anyways I hope this has helped you, these are three great tips of how you can work with private lenders or harmony lenders and how you can develop some cash for your buy, fix and sells again, this is a very important process while your building your business is making sure you have enough funds lined up, so I just want to give you some tips on how I talk to lenders and how I raise capital in this business and I hope it's helped you. I look forward to seeing you on the very next time on iflipuflip real estate podcast.