Ron LeGrand
answers 21 questions on
Private Lending

Alan Cowgill

Hello, I'm Alan Cowgill and it's my honor today to be speaking with Mr. Ron LeGrand. Ron is an author, speaker, and real estate guru. He got started real estate investing in 1982, and for the past 14 years Ron has been teaching folks how to secure financial freedom though real estate. Ron, you taught me about "private lending", tell me how did you get started?

Ron LeGrand

Well, it started back in 1982 when I first got involved in real estate. I was a mechanic. Trying to make a living working 12, 14 hours a day fixing other people's cars.

One day I saw an ad that said, "Come learn how to buy real estate without money or credit!" and that kind of appealed to me because I had neither. And for the first, oh, couple a years in the business, I started using money provided by what I came to learn was a mortgage broker. I went to a seminar, and that seminar taught me to go out and buy properties, and if I could make a good deal, I wouldn't have any problem getting the money. Didn't take me long to figure that out. And I discovered this mortgage broker, incidentally his name was Al. In fact, he's still doing it today. He was a weird kind of a mortgage broker, Alan, because he didn't apply the institutions. His money came from people, just regular old everyday people like you and I who just happen to have some money available either in their IRA or other investment capital, and he'd just simply pick up the phone and called his friends, relatives, and associates and see if they'd want to make a loan on a piece of property for a higher rate of return. And he did that for me for, actually, about three years, because it wasn't until 1985 that I went out and became one of those mortgage brokers myself.

Now the good news was that the money was easy, and available, and had nothing to do with my credit, because if it would have hinged on my credit, I wouldn't have got the loans. It had to do with the property: it's what we call a

"hard money" or "equity loan." Let's say my property was worth about $80K. He would not loan me more than 60% of the value of that property, so, the most loan I could get from him was about $48K. Now since it was junkers that I was buying, and I was buying them cheap, and I knew I could get them from less than 60% of their value -- way less, in fact, I didn't have any problem finding those properties, tying them up, putting them under contract, and once I had an appraisal done, in it's after-repair value--in other words, the appraiser, he'd have it repaired assuming the work was done, he'd just make a list of the repairs. In fact, that's the easier way for an appraiser to appraise a property with, assuming it's in excellent condition. Once I got my appraisal back, I knew my market value, so I instantly knew exactly what I could borrow from Al, because it was exactly 60% of that appraisal. So, I would simply pick up the phone after I got the appraisal, and I would say, "Al, I need a loan."
Al would say, "Well, how much you need, Ron?"
I'd say, "$48K."
He'd say, "How much is it going to appraise for?"
I'd say, "It's already appraised, Al. It appraised for $80K."
Al would say, "Your loan is approved."

See, he wasn't interested in my credit, he was interested in my loan to value ratio. Al knew that no matter what happened—whether I made the payments or didn't, if he had to take the property back through foreclosure or, you know, most of the time that's not what he had to do, he could always get an investor to deed it to him if he got into trouble--Al knew he had equity above my loan to protect himself, and since he had that equity, he wasn't concerned much about the borrower, he was concerned about the collateral. Anytime he had a 35%-40% equity above the loan, it wasn't an issue of whether his investors were going to win or lose, it was whichever way they went first.

Anyway, that was the good news: the good news was that the money was easy, ready, and readily available. The bad news was that I had to pay a higher rate of interest and Al got me for points as a broker, and back then the lenders were even getting prepayment penalty, which means they get an extra bonus when the loans were paid off. The interest rates were much higher back then than they are right now, so times have changed somewhat, but the overall theory is still the same. The program works the same to this very day.

Back in 1985, I went out and got my own mortgage broker's license, since I decided that, golly, I could probably do this without Al, because I know people who want to get a higher rate of return, and when you think about it, it's an incredible opportunity for the lender. They simply write a check, or have a check written by their IRA, third party administrator, and send it to the closing agent for the gross amount of the loan, and the closing agent takes those funds, just like it was coming from a bank, and disperses them accordingly and the lender didn't have any expenses. The lender would, in my case, send a check for the $48K and they'd get a note and a mortgage secured by the property, they get fire insurance they get title insurance, sometimes they get an appraisal, and it'd be recorded downtown so the lender was protected, and they get a package in the mail. So, really, they didn't do anything but write a big check and sit around and wait for a bigger check.

Alan Cowgill

Boy, that's pretty nice for them to do, isn't it?

Ron LeGrand

Yeah, so that's how I got started and to this very day, I'm a mortgage broker putting borrowers and lenders together and I'm also a lender, and also a borrower. So, today, I wear all three hats.

Alan Cowgill

Wow, that's interesting. Do you still borrow money today?

Ron LeGrand

I still borrow money today. Because first of all, first thing I do when I get some available cash, is lend it out. I have money in my IRA that I lend out, and as fast as those loans are paid off, I get it right back out there as fast as I can, because the last thing one wants is capital, or cash, sitting in an IRA or a bank account.

Alan Cowgill

That's right.

Ron LeGrand

If it's sitting there, it's getting, 1. something-or-other %, which is actually going in reverse, so it's kind of a dumb move, in my opinion to leave cash sitting around in bank accounts.

Alan Cowgill

Yep. So you get it out working for you then?

Ron LeGrand

So I am a lender. So that when I get all my cash out of there and I happen to have a property that I want to buy, fix and rehab and sell and so forth, then sometimes I actually call up my lenders and borrow money from them. And I pay the same rate that I lend at, so the rules are the same for me as they are for my borrowers.

Then, of course, when I do that for other people, I'm a mortgage broker, and I collect a few points in the middle.

Alan Cowgill

Now, when you structure your private loans do you make a monthly payment then to your private investors?

Ron LeGrand

Well, my private investors are pretty much flexible on that. The truth is, most private investors would rather not mess around with a monthly payment. It becomes more of a pain then it's worth. Most of my loans are interest only; incidentally, I don't think we discussed that. The investor writes a check, and sends it to the closing agent, and in the case of investors, when they're lending it to folks like you and I who are buying properties to rehab them and resell them, the money's only out for a few months, so it's probably in everybody's best interest just to let it sit there. That way the property investor doesn't have to make payments. It helps their cash flow. And the money investor doesn't have to worry about collecting payments messing around with it and wondering if they're late or any of that nonsense.

So, most of the loans that I do now are accruing interest. Take that same example I used for Al, I would borrow the $48K and just tell the investor that it's going to accrue interest, so let's say it took six months for the lender to get the money back, the lender would get $48K plus six month's interest all in one check. Which is kind of nice. They kind of like me when they get their check.

Alan Cowgill

Yes. I'll bet. Now when they get their principle back, then it's sitting out there in the future ready for you when you want to use it again, is that correct?

Ron LeGrand

Yes. They get their principle back plus the accrued interest, and now they generally take that principle plus interest and loan it back out and in effect they get a compounding effect—it's not true compounding, Alan, but as you know, when you're making interest on interest, it's close.

Alan Cowgill

That's true, now how do you go about finding your private investors?

Well frankly it's not too hard to find people who want to get a higher rate of return on their money safely and are afraid of the stock market because it's so volatile right now, as you know. Truthfully, I've taken all my money out of the stock market a long time ago.

It didn't take me long to learn when you're out of control like that, there are other things you can do with your capital to put you in a much stronger position, and when you look at private lending, you really have to do something wrong to loose.

You think about it: as long as that loan to value is correct you get that loan not to exceed 70%, I mean, today we go as high as 70% loan to value ratio, and as long as there is plenty of room above that loan and that thing is properly secured and you have fire insurance in place, because you obviously don't want the place to burn down and you're uninsured and you got a loan against a piece of vacant land, so as long as you got those few ducks in a row, it's very difficult for a private lender to lose.

If you think about it the face rate of the note is whatever the interest rate is you write it at, I mean, I have lent money and borrowed money as high as 15%, sometimes as low as 10%, so that's the least amount of return, let's say your note is at 12%, that's the least amount of return that investor can get, and that's hard to beat, especially in the stock market these days, and mutual funds and anything else you do. That investor making that loan on property is going to get that return no matter what happens, whether it be monthly or it be accrued, it's still going to be a minimum of 12% annualized return, nobody else can guarantee said return.

Alan Cowgill

That's true. Now once you find an investor, how's the money handled? Do they send it to the closing agent?

Ron LeGrand

Yes.

Alan Cowgill

Yes. Okay.

Ron LeGrand

In fact, as a mortgage broker, in the state of FL, I can't handle the money; it's against the law. It can't go through my account and go to the closing agent, so I have the private investor send it, usually by wiring it to the closing agent. A lot of the money that we use today is located in someone's IRA, Roth IRA or regular IRA. So the investor, the lender, must send a little form to the administrator and have them wire it through the closing agent. But no, I never touch the money until it goes through the closing agent.

If I am a borrower, same thing. In other words, I set up loans for me to borrow the same way I would set up loans that I am brokering the same way I would set up loans for someone else to borrow. It's done professionally, it's done correctly and that way we don't have to worry about the money going off into some place it's not intended to be. So, it goes directly to the closing agent and that agent is responsible for the money from that point on, based on directions given them, by the lender or the broker.

Alan Cowgill

Okay, very good. Are your Private Investors all local to your area?

Ron LeGrand

My private investors are all over the country. I don't find it difficult to find people who want to make a loan secured by a property, and get a higher rate of return. They really don't much care where the property is located because of the value ratio.

That honestly, is combined with the fact that they've got a good feeling for the person they are borrowing to, Alan. In fact, when I lend money out sometimes I lend it to other investors that are brought to me by other mortgage brokers. All I need to know is: I've got a good feel for the person I am lending it to, so I know that they are not going to be a pain in the neck; and, the collateral is there in case something goes wrong.

I recommend to all my private lenders that when you make a loan, you make a loan knowing that the collateral is going to stand for it, and not rely on the individual. If that collateral is there, you know that you can always go back and take the property back and get a realtor to sell it if you want to. And probably make a lot than the rate of return on your note.

But most lenders don't want to mess with that, and I don't blame them. So, now it comes back to the individual going to get the job done. But always knowing that if they don't you just go to plan two.

Alan Cowgill

With the market interest rates so low right now, are you lowering the rate you pay investors like everyone else is doing?

Ron LeGrand

Personally I haven't Alan. I know I have a lot of students who have. And frankly… you can get money much cheaper. I'm still paying 15% to this day to be honest with you. Not because I can't get it any cheaper, just because I don't want to. I think 15% is a fair rate of return for these investors. They're really not at any risk, that's the number I started with and I chose to keep it that way. Truthfully if any deal hinges upon whether you are going to pay 12% or 15% you better take a look at the deal, the problem is not the interest rate.

But I will grant you, there are times when I want to borrow money for longer term use. In other words, sometimes I don't want to quick turn the property. I don't want to really get in and get out of it. My goal would be buy it and renovate it, and then lease option it out and put it on a short term amortizing loan. Like a seven year note or so forth.

Because that's a good way to build wealth. Your investors money out is still secured by a low loan value ratio and still secured by the property. It's going to get a high rate of interest but it's just out for a several years instead of several months.

My normal balloon time is one year. But sometimes when my excess strategy changes and I want to keep the property and pay it off quickly and create wealth by creating equity in the property as well as creating cash flow quickly. I'll structure the note differently where I actually will amortize it, make monthly payments of principal and let the note pay itself off. And when I do that it's nice to have a lower interest rate but truthfully, 2% or 3% here or there shouldn't make that big of difference to the entire project.

This is an individual case by case thing. Honestly in today's market if investors were to get 12% they ought to be extremely happy, because that's a very, very good return when it's as safe as it is in the program we're discussing.

Alan Cowgill

Have you ever had investors quit investing with you?

Ron LeGrand

Maybe a few when things changed in their life and they had to have the money. I have had a few of them die on me, when they do that they tend to quit investing. I've had a couple of them get divorces and a couple that had financial problems.

But other than that. when an investor gets in this program and doesn't have any kind of personal problems that changes the needs for their money, they are in it for life.

Honestly, I am an investor Alan, and I have to tell you. I have not found anything that you can get a passive rate of return of from 12-15% that doesn't require any work. You and I both now we can get a lot better return on that if we actually get involved and do all the work. If we are the ones buying and reselling the property, and doing all the work. But there's active and there's passive, this is passive that we're talking about.

There is no more work involved in being a private lender than calling up your stock broker and telling them you want to invest in a mutual fund. So a passive investment at the kind of returns we're talking about, they tend to stick around for a while. There really isn't a whole lot of other places they can go.

Alan Cowgill

It makes it nice for everybody doesn't it?

Ron LeGrand

You betcha, everybody wins.

Alan Cowgill

Can you describe a typical Private Investor?

Ron LeGrand

Just ordinary people, I have some investors that have pretty substantial assets and other ones that don't. Most people spend their entire lives just doing whatever they can to put away money. Sometimes that takes years and sometimes it happens overnight. Things happen, people sell properties and people come into money from various means.

I find that that average person that I have making loans probably has from $25K to $250K available capital. Some of them have more of course. They are not tycoons and they are not Bill Gates. They are just people trying to get through life and they are trying to get the best return on their money the best they can -- safely.

Alan Cowgill

I heard of a private lender that was getting 15% and wanted five points, plus prepayment penalties. But then he wanted to add on fees like a mortgage broker would.

Ron LeGrand

Well that's not a private lender, that's someone who's in the business. Truthfully, I wouldn't touch that one with a ten foot pole. You are either a private lender or a mortgage broker and in reality that individual is actually in the business of making loans.

The numbers you just described, you can beat those all day long going through a mortgage broker. Of course if it's your money you get to do what you want to with it, don't you? You get to make the rules so if you want to those to be the rules, great. But, frankly that's going to be a tough sale, because the market will dictate cheaper rates and cheaper terms anyway.

I find the private lenders that I deal with would rather have me just handle it. They don't want the grief they don't want to have to worry about it. Whether I am brokering their money or whether I am borrowing their money the service is the same to them.

Frankly, if they are not doing the work and if they are not acting as the mortgage broker they absolutely don't have any rights to collect the mortgage brokerage fees, as far as I'm concerned. Of course, that's an opinion that can arguably be different if you are on the other side of the coin.

Alan Cowgill

Now that you have lots of cash available, why would you use private lenders, other than maybe doing really large deals?

Ron LeGrand

Only because my cash is tied up already in investments, and I still do that to this very day.

Alan Cowgill

How have Private Investors enriched you and your business?

Ron LeGrand

Anytime you can call up, on demand raise capital, it makes it easier to maneuver within the business of real estate. See what a lot of lenders don't understand in the beginning is when us real estate investors like you and I are out there buying junkers, we are buying properties that need to be rehabbed. I mean, they are ugly! Nasty, filthy, stinking properties, and our whole objective is to buy those properties, fund them, and fix them. That's how we make our profit, that's the only way we get them so cheap is because they are nasty and they need rehab. I mean $10K, $15K, $20K, $25K worth of rehab.

But by doing that we create an awful lot of equity of above our investment into the property. So when you are out here doing that it's very difficult to go into a lending institution and borrow money, A, on an ugly house and B, borrow more than you are paying. Just go and tell a bank you want to borrow more than you are paying for the property and you won't get a very good reception.

The only reason we are borrowing more than we are paying is because we want to buy it, fund the closing cost, fund the repairs, and then fund some maintenance while we are holding onto it. That's truthfully only a smart business decision Alan. I teach my students: the last thing you want to do is create cash flow problems by having to come out of pocket to fund and fix these deals. Any smart business will make sure the obvious is available to meet the pending need for that capital.

We borrow enough to get the entire job done or pretty soon, we are wondering why we have more outgo then income. So then as soon as we get it done we sell the property, cash out of it, pay the investor back take our profit and go on to the next one. Just the ease of getting that money, because we don't have to qualify for it. Because we don't have to go down to the bank, and create a package, and wait for weeks for them to make a decision. Makes it a no-brainer in my opinion to pay a higher interest rate in exchange for the ease of raising the funds. You know, it didn't take me long time ago to figure out it's not the cost of the money that's important it's the availability of it.

Alan Cowgill

Early on in your career how did you approach your first investors?

Ron LeGrand

For three years I borrowed money from Al. 76 loans I borrowed from Al in that three year period. I made Al a lot of money.

But I had a board meeting one day and there was my whole board standing there staring back at me from in the mirror. That was me, me, and me, in case you didn't get that.

Alan Cowgill

Got it.

Ron LeGrand

And I decided, why don't I go out and start asking for money, because that's all Al was doing. He'd call up his investors and say, "Do you want to make this loan?" They'd say, "yes" and they'd send the money over to the attorney to close it and Al would just get a commission check for making the phone call.

I said, golly, I can do that. If I could find my own investors I could eliminate Al and I could just kind of make the rules up and not have to live by Al's rules, which were kind of strenuous.

So I developed me a little line that I used to approach people with. It didn't take me long to figure out, they either had money or they didn't. One little old paragraph would prescreen them, so these are the words I started using.

I'd go up to a guy like you and say, "Alan, do you have an IRA or any other investment capital not getting you a 15% return safely?" Your answer would be either yes or no, and if it was no, I just assumed you didn't have any money and if it was yes, because I doubt very seriously you were getting a 15% safely. And if you said yes, that would open the conversation and I would quickly tell you what I was doing and if showed interest we'd talk and if you didn't we wouldn't talk.

It didn't take me long to figure out that people who had the money we're always interested in getting a 15% return safely. Obviously there was a credibility hurdle to get over there, and I had to explain to them what I was doing. Once that was done, the third person I asked Alan way back in 1985 became a private lender. I have not had any problem trying to find people who want to get a high rate of their return safely since.

Alan Cowgill

What a thrill. Let me talk a little bit about the restructuring of the deals, when I heard you say you borrowed enough money to cover the purchase of the property plus the rehab cost. So you have one investor for one property, is that true?

Ron LeGrand

Correct. You certainly don't want to pool investors, in fact that's a security. Now, there's a difference between pooling investors and having one do a first mortgage and another do a second mortgage.

Alan Cowgill

True, do you do much of that?

Ron LeGrand

I don't. Truthfully my investors usually have enough money to fund the whole deal. The only reason to do a first and a second with two private investors is if there's a small amount of capital available from each. Now, we do a lot of second mortgages. Sometimes we'll just buy the property and take over the existing loan on it. Then get a smaller second, to either make up back payments or do repairs, or so forth. Leave that second mortgage on there long enough to get the property sold and cash out. The private lenders are good sources of funds for first and seconds. Larger firsts, smaller seconds.

Alan Cowgill

Looking back, what would you have done different over the past 20 plus years as it relates to acquiring Private Investors?

I would have started a lot earlier. Truthfully I don't know that I would do anything different in the way that I have been doing for the past eighteen years or so in the way of private investors.

There's plenty of capital out there, all you have to do is ask, and make people understand what you're using it for and how safe they are. It's really not difficult to get it.

I said earlier there might be times when I would want a lower rate, I just check my greed glands back in place, and realize that everyone's got to win here. If I make sure that my private investors are excited about it and really want to do business with me, then I have no short supply of people who are begging me to get rid of their money.

That's the way it works you know Alan, these people are getting paid off, they don't want to money back. Of course they obviously want the money back they just don't want it back right now. They know that when the money comes back to them they are not getting that 12% or 15% return on it anymore. They will ask when I am going to do another one, so my biggest problem nowadays is trying to get enough deals to satisfy the demand. Frankly I'm not doing that, because the demand is too big. I can't possibly broker or buy enough property to satisfy all the money that I have available to lend out.

Alan Cowgill

One of the nice things I've found about this business is when you're out there working with people that have money, you meet a lot of nice people.

Ron LeGrand

Yes you do, yes you do. I'll tell you another nice side benefit, not only do you meet nice people, you also meet people that aren't broke. By hanging around people that have been able to accumulate a little money, that's a good circle to create because you never know when some kind of a deal or some kind of transaction is going to come up when your going to have to raise capital on a lot larger scale or with partnerships.

You never know where life is going to take you. It's always nice to have a circle that you know of people who can write a check if they see the need.

The most important of benefit of being a lender, is you get a high rate of return safely. From a borrower you get money that you can acquire easily that will allow you to go make more money. And of course as a mortgage broker you get paid for putting the two together.

There's a whole world of opportunity out there for this kind of money and the financial industry isn't aware of it because they deal in a totally different opposite type of lending. Unfortunately society isn't aware this opportunity is available. Because how many times do you hear Wall Street talking about making hard money or equity loans?

I'm glad that we had this conversation because it's our job to make sure that people out there struggling to get high rates of return on their money are aware of this. And, at least have enough information to make their own decision on whether it works for them or not.

Alan Cowgill

I agree with you. Well listen, I appreciate your words of wisdom today and taking the time to talk to me today regarding private investing.

Ron LeGrand

I appreciate talking to you, it's always a pleasure.

Alan Cowgill

I know everyone can use private lending you use his or her real estate business. Ron, I wish you continued success.

Ron LeGrand

Thank you, you too.

If someone wanted to learn more about finding private investors you can contact:

Alan Cowgill
Phone (937) 390-6299
Fax (937) 390-7798
www.privatelendingmadeeasy.com