

Sitting in his no-frills office on North Broadway, Jim Mischner seems as surprised as anyone by the growth of his private mortgage lending business. According to his records, in 2016 alone, Mischner serviced 286 private loans to investors looking to buy property in Central Kentucky.

"That seems high, doesn't it?" he said, reading over the paper again, and later stepping away to double-check the number with an assistant, who confirmed it was correct.

Mischner is one of many private lenders across the country who have been finding their own growing financial niche in the aftermath of the Great

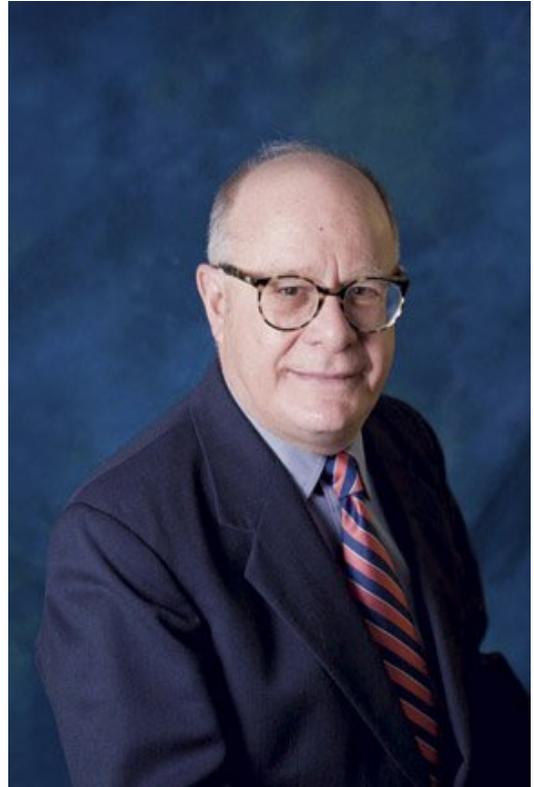
Recession. Traditional banks tightened their lending requirements under increased regulations after the financial crisis, and at the same time, ambitious local real estate investors have sought to expand their portfolios by snapping up undervalued properties for rental use.

Bridging Bank Gap

Mischner's business has filled the gap, providing short-term loans for the purchase of non-owner-occupied properties, with payback periods of six months to two years. The loan amounts range from \$20,000 up to \$1 million, he said, but a typical loan runs in the range of \$75,000-\$80,000. He's not a bank, but during the past 10 years, he has signed off on hundreds of loans for his clients using his own personal money, working primarily with seasoned real estate investors looking to close quickly on a good deal.

Like most private lenders, Mischner's loans come with a steep price compared with traditional mortgages. His interest rate of 13 percent is roughly three times higher than the rate charged for a conventional 30-year mortgage. But the plan for Mischner's clients isn't to keep his loans for long. Most investors that Mischner works with are looking to leverage their property improvements into built-in equity on a mortgage refinance deal with a traditional bank a few months down the road, when they project their appraisals will be higher.

"It has opened a lot of doors for us," said Jayme Nelson, who owns 57 rental properties with her husband, Joe Ray, through their company Nelson House Properties. The Nelsons started investing in real estate in Lexington near the end of 2013, buying and renovating properties for rental.



Traditional bank mortgages can take 30 to 60 days to process, making it difficult for the Nelsons to cut deals with buyers looking for a quick sale. By comparison, Mischner's company can complete the deal in as little as five days. Also, the undervalued properties that the Nelsons are looking to turn around don't add up to much on a mortgage application, at least initially.

Nelson said she was first referred to Mischner by a loan officer at a local bank, and since then, she has turned to Mischner for loans on more than 15 properties.

"He's been amazing to us as a mentor and a financial partner," said Nelson. "It's allowed us to get into deals that we couldn't do otherwise."

Mischner, who grew up in Kingstree, South Carolina, has previously worked in a variety of industries, from insurance to social work. In Lexington, he spent years working with former business partner Tom Stoeckinger to fix up houses, manage rental properties and operate a payday loan business before diving fully into private mortgage lending in 2008.

Personal Touch

As a private investor, Mischner is not licensed by the department of financial institutions, and he doesn't have to be. Private lenders are more loosely regulated than banks, and they can take on more risk. And he doesn't view local banks as his competitors, either. Mischner said from his perspective, Lexington's community banks have become an essential partner and a big asset, both for his own business and for the city as a whole.

Mischner said his own business model works because he focuses on building relationships with clients who are in it for the long term, who know the market and do their homework, and not those who rely on speculation.

"It's got to be real estate-based, but I'm more people-oriented, so for me, it's got to be both," Mischner said. "And it's not about one deal. The people I work with, I trust them, and I trust their knowledge of the market."

Mischner said he generally avoids lending to borrowers who are looking to flip properties for quick resale, because the financial return on those deals is more uncertain.

"Everybody wants to be on 'Flip or Flop,'" Mischner said, "but it's a lot harder to make money that way. ... The majority of the people I do business with, they buy to keep."

Accelerating Acquisitions

Shane Eckman, owner of Eckman properties, said that when he was introduced to the idea of private mortgage lending, images of dubious backroom mafia deals were the first thing that came to mind. The reality for him, however, has been very

different.

"It's been a much more positive experience than I ever thought it would," said Eckman, who owns and rents about 100 homes in the Lexington area. "When I met Jim, I was able to accelerate my acquisitions faster than if I had to rely on my own cash."

As with the Nelsons, the speed with which Mischner can help Eckman close the deal is crucial, he said. Eckman estimates that he has borrowed money from Mischner on roughly 50 projects in the seven years he has been working with him, bringing life back to neglected and often abandoned property primarily in Fayette County.

One of Eckman's more recent deals involved the purchase of a condemned house in the Castlewood neighborhood, which had no heat or water when he bought it, he said.

"This was a place that there was no way a bank would lend money on upfront," Eckman said.

With a loan secured from Mischner, Eckman said he was able to buy and repair it, working with code enforcement officials to bring the house up to code and make it available for rent.

"We've rehabbed over 65 dilapidated homes that were otherwise uninhabitable and made them rentable again," Eckman said.

Even as the inventory for undervalued real estate has begun to tighten up since the end of the recession, Eckman said he is still acquiring new property at a steady clip. Since the beginning of 2017, he has purchased seven more homes.

"It's not as easy as it used to be, but like any sort of business, you've just got to work harder," Eckman said.

And Mischner said his business has continued to grow as well, thanks to the initiative of investors like Eckman and the Nelsons.

"I get a lot of satisfaction from it. It makes me feel good to work with people who have got a lot of drive," Mischner said. "I'm just lucky enough to be invited to the party."

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