**PODCAST TRANSCRIPTION SESSION NO. 83: EVAN GENTRY**

Welcome to the Lend Academy Podcast, Episode No. 83. This is your host, Peter Renton, Founder of Lend Academy.

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**Peter Renton:** Today on the show we are talking real estate, commercial real estate to be exact. I am delighted to welcome the CEO & Founder of Money360, Evan Gentry. Now I actually first met Evan back in 2010 or at least met him online when he was just getting Money360 started. Now they didn't actually launch until 2014, we'll talk about what happened there in the show, but he's been around this industry for a long time and he decided that he would focus his business on commercial property and it's a really interesting space. They're still a relatively new company, but they are gaining traction and I think they have something that is quite a compelling offering. Most of the companies in this space are focusing on fix & flip properties, this is a way to diversify into a different type of real estate. We talk quite a bit about the kinds of projects they are funding, how they have been able to get traction and talk about their underwriting and their loan volume and spend quite a bit of time on the investor side of their business. Hope you enjoy the show!

Welcome to the podcast, Evan.

**Evan Gentry**: Hey, thank you, glad to be with you, Peter.

**Peter:** Okay, so let's just get started. Tell us a little bit about yourself and your background before you started Money360.

**Evan**: You bet, Money360 is actually my third kind of major venture. My first company I started in college was a mortgage technology company where we would contract with banks and they would outsource their residential mortgage business to us. We started that in the late 90's, grew it up to through kind of mid 2000's. We got to the point where we were originating billions a year in terms of loan volume for clients like E-Trade, Zions Bank and other regional and national banks in the US.

We had 50 bank clients by 2006, we sold the company to a spin-off of GE Capital in 2006 and then I stayed on for a year as the CEO of our group and then launched my second venture, G8 Capital. G8 Capital is a real estate investment group that acquires distressed and non-performing real estate assets primarily in the commercial real estate space. So we were very active from 2007 to 2014 and then really started ramping up Money360 in 2014 and that's our primary focus today, is what we're doing at Money360.

**Peter:** Okay, so I know that we actually first communicated back in 2010. I was actually going back and looking at some of my...really the earliest blog posts that I ever put on Lend Academy. We actually mentioned your company because you did start something back then. Just tell us a little bit about the genesis and the early days and then it sounds like you came and re-launched or...just tell us what happened in that time period.

**Evan:** You bet, I've been a big believer in peer to peer lending which we now call marketplace lending, but since the very beginning strategically applying technology to the lending industry in many cases replacing unnecessary middlemen such as banks and investment banks I believe can add incredible value to both borrowers and the investors.

I originally launched Money360 in 2010, at that time we were the first peer to peer real estate lending platform. I was a follower of what you were doing (Peter laughs) really from the very beginning and we had some initial dialogue back then, but as you know in 2010 the regulations were not...the timing wasn't right to scale the business. Regulations did not allow us to market online so we were limited and we were following the counsel of our attorneys. We could basically only market to our current investors and those that we knew which was very limiting if we wanted to scale the business; the timing just wasn't right.

At G8 Capital we were very busy 2010 to 2014 acquiring hundreds of millions of distressed assets from the banks so that kind of became our primary focus during that time. By 2014, the distressed acquisition side of that business really slowed down and I saw the opportunity to really jump in with Money360, the regulations caught up to what we needed to do there with the JOBS Act so it was the right timing for us to jump in, in 2014...

**Peter:** Okay.

**Evan**: ....but had the vision all the way back in 2010 of the potential. I am a huge believer in the space.

**Peter**: I know because at the time I wrote about it because it was the only real estate offering available. I always thought It was a great fit for the peer to peer lending model, the marketplace lending model and real estate. Obviously now we are in a very different time and there's many, many platforms.

**Evan:** Yeah.

**Peter:** So let's just go then...let's just talk about Money360. Can you explain...just tell us exactly what you do and what part of the market you're focusing on?

**Evan:** Yeah, so we provide financing on commercial real estate properties including office buildings, industrial buildings, retail centers, hospitality, multi-family apartment complexes. We do not do development loans, we do not do land loans; we focus on income producing commercial real estate properties. Our loans are typically between $1 million and $15 million.

For example, just this last week we closed a loan here in LA County, it was a $10 million financing on an office property. They had a loan that was maturing and they had a very short window, they had to get new financing so stepped in and provided that financing to them, but for the borrowers we're offering multiple products.

We have our bridge loan product, and then we also have some permanent loan products and we provide them a good opportunity to get new financing.

For the investors, we're giving them an opportunity to invest in something that was previously not available to them from an investment perspective. So we feel like we're creating great opportunity in the market, both for the borrowers and for the investors.

**Peter:** I'm curious about how you think...obviously you are different…most of the other real estate platforms are doing residential fix & flip, focusing on the bridge financing business and you're focusing on commercial properties. When you think about your business and the industry itself, what makes you different from the other platforms would you say?

**Evan:** Although there's a lot of, well I don't want to say noise, but a lot of players in the real estate sector, we are quite unique in what we do in that we only provide first position or first lien debt on income-producing commercial real estate properties and we're laser focused on that, and we do it very, very well. Many of our peers are different in that there are many that are primarily or exclusively focused on as you mentioned the residential fix & flip market. I actually know that business very well. At G8 Capital, we fixed & flipped about 4,000 homes…

**Peter:** Wow! (laughs)

**Evan**: ...that's across the country. I know that business very well, we've done a lot of that. It's not a bad business, but the business of flipping homes is a bit fickle and the opportunities come and go with economic and housing cycles.

**Peter:** Right.

**Evan:** So we've chosen to focus on financing commercial real estate properties as we believe that this a much more stable and long term business model. There's always a need for commercial real estate financing in both the up and down markets. You just have to adjust your underwriting and loan to value accordingly.

**Peter:** Right.

**Evan:** The last point I'll make on that in terms of how we're different from our peers is I believe that we have the most experienced team in this space. You know, we're a technology-enabled platform but our team members, we have about 20, we average 20 to 30 years experience in the industry in our specific areas, whether it's underwriting or technology or originations and so we have a very experienced team which I believe sets us apart substantially from our peers.

**Peter:** Right, right. On that, I guess with G8 Capital did you do much commercial property? You said you did distressed real estate a lot, was there much commercial in that?

**Evan:** Yeah, actually the majority ended up being commercial so at G8 we started, in 2007, buying non-performing residential loan portfolios then we moved into buying REO portfolios, a lot of them was from like Fannie Mae, Freddie Mac and from the major banks.

By about 2011, we had transitioned to where we were primarily focused on, non-performing commercial real estate loans, so we acquired I'd say about $400 million of non-performing commercial real estate loans between 2011 and 2014.

And the team I had developed by 2014, when we launched Money360 our team was primarily focused around commercial real estate loans, underwriting commercial real estate loans, acquiring them, doing workouts with these borrowers where necessary. Acquiring the distressed loans from the banks who had made very high loan-to-value, 90% loan-to-value loans, long terms loans…during the great recession those banks obviously sold those loans and we were the very active buyer so it was a very natural transition for a lot of our team members to move from the G8 focus to what we're doing at Money360.

**Peter:** Right, makes sense. So you're only doing debt deals then, you're not doing equity at all?

**Evan:** We do not do any equity deals. Yeah, we are strictly doing debt and again, that sets us apart from a number of others in the kind of real estate crowdfunding space and I'll…I believe that there's a really good market for real estate crowdfunding on the equity side, but I have a pretty strong opinion that I don't believe that the same platform should be doing debt and equity.

I think they should be different platforms because when you have a scenario where a loan becomes non-performing the interest of the debt investors and the equity investors are polar opposite in terms of what they want to do and achieve so they become very conflicting in that circumstance and if it's the same company that's representing both I just foresee major potential problems in that scenario so again I like both models, but I think they should be separate and again we just focus on the debt side.

**Peter:** Sure, you talked about the property in LA County, but can you give us some ideas of typically $1 to 15 million...I mean, what interest rates are you charging? What are the typical lengths of these loans?

**Evan:** Yeah, so we have two primary products. The first one is our bridge loan product which are typically one to two-year terms; the majority are two-year terms but one to three-year term is the range. We'll go up to 65% to 70% loan-to-value; the rates are typically in the 8% to 10% range, sometimes they're north of 10%, but typically in the 8% to 10% range and that's a product that's typically syndicated to high net worth investors, family offices and hedge funds as well as some institutional investors.

Our second product is a permanent loan product which is typically five to ten-year term; we'll go up to 75% or 80% loan-to-value and the rates are in the like 4.5% to 5.5% range and that's a product that we syndicate to banks and credit unions.

So we have both a bridge product and a permanent loan product that are syndicated to the various investors based on their appetite.

**Peter:** Okay, okay. So let's just talk about those investors for a second. You know, you talked about the different types and obviously the 4% to 5% is going to attract a certain kind of investor that's different from an 8% to 10% offering. Do you...and I'm just of curious about how you've kind of marketed yourself out there to the different kinds of investors. Are these all people or all organizations from your G8 Capital days or are these people that you've really brought in specifically for Money360?

**Evan:** Yeah, very good question so we were certainly able to leverage many of our G8 relationships, both on the banks and then the institutional side as well as on the high net worth investor side. That gave us a good launching pad as we started the business, but today the large majority of our investors are well beyond that initial group that we were able to leverage as we launched the business.

The permanent loans that are the 4.5% to 5.5%, those are going straight to the banks and credit unions. Those are loans that they would originate on their own, but they found that it's more efficient now to leverage a marketer and a platform like ours to originate that loan and then put on their books. In many cases, they don't want the whole loan, they want a fractional component so we'll syndicate those to three, four, five different banks or credit unions, but the primary product we're marketing to accredited investors, family offices, hedge funds is the bridge product which is the 8% to 10+ percent rate and we started off with a lot of my G8 original investors, but again it has gone far beyond that level at this point.

**Peter:** Okay, because on your website you make a play for individual investors, it sounds like. You can click on "Start Investing" and you can basically open up an account, you talk about $50,000 minimum...like how big of a piece of your business are these sort of individual accredited investors?

**Evan:** It's actually a big piece. I would say of all the loans...we've funded about $140 million, so far. That's about 30 loans and I would say about half of what we funded...approximately half, has been through high net worth, accredited investors/individual investors and then the other half would be hedge funds, institutional funds that are investing so we actually have a really good mix in my view across the spectrum.

There's certainly significant opportunity, particularly as we grow and scale rapidly, to do a lot more with institutional investors that can scale and grow rapidly, but we get many new investors every day that come on the platform. We haven't done the level of marketing I think that some of the others have done, but they're finding us.

Our investors are coming and they're happy...the biggest factor driving our success is actually word of mouth. We have a lot of investors that with $50,000 or $100,000, and then they come back a couple of months later and they put in $250,000 or more so we've seen a lot of...in fact, I would almost say, more often than not, those that start with $50,000 or $100,000 end up coming back and doing more.

**Peter:** Right, yeah, that makes sense. So let's just talk a little bit about the deals themselves, I mean, it sounds like you have resources that help you source these deals so can you tell us a little bit about how you find the deals that you want to put on your platform?

**Evan**: You bet. We certainly capture some business that comes to us online including borrowers that will come to us directly seeking financing and that's a growing component of our business, but the majority of the loans we fund today are still coming through what I call somewhat traditional means.

We have four full-time business development officers that are regionally located across the country, that are out actively in the market. These guys have 25 to 30 years experience each and so they're out very active in the market originating loans that are coming to us, screening those loans and bringing them to us to underwrite here in our corporate office. So we have full-time, dedicated business development officers that are finding quality deals out in the marketplace that they're bringing to us.

**Peter**: Okay then, what kind of regions are you focused on?

**Evan**: So we're national so we do a lot in the West as well as in the South and then we do...we don't do quite as much in the Northeast, we do some of the Northeast, we do a bit in the East and then we've done a bit of an amount in the Midwest. We're really a national platform and if I look at our 30 loans, I would imagine we're probably across more than a dozen states so we have a national footprint. There's some markets we like better than others and so we'll underwrite them differently. There are some that we'll avoid for particular reasons.

Our background at G8 gave us the expertise and the relationships nationwide to be able to underwrite and analyze properties in locations that we're not located and that gives us a significant leg up that we can leverage our resources and our contacts with a lot of the national brokerage firms and appraisers and others to be able to quickly get a good quality underwriting of an asset.

**Peter**: Right, right. Can we just talk about that for a little bit as far as underwriting goes. Obviously, these are large loans, it's really important not to screw it up (laughs). No one wants any loan to go south, but if you've got one…if you've got a big chunk of a multi-million dollar deal then one goes south, that could really hurt your reputation particularly at this stage in your business so can you just tell us a little bit about your underwriting process and how you go about that?

**Evan:** Yeah, we have a very...we call it institutional quality level of underwriting comparable in many ways to the CMBS or bank level underwriting so we get all, very thorough, detailed third party reports, there's a MAI appraisal, quality national firms will do the appraisals, we'll do inspections, we'll get the necessary environmental reports so we go through...of course, we underwrite the borrower, we go through all their background and detailed information. With technology one of the ways you can leverage technology is to be able to capture a significant amount of data very quickly to allow our underwriters to review and make decisions very quickly.

So we go through a very traditional underwriting and this is not...you know, there are other loan products where you can automate the loan underwriting…I think in consumer loans, you can be effective there, but with a commercial real estate loan, particularly for the $5 or $10 million size loan, that's not something you're going to automate, but you can use technology to automate the collection of the data and the organization that allows our underwriters who have a significant amount of experience to be able to sit down and go through it and then make good quality decisions about what we're willing to do and what we're not willing to do. By the way, we turn down the large majority of what comes to us. We have significant volume coming in, but we're very picky about the loans that we choose to fund.

**Peter:** Right, right, that makes sense, that makes sense. So then how long does this process take from the time that a loan comes in your door or from your website, I mean, how long does it take before closing?

**Evan:** The quickest scenario is typically about three weeks. It's really driven by the third party reporting, the appraisal, inspections, environmentals and so the quickest scenario is three to four weeks that we can get a loan closed. We've had exceptions where we've had circumstances where someone has come and they have a situation where they need to close a loan within two weeks or they're going to have a significant loss on a property or lose a significant opportunity and so we can then pay a premium to our third parties to speed up that process so it's possible to do it.

We've done a couple of loans in about two weeks, but typically, it's three to four weeks is the kind of a typical time frame from when they come to us until we're able to be in a position to close their loan which is...in this day and age, it's actually very quick. Banks and CMBS lenders would typically take as much as three months to underwrite and close a loan. That's one of the reasons we do a lot of the bridge product that we do is because borrowers are willing to pay a higher rate just so they can get the loan closed in a matter of three or four weeks as opposed to three or four months.

**Peter:** Right, right. You mentioned banks before and I'm just thinking about the interest rates you're charging. It sounds like your...particularly on your term loan product that you're pretty much competitive on a rate basis with the banks...is that...

**Evan**: Yeah, our permanent loan product is competitive with the banks and the banks, due to the regulation...both the banks and the CMBS market, the securitization market, are going through major changes due to regulatory factors that are causing them to pullback significantly in their lending. The CMBS markets pulled back dramatically and the banks are also pulling back with these new regulations which are making a lot of loans that previously would go to those sources come to sources like us, you know as alternative or marketplace lenders.

So there are really significant opportunities that are developing for all of us in this space because the primary market is pulling back dramatically, but the permanent product that we offer is competitive with the banks and the bridge loan product is a really unique product. These markets typically have their local, if you will, kind of hard money lenders and we're able to provide a much better solution, better terms, more professional solution than a lot of these regional players have previously provided to these local borrowers.

**Peter:** Right, makes sense. So then I'm curious about…the real estate market has...we all know about what happened in 2008, actually even before then, but that's when it really caused problems. We all know it's cyclical, I guess I'm curious to know from your perspective...I mean you've been buying distressed loans, I mean, right now the economy is chugging along, they're talking about potentially increasing interest rates shortly, where do you think we are in the cycle and what's your feeling, you know, focused on the commercial real estate and securitization market, what can you tell us about where we're at?

**Evan**: Well the last downturn was obviously more significant than anything we've seen in a very long time and so it's not unusual that we've had a significant run-up. We have had now six or seven years of increasing valuation of prices in both residential and commercial properties so I believe that we're getting toward the top end of this cycle. I don't know if it's going to peak next month or next year or two or three years, but I think we're getting near the top of a part of this cycle which is actually why I believe the product that we're offering in terms of offering a low loan-to-value debt product is the right product at this point in the cycle and even when the cycle is going down.

The reason I'm cautious about equity is if you make an equity investment then you're in a first loss position so if you have $10 million property and the property drops by a $1 million in value, that's $1 million of value wiped out for those equity investors. We would come into that $10 million property with a $6 or $7 million loan and so there's significant room in terms of values coming off before it impacts any dollar of our principal so we're very cautious in how we underwrite…in fact one of the reasons we have chosen this kind of 60% to 70% loan-to-value as an average place for us is during the downturn…the last downturn 2008 to 2012, commercial real estate value dropped about 25%.

So we kind of look at that as a gauge of what the possibility is. We don't predict that type of a downturn this next time, but even if we were to experience that, we feel we'd be safe based on the type of loans that we're making.

**Peter:** Right, that makes sense. From your perspective, a downturn is not necessarily going to hurt your business. You might have some loans that go into arrears or even potentially foreclose, but you sound like you're confident that despite whatever the market does, your business is going to be fine and keep growing.

**Evan:** You're correct and that's why we've chosen this asset class. I think the fix & flip market, they will experience different things during an economic downturn than what you see with commercial real estate so we, very strategically, have chosen this asset class looking at it from the long term and the long view.

Our objective and goal is to be the biggest player in the commercial real estate marketplace space. So that's our focus and our objective and we're taking the long view in how we achieve that. Even when you have loans...you think about non-performance, it's not a matter of if the loan doesn't perform, it's a matter of when. There are going to be loans that don't perform even in perfect economic conditions and even with perfect underwriting, you can't control borrowers or outside circumstances.

So the key is when you have a loan that doesn't perform compared to a consumer loan, that's usually a full write-off, but with a real estate loan, we can go in, foreclose, you could take the property and will almost always make more money on a foreclosed loan than we will if they had performed.

Certainly we're trying to make loans that we hope and expect will perform, but the nice part of the scenario where we do have non-performers is we'll typically make more money in that scenario. The most common scenario is we have significant leverage, most of them have personal guarantees, there's a lot of equity above our loan so typically, they end up coming back and curing their default with us, paying default interest, paying penalties and using another debt provider or equity to pay us off or become current. We're in a very good position even in a downturn scenario.

**Peter:** So I just want to go back to the investor side because I noticed here on your website you talk about a professionally managed fund, I'd like to actually hear a little bit about that because obviously not everyone wants to go and invest in properties one by one so what can you tell us about this fund.

**Evan:** Yeah, so we found and this is very heavily driven by our investors who really liked the product we were offering, but there are a number of them that didn't want to go in and underwrite loans. We provide all the diligence information, and then you can go in and look at the loan and decide to make it a $50,000 or $100,000 or $500,000 investment, but as we talked to them the direction and the input we got was the benefit of a fund would give diversification across numerous loans and across numerous geographies, property types, borrowers and so we saw significant advantages in creating a loan fund.

We actually tested this in 2015 and had created a small fund that was successful, it was a closed-end fund. So earlier this year we launched an open-ended fund that is one of our primary focuses in terms of raising money to fund loans. So far this year we've raised about $35 million that's deployed in that fund today, we have about another $30 million committed to come in over the next month or two and we anticipate growing that fund to a couple of hundred million in 2017.

Again, it's very attractive for investors because they have the ability to come in and invest in a fund that's making commercial real estate loans and you get that diversification across an entire portfolio of loans as opposed to one individual loan.

**Peter:** So is there a minimum on that fund, is it the $50,000 as well for that or is it different?

**Evan**: Correct, yeah, correct, it's also $50,000.

**Peter:** Okay, and what about fees? Are you taking management fees, performance fees or what are you doing?

**Evan**: Yeah, so probably don't want to go into too much on the podcast…

**Peter:** Sure.

**Evan:** …but we can certainly go through with each individual investor that contacts us, but it's very, very minimal fees. We do charge a 1% loan servicing fee to service the loans and to manage them, but the fees are actually fairly minimal and very attractive to the investor.

**Peter:** Sure, and so those service fees obviously apply to the individual investor or the fund, I mean, you'd have that same fee structure for the investors, right?

**Evan**: Correct, and we tried to structure the fund in a way that it was comparable to what they would do if they were investing in loans directly so it's not a disincentive to invest in the fund, we tried to make it very, very attractive to investors.

**Peter:** Okay, great, we're almost out of time, but before I let you go I would like to know what...you talked about you want to be the biggest in this space? I mean, you've done $140 million now, what do you have on tap for 2017?

**Evan**: Yeah, so we anticipate with our pipeline growing...we spent the last 12,15 months really laying a solid foundation, putting the right team in place so we could scale quickly. We have now, just in the last couple of months really launched, kind of a scale mode for us so we anticipate funding between $250 and $300 million in mid 2017. We'll grow this fund substantially and continue to grow and have success.

We've been able to accomplish considerably more than a number of our peers with a lot less equity than others have had to bring in to be successful. We do anticipate doing a kind of small to medium equity raise in the first quarter of 2017 and then continue to scale and grow from there, but our objective is to grow within the next couple of years, get to where we're originating at least a billion a year in loan volume. Including myself and our president and others, numerous of us have already done that in prior ventures and companies and so we've done it before, it's not our first rodeo, we know we can do it again so just try to take the right steps to build the right quality long term firm.

**Peter:** Okay, well on that note, I wish you the best of luck and I really appreciate you coming on the show today. Evan.

**Evan:** Thank you, Peter, thank you very much for taking the time. It's been my pleasure.

**Peter:** See you.

I have personally become more interested in real estate this year and I've done some investments. We've obviously featured some more real estate platforms on the blog and while this is obviously not investment advice, I cannot provide that in this format, each person has to consider their own options but for me, I like investing in different kinds of companies, different kinds of offerings, ways that I couldn't invest in by myself. For example, a $10 million building, there's no way that I could...a $10 Million loan for a building, there's no way I could actually do that and make that part of my portfolio, but by going with a platform like Money360 that becomes possible. So I think having a diverse set of investments, not just within each asset class, whether it be unsecured consumer loans or small business, or real estate but different sub-asset classes, I think is really important.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.