Private Lending for Profit: Part 1

Host: Josh Cantwell
Guest: Keith Baker

Welcome to Strategic Real Estate Coach Radio, hosted by Josh Cantwell and Kyle Garifo. Strategic Real Estate Coaches, where the nation's leading real estate investors, brokers and agents turn to transform the way the real estate business is being done in neighborhoods across the nation. If you desire to make more money, do more deals, grow your passive income and build the lifestyle you've always wanted, you need Strategic Real Estate Coach.

This powerhouse team is led by Josh Cantwell, a seasoned investor with nearly a decade of experience, over 700 transactions and over $5.5 million in fundraising generated for himself and his partners. Now, sit back, listen, learn and accelerate your business with Strategic Real Estate Coach Radio.

Josh: So hey guys, welcome back. Josh Cantwell here, at StrategicRealEstateCoach.com and Freeland Ventures. Welcome back to The Strategic Real Estate Coach Podcast, an interview series. I am in particular excited to be with you today to talk about private lending with a relatively new friend. His name is Keith Baker and Keith has an amazing podcast of his own called The Private Lender Podcast. Keith, welcome to the show.

Keith: Thank you Josh. Glad to be here.

Josh: You Bet. You Bet. So Keith, let's jump in. Tell us a little about the private lender podcast. You have a passion for money. You've done a bunch of real estate deals, but you also have, you know, a full time job really with an amazing opportunity as an owner a shareholder in your existing company and that's led you to become a real focus on passive investing as a self directed IRA investor and a private lender. So tell us about the podcast and your passion for private money.

Keith: Sure. Yeah. Well the podcast was born out of I was on vacation with the family my whole family loves the beach I don't, so when you're sitting down in Florida one day in August and I live in Houston heat and humidity are around me all the time. I don't see why I need to pay extra money to go and feel it on the beach, but it all came together that I wanted to tell people about private money and I'll get to kind of how, why in a second. But it's passive, every time I talk to a real estate investor, what are your needs? Oh, I'd love to get more private money, love to have more funding, more private money, easy, quick, inexpensive, forget the banks, you know, hard money, all that kind of stuff. So I said, okay, well I've always been told that I have the face for radio, so why not go ahead and start a podcast and I launched on January one and had been fumbling my way through it ever since and I absolutely love it. I do have a great day job where I bounced around, I did construction, I did the oil field, worked on the rigs and I've always enjoyed real estate and the construction aspect of it. For awhile there I was a contractor and I did a lot of flips for other rehabbers but I quickly found that I was doing all the work, you know, I'm the one that was getting the hangnails and bleeding fingers in everything. And I didn't, so as I was trying to, transitioning with my, you know, I still had have a nine to five. We had, you know, had a family. I wasn't the type of person just to quit. So when I got out of the oil field and went into insurance adjusting, which is what I do now, but I still do it for the oil field.

Keith: It's a high dollar, high ticket items, but I travel at the last minute often. I mean there's a bag, literally I have a bag next in the closet next to the front door, something goes, boom, I'm on a plane to go. So it really prohibits me from meeting contractors or future tenants or you know, and I know this is at that time and it gives, you know, a decade ago, it's not what it is now where you can just walk up with a smartphone and gain access to a house. So I focused on private lending and I had some old 401ks because like typically like someone born in the seventies, I bounced around from job to job to job until I finally landed on the one I'm at now, so I had a bunch of old 401ks, converted them fortunately for us in Houston here, there's a wonderful company called Quest IRA, gives free education and started walking down that path and became known as just a lender really, but I would loan to only to whales in the Houston area, the big, big names, but, and I would often, I would do at ridiculously low interest rates, but the caveat was that that borrower had to walk me through the deal so I could see their business from start to finish on that property. And that is what really, that's when I saw the power of private lending. It isn't just the money or the debt that you're getting, it's the education, it's the network and really just the knowledge of and seeing things and how people do things. And that's really for me where the golden nuggets are not just the payments.

Josh: Yeah, you bet. I recruit capital often from people that think they want to be active investors, right. And when I educate them about self directed IRAs are like, oh my God, I have this old 401k with 300 grand in there, 150 grand or whatever and they're like, well, can I actively flip money using this self directed IRA cash? I'm like, well you can, but all the profit has to go back in your IRA. And they're like, eh forget it. I don't want to do it so much work. So then I'm like, well, you could lend to us, you could lend to these other borrowers and you could follow along the process and learn while you're getting an interest on your money. So it's very, very similar to what you're talking about. Now Keith, you handle millions of dollars of other people's money everyday and that's why you become comfortable as a private lender with your own cash. Tell us a little bit about that. Like you're managing money in these, you know, and taken off on planes and you're used to looking at risk and you're used to looking at trying to mitigate that risk. How is your day job sort of permeated into your private lending business and managing that risk?

Keith: It's funny. You make it sound a lot sexier than it really is. But I'm happy to walk you down. Yeah so basically what happens is my background was drilling, so usually the upstream stuff. So anytime there's a well blowout, there's a fire or like say a refinery, something goes boom that’s when I get to go to work is when I'm a loss adjuster. So when these things happen, I get on the plane, I go look at them quickly and you know, if it's just an oil well fire, I'll write a report. If it's a refinery that gets a little more involved, you have to get engineers and accountants and you get into some very complicated financial calculations for things like say business interruption where something goes bad there's an insurance policy that will pay your monthly kind of revenue or at least the profit side of it, but it's based on, oh well I don't get into, I get the accountants into it. So but the point being is the people I work for are mostly Lloyd's of London Syndicate's at Lloyd's of London. It's their money that's being paid out to these oil companies and it's up to me to pour through everything, all the invoices to make sure that everything is relevant to repair, you know, if widget a blows up, then I look at the whole repair process. I'll liaise with engineers on what the cause was, so on and so forth. But at the end of the day, it's all about what is that going to cost the insurance company to reimburse the oil company.

Keith: And so I've, you know, I've actually hand delivered checks for $5,000 to small oil companies in Houston. Also negotiated settlements in excess of $100,000,000 for some famous hurricane claim. So it's you know, it took me about five years to get over the fact that this isn't my money and to kind of lose that ah of, you know, if I make a mistake is this really does cost somebody. Fortunately it doesn't cost a life, you know, at the end of the day I just deal with dumb iron and property. I don't deal with feelings or soft tissue fortunately but it's still, you know, people get funny when it comes to money, you know, so especially if they feel like they're losing it. So it was just kind of a natural fissile because of my adjusting career and you know jumping on planes at the last minute to go look at things that are burning into, okay, well I can do this passively and yeah, I remember being in a small town in Pennsylvania and getting a call from a property manager about how we're going to have to evict and I'm like, why are you just send me the bill, get it done. I don't, I don't need to be in this process, you know, if the metrics aren't met, get rid of them. So that's how I've kind of like, I like the passive thing. It's other people's money, although it's my money that I loaned, but it just kind of, it just kind of naturally progressed for me looking after someone else's money and doing the same thing with the oil field, but doing the same thing with real estate.

Josh: Got it. So Keith, is there any kind of criteria specifically that you look at now in your real estate private lending practice, you talk about on your podcast, is there a checklist or a, you know, a go for flights, you know, sort of check off plan before you lend money out?

Keith: Well, actually I am coming up with that. I speak about my criteria. Like, I'll give you one of my, one of my pillars, pillar number one is there are two types of ROI. First I want to know am I going to get the return of my investment back, that's number one. And then if I am going to get it back, once I've established that it's going to come back or I'm relatively comfortable with it coming back then alright, how much am I going to make on that? That's the, that's the first pillar. The second pillar is never lend to family or friends. If you have the money to give, give it with the expectation that it won't come back. If it does come back to you, they pay it back, great. But thanksgiving and Christmas gets really odd when people commingle money with friends and family ask me how I know. So those are the two big pillars. And the third pillar is I tell people unequivocally, if you're starting out as a private lender, now, Josh, not someone like yourself with years of experience, but someone new to the private lending game, stay the heck away from subordinate liens. Don't loan on seconds, thirds, etc. Just stay in the first position lien, it's the best way to secure yourself until you can get comfortable with somebody's business model, how they lend. I tell people, never take a second position. I have two seconds and an unsecured note outright right now that I do because I know that this, based on the people, you know, it's based on their work history and their also their investment history, but that's kind of my go to's, like stay away from that early on, get your feet wet, learn how to do it safely, you know. So when you are in a second position lien, you're not just sitting there with your hand out because you know, you've basically given up all control over your money at that point. To me, it's like an unsecured note just handling, handing something, somebody some money. So that's kind of my, my heart and fast, also never lend to newbies. That's what hard money lenders are for. That's why they charge 15 to 18 percent and all those points because they're, they look at it the same way I do, but they're in the business of making money. I'm in the business of investing with money. So it's, you know, it's more passive. It's, it's different. But I look at it the same way, like don't only go to Wales, people who have a proven track record and the other thing is in local markets, lend to people who would take a reputation hit if they didn't pay you back.

Josh: Yeah I like that one.

Keith: You put, you put more skin, if he puts more of their skin in the game. Like skin doesn't have to mean money, you know necessarily. Obviously it does if somebody comes to me and goes, hey, this is at 72 percent of after repaired value all in, I say, okay, we'll put it in another six or seven percent, get me down to about 65 and we'll talk all day. That's one way you can put skin in the game. The other is if somebody is a whale in the market and they're, let's say they're starting off their coaching or they're getting students in the area, I will loan to a student if it's a newbie, if they have a coach that know and trust and have seen them work. And so if one of those whales in your local market messes up, I mean, and look like it's not to say that people don't make mistakes. People with experience make mistakes, but a whale in the market can't just walk away and go, you know what, I messed up, I'm not going to pay it back, I'm just going to walk away from this because they've got reputation on the line. And that is a whole other level of protection and mitigation that a lot of people don't think of.

Josh: Yeah I like that. Those are some great ones that I haven't thought about. Reputation damage I don't really talk about that too much but so true.

Keith: Yeah. Well, in your business right now, I mean, you know it's better if you make a mistake, it's better to fess up and say, look, this is going to cost X I need two months to give you the money back. You will be made whole, you know. And if people can go on, yep, this investment didn't go through but you know what? I got made whole, Josh kept his word he did what he said. That's huge. That goes a long way, especially in this day and age I think.

Josh: Yeah, and we've got to make people whole not only get them there principal, but their interests at all costs, like, not that, that we're going to do anything wrong or fraudulent or anything that at all cost, but literally like in my mindset, it's like getting people to invest with us the first thing on our list of things to do in our business and values is make sure we protect our investors principle, that's number one, they're our number one priority before I take any money out of the business, before my partners get paid. My staff knows like everybody is on the line to make sure that the private lender gets their money back, their principal at least and then of course their interests too. But you know, rule number one is never lose principle. Rule number two is refer back to rule number one. Never lose principle. So Keith I know that you've went down a number of different deals. You've given us some amazing sort of pillars of what to look for. What is your, what is your traditional type of loan that you like to make? Is it always a first mortgage lien, like a private lender loan? Do you invest equity in deals? Are you looking at longer term equity plays where you can get your principal back and be an owner in perpetuity? Just give us a flavor for some of the different deal flow that you've looked at.

Keith: All the above. Yeah, it started off, I was, the way I kind of became into, I, there's a guy I interviewed, his name is Tom Barry, investor loan source and Tom was a similar background to you, financial advisor and got into real estate and just killed it and had all these private lenders say, hey Tom, I got money but it's not working. So he put it to work and I was going to put my money, my old 401k I was just going to roll it over into his fund. And he had this great conversation. He was open and honest and he laid everything out and I decided after that phone call, I was like, I think I want to do this, you know, I want to learn how to do this and I want it to niche down, learn everything I could about that and be known as a private lender because I figured if everyone's looking for private lenders, that's the guy I should be. And so, excuse me. I decided to do that and I did that. I started looking at, alright, I'm going to do fix and flips. Give me two points I'll give you 10 percent you give me two or three points up front. Every six months we're turning the money around. I'm happy on my interest rates. I'm happy on my cash flow from the points, but it was in my self directed IRA so I don't get to see that money. It just accumulates. And then as the ISO, so I started lending to just a handful of guys a couple of guys really and then business models changed. They went from buying and selling into more of a wholesaling niche because that was what the market was dictating so they didn't need private money and so I was actually traveling for my day job. I was in Scotland and I got a phone call and they said, hey, would you mind loaning to this guy?

Keith: And I was like, yeah, I know of them and the Houston area. Okay, sure. I'll talk to him. Well, long story short, that guy's Landon Rothstein he's now my partner in Asset REI. And he's a co-owner of 713 RIA and 713 Coaching or Mentoring. So yeah and through Landon he's introduced me to people like Mitch Stevens and hey look, turn this into a seller finance note and collect on it for 20 years. So now I'm in, you know, I'm still a part of the Atari generation. I do like that instant gratification from the flips, but I'm looking now more, I don't mind taking a smaller interest rate for three years, for example, if it's going into a project that I believe in where somebody who's not mortgageable can come in and step into a house, start making payments, have their piece of the American dream, and then as long as they're increasing the value of my property, of the equity that my loan is tied to, I'm happy, you know, so it's not all about the 15 percent anymore. I won't turn it down, don't get me wrong, but it's. I've gone from the short attention span into the longer attention span because at the end of the day, as much as I love my day job and want to exceed and excel at it, I don't want to do it forever. I want to be able to sit back and say, okay, I've got x amount of money coming in from either my private lending or my real estate holdings or both. And so that's where I'm kind of shifting now. I mean, you come to me with a good LTV loan to value. If I'm all in at 50 percent there's not a whole lot of projects that I won't shy away from. I mean, there are some certain areas that I won't, you know, I'm sure you've heard about this little storm called Hurricane Harvey. You know, and all the other hurricanes. So there are some things along the coast that I won't get into, but as long as it's a deal, I will at least sit down and listen with whoever's presenting it, you know, so that's a long way of saying I really don't have a criteria, but I have all the criteria.

Josh: Whatever did the deal dictates, right? The deal dictates. So if you're looking at...

Keith: The first guy loan to loan and single family residence and he comes to me and says, hey, I got this commercial opportunity and I'm like, whoa, that's out of my wheelhouse. I don't, you know, I got to stay in my lane, my single family lane. And he was convincing enough successful young young guy, but had been doing it already a decade. And he jumped in he said, look, I need $70,000 for this. I was like, I'll tell you what, as long as it appraises for 150 and you get a commercial appraiser, you know, the thick booklet of, of what this thing is going to be worth I'll take a look at the loan. And the appraiser came back with a value of $305,000. So I called the borrower and I said, look, I'm going to loan you this money and you don't have to pay me back. I'll take over, I'll foreclose and I will loan to you again and again, bringing you keep bringing these kind of deals, you know, almost all my risk went away, you know, like, so many things could go wrong for $70,000 and still recoup 300, you know. And so that's when I started okay I need to start looking at other things and you know, sharpening other tools. And so now I don't make it a habit to loan on commercial, but I will in my free time. That is what I'm studying up on.

Josh: Nice. There you go. So Keith, what's maybe a crazy deal that you didn't do or a deal that you passed on? You know, obviously you said you look at a lot of different stuff. You've probably seen some pretty wicked deals come across your desk that you passed on or things that maybe you funded that you wish you passed on. So tell us about that.

Keith: Well, there's a couple of second position liens that I wish I would have passed on. I'm happy to say that it did work out for me, just not in the timeline that was agreed. But yeah, that's the second positions when you do that, you just take yourself out of control and that's not a good place to be for me, for someone like myself, other people are okay with it, you know, like I'm going to give you my money and I don't expect to see anything really for three years, that's great. Some of the ones that I wish I had there was this, for lack of a better term, a mansion and old mansion that was going back to the bank and we needed about $120,000 to make the, to make everything right with the bank, get the payment going back and basically we're looking to kind of take it over on a sub two type of deal and it was about two and a half hours away from Houston almost to Louisiana. So I got up one Saturday, drove out there and met the owners and it was just a, it's too much, you know, it was, it was too opulent. It's, you know, the market was so small that, you know, the buying list, the buyer list was so small for something like that that I didn't want to tie up my money into it. And so I, you know, thanked the people for meeting me out there walking me through. I was like, you know, and this is a deal that my buddy Landon my partner had found and I said no, I called them on the way home I said, no, I, you know, I just, I'm not 100 percent comfortable on that, you know, if it was $20,000 and I wouldn't be, I wouldn't have a problem with it, you know, but it's like half a million dollar home and they had converted to an office.

Keith: Long Story Short, my $120,000 would have doubled in about 40 days had I pulled the trigger on the deal, but I didn't because I wasn't comfortable with it. So I say that's a successful loss for me because I didn't know if you don't get anything ventured, nothing gained, but at the same time, you know, it's real easy to sit back and Monday morning quarterback that deal. But it just, I like in my area, I like deals between 50 to $200,000 on the house that you're going to find plenty of people to get into those, those, those homes. Once you know, and half a million dollars, I know in places like California is a hovel, but in Houston, in Texas, that's a, that's a half a million is going to get you a nice spread so. It was too nice of a property and I still, I had made, at the end of the day, I made the right decision I wasn't comfortable I stuck with my gut I didn't lose money. But I could have made so much.

Josh: Yeah. It's often not the deals though that you don't do it's the deals that you do that go backwards. And often affects somebody's financial future forever you know a lot of people can't afford to lose principle. Oh, I could've done this deal. I have bought Facebook stock. Oh, I could have bought Google. Great. So could the rest of us however, good investors long term make good consistent decisions they usually don't have a one time windfall that makes them healthy. It's usually about consistent decisions and avoiding a big loss that ultimately makes somebody a really good investor long-term that's great. Keith, any others, any others come to mind that you either did or didn't do?

Keith: Yeah, there's a paid $5,000 for a house I can't get rid of. It was back taxes owed and out of state owner he got tired of getting the notes notices from the city to they'd have to go by. The city would go by and mow the yard and stuff. And I remember looking, going to the house going, this is the biggest piece of crap I've ever seen, but I've seen worse, you know, I've seen, you know, stick around real estate long enough, you're going to see some, you know, you're going to go from the, the manure pile to diamond and I thought that was going to make this into a diamond and as long as it just gives, you know, pays for itself and doesn't cost me money at this point I'll be happy for it. But it's, you know, it was, I kind of broke my rules, I was like, it's too close to the water I don't like investing as, okay, I'll just make them get a flood policy and well I didn't, I didn't follow up on that. And I forgot to put in my attorney instructions to the closing company, the title company. So normally, that is, I am having some checklists slowly built up but I'm a one man shop with the, with the podcast so it takes me a lot longer to get things out. But one of the things I look for is I want insurance binders in place for both obviously for title insurance property and if it's and flood, if it's in Texas or anywhere, anywhere near the Gulf coast I require flood insurance and if you can't pay the 450 bucks a year for the insurance that's outside of the flood plain, then you really don't have a deal so look at it.

Josh: So Keith, last question, looking back, after lending out a lot of money and meeting a lot of people through your podcast and obviously investing in flips of your own, is there any advice that you'd give your younger, former self that you look back and tell our audience or tell yourself, man, this stands out. A couple of things I would have done differently that I think you can share that would impact other people.

Keith: Absolutely. And let's go ahead and let's replace the tape because I've got stuff...

Josh: Lots of stuff to share.

Keith: Oh yeah, no, I have few regrets in my life and I'm happy about that. But I would have. First off I would have started much earlier than I did and I had some people not in real estate, just friends of the family that tried to take a young 17, 19 year old Keith Baker and say, hey look man, you got a little windfall cash from someone in the family put that away. I'm like, Nah, I'm going to college I'm going to burn all this money, you know? And now I go back and talk to these people and I'm like, man, if I would have just even 10 percent of what you said, you know, 20, 25 years ago I'd be, I'd be so much better off so. I would have, one I would have started much, much earlier than I did but I was, you know, typical teenager, I'm going to go to college, I'm going to change the world, you know, my parents don't know crap, they don't know what they're talking about. And then I started paying my own mortgage and I was like, oh, hey, mom and dad okay. Yeah. So I would have started earlier. I would've jumped in, I probably would have niched down a little, a little more. I went a little broad like, oh, I'll try flipping, I'll try land lording. I'll try, pick something, find somebody who can, whether it be a coach, a mentor, or even just a friend or family member. Find somebody who's doing what you want to do and follow them and do it and do it sooner than later. Don't, you know, I was in my thirties before I, you know, had the aha moment of like would just let 15 years go by, you know, and so there's that, you know, constantly being behind the eight ball and a reading, I would have read so much more earlier on than, because now I don't have the time wife, kids, jobs, podcast investing, you know, I try to dedicate about 15 to 20 minutes at night in reading, about real estate, about business and educating myself. Those are the three big things I would've done absolutely different and started saving and the one, there's one negative side to private lending and that's, you're going to run out of money. There's only so much you can lend out a before you go into like broking or creating a fund and everything. So I wish I would have saved more so I could, I could have my hands in more and more projects.

Josh: There you go. Nice. One quick tip what I started doing this year you know I listen to audio books, right. But now I've built up my tolerance for speed to the point where I could listen to them at 2.0 speed and at the same time, now I can listen to them. I buy the physical book with a highlighter, so I listen to it on 2.0 speed and highlight at the same time. And I might want to pause it, you know, when I have something that I really want to think about or something I really want to push, push down into my, into my core and make sure I use it. But for me listening at 2.0 speed I get through some of the minutiae a little quicker and by highlighting I'm actually retaining way more than I ever retained. I've been reading, I'm 42 years I've been reading all my life since college business books, hundreds and hundreds of books, real estate books, etc. Success books. And now I finally feel like I'm retaining more. I've always been a really slow reader so I didn't really like to read because it would take me forever to get through a book. But now, so take that for what it's worth. Maybe that'll help.

Keith: No, it's great because I do podcasts at 1.5 speed in the car for that same reason. Obviously I'm not highlighting while I'm driving or I shouldn't be, but I think I'm going incorporate that because it's, you're reading, you're highlighting and you're listening at the same time. And that's really reinforcing. I like that idea. Yeah.

Josh: Multiple senses man, it gets in there pretty good. Fantastic. Well Keith hanks so much for sharing. Tell us a little bit more about where we can find your podcast, where we can get in touch with you if our audience wants to reach out, listen to your stuff or approach you about a deal with you. How can they get in touch with you, where can they find you?

Keith: Yeah, so PrivateLenderPodcast.com is where you can find me. Email is Keith, K E I T H @PrivateLenderPodcast.com and you can listen to the show, iTunes, Google Play, Stitcher, SoundCloud, anywhere, any platform that houses the podcasts, you should be able to find me there. And while we're, while we're at it, if anyone listening can go right now to The Private Lender Podcast and also go to Josh's podcasts on ITunes, leave us, leave us some ratings and reviews we would greatly appreciate it because that helps get the word out and helps people, the listeners now to find this. So, but that's how you get hold of me PrivateLenderPodcast.com.

Josh: Fantastic. Yeah, my team will monitor all those different platforms that Keith mentioned. If there's questions specifically for Keith will grab them off those platforms. We'll feed them to him privately. We'll get you some answers, introduce you to the right people that can get you there. So Keith, thanks so much for joining us today and I really enjoyed it.

Keith: Josh. I really appreciate it, man. Take care.

Josh: Alright, talk to you soon.

You were just listening to strategic real estate coach radio hosted by Josh Cantwell and Kyle Garifo. Leave a comment on our iTunes channel and let us know what you want to learn next, who you would like us to interview, or if you just want to share some of your success stories in real estate and maybe we'll talk about it on our next show while you're there. Give us a five-star rating and make sure you subscribe so you can be the first to hear new episodes every Wednesday.

Follow Josh Cantwell and Strategic Real Estate Coach on Facebook and Twitter. Check out all our awesome free training videos at YouTube.com/srecvideo. If you want to find out 55 simple and powerful ways to find killer real estate investments, go to 55 simple ways.com/podcast right now to download our free report and get a ton of free resources on finding properties and funding properties and stay up to date on what's happening right now in the real estate industry. That's 55simpleways.com/podcast. Thanks for listening.