Finding and Trusting Real Estate Mentors and Professionals

By Bradley S. Dornish

This week, two clients came in with problems which caused me to choose the topic for this article. The first was early in the week, when I had a consultation with a client who had loaned money to a Pittsburgh based wealth building coach. The client hadn't gotten his money back, and the coach had filed for bankruptcy.

When someone files for bankruptcy, they file a petition with the court which lists their assets, debts, ownership interests in businesses, income and monthly expenses. The petitions are public records available online through PACER.gov. Since I have a PACER account, I spent a few minutes and pulled the coach's bankruptcy petition. I did not expect what I found. The real estate coach and his wife own an expensive home, which is apparently worth less than the mortgage loan outstanding on it. They own two other rental properties, each mortgaged for more than it is worth, and they show ownership of all or part of several businesses, each listed as having debts in excess of its assets. They do show income from the businesses in excess of $14,000 per month, which appears to come from students paying for coaching. The coach is still running meetings at hotels to invite prospective students to sign up for a mentoring program, which I believe costs thousands of dollars.

The coach's company website claims that the coach has built wealth of millions of dollars' worth of real estate. He may hold (individually and through his entities), title to more than a million dollars' worth of real estate. However, since he owes more to the mortgage holders than the properties are worth, he has not built any wealth in that real estate. Unless he lied on his bankruptcy petition, which is a federal crime, he has fully encumbered or over encumbered all of his real estate with bank loans. He has built only debt. Even his leased Jaguar was turned in with a large, unpaid excess mileage charge.

I don't know why anyone would pay thousands of dollars for mentoring to a coach who has been teaching how to build wealth for over a decade, but whose personal assets are still worth less than he owes the bank. I suspect that the people who have recently paid that money, and those who will at upcoming seminars, just don't know the facts.

The second case I ran into was an out of state client who lent to an out of state foreclosure flipping company after attending a well-known and respected national seminar. The client received an e-mail from the company offering an opportunity to make a lot of interest for lending money quickly for 10 days in an A to B to C transaction. The foreclosure company was B, and needed the money to buy from A, before selling to C a few days later for a huge profit. The investor wired money to the law office closing the A to B transaction, and received a recorded mortgage reflecting the investment. The mortgage referenced that all the key terms were in a note that the investor never received. The B to C transaction never closed, and the investor has received no interest and no return of principal in over two years. It is a challenge to foreclose on the mortgage, because the recorded mortgage does not set an interest rate or any payment schedule. Right now, the foreclosure flipping company is collecting rents on a property it owns, and that company didn't pay one die for the property. I'm sure no investor would loan money with no interest and no term for repayment. That would be a gift or a grant, but not an investment at all!

By now, I'm sure many of you are thinking that these clients weren't careful enough with their money, and that their tales of woe would not happen to you, because you are more careful, and check things and people out before you invest. But it just isn't that easy to protect yourself.

The wealth building coach is having three seminars this week at area hotels. His company has an A rating with the Better Business Bureau, and only ever had one complaint against it. Even Ripoff Report (a sometimes accurate but sometimes sour grapes ranting site) only has a few complaints about his company, and they are over a year old. It seems as though a Google search of his business shows only his own information for page after page. A search of Allegheny County Civil records shows a lot of delinquent property tax judgments, but only one suit by someone who paid $25,000 for special inner circle mentoring, and claims to have gotten no value for his payment. That suit is still pending.

The foreclosure flipping company also has an A rating with the Better Business Bureau in its home town, nothing negative in a Google search or on Ripoff Report, and only one lawsuit in Allegheny County other than delinquent tax judgments, and the foreclosure by my client. The foreclosure company was dismissed from that lawsuit.

So if you were checking either of these companies out to determine whether to trust them with your money, you would be very likely to reach the same conclusion as my clients, and go forward with the transactions. After that, you would be just as likely to be in the same positions my clients are in, hoping that after paying some not insignificant legal fees, they will be able to get some or all of their money back.

That brings us to the now burning question: How can you best protect yourself from losing your money or putting your money at risk in such situations? First, do all of the things I mentioned above, checking the county court records in the county where the company does business, the Better Business Bureau, and your own internet searches. Then talk to real investors who have worked with the coach or professional you want to work with, verify the professional's licenses and the coach's own real estate holdings.

If you still want to lend money to a business or real estate investor, do it through your own lawyer, have your own accountant look at the books of the business, and you look at the real estate being offered as security for the loan. Get everything in writing, fully completed, and don't leave without copies of all documents. Ask your professionals what they know about any mentor or coach you want to work with, and don't sign or pay money until you finish your due diligence.

Even after you get into a lending, investing, mentoring or professional relationship, make sure you are getting what you bargained for, and as soon as you are not, put your concerns in writing and create a paper trail confirming what you expected, and their responses to your concerns. Remember that no matter how honest, skilled he or she is at his or her job, and prompt at communicating, no individual can please every single person he or she deals with all of the time. Measure how your mentor, borrower or professional responds to your concerns when they aren't pleasing you, since that is also a good indication of integrity.

In the end, remember that after all of this, every investment has risk, no coach, mentor or professional is infallible, and Bernie Madoff was able to fool everyone for a very long time before he got caught, after he had spent most of his sophisticated, wealthy clients' money. Bernie was able to do what he did because people wanted the quick high returns, and wanted to leave the details to Bernie.

By contrast, I keep most of my money in my own properties and businesses. I sweat the details of every business and every property, or my wife does.

The less I let others handle my assets, the less risk I have that my assets will be mishandled. And if I mishandle them myself, I deserve the results I get. I may never get the great returns promised by others, but I know where my assets are, and they are covered. My mortgages get paid down by thousands of dollars each month, I keep improving my rental properties, and my businesses are stable or growing. Is that the difference between investing and gambling?
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