

PeerStreet - Hard Money Lending For The Retail Investor

I'm absolutely stoked to share the details of my recent visit with the founders of [PeerStreet](#) and what I'm dubbing my favorite investment of 2017 and beyond. This is going to become a very substantial piece of my overall asset allocation. It's not often I get very excited about an asset class, but this is different, because **PeerStreet is in a league of their own.**

My first introduction to PeerStreet was back in May of 2016, when Mr. Money Mustache himself wrote about [his new investment experiment on the PeerStreet platform](#). Although I was immediately interested, my wife and I had just made a \$50,000 hard money loan the old fashioned way (i.e., big chunk of capital, a huge concentration of our net worth, and no diversification).

We felt comfortable doing the deal despite these risk factors, because the loan was made with a family friend and my wife's parents, and we funded the entire loan between the five of us. The duration of this loan was six months, so the idea was to circle back with PeerStreet once our \$50,000 in capital was returned to us. Frankly, we didn't know a platform like PeerStreet even existed prior to doing our own deal, until we read about it via MMM.

In September another roadblock presented itself and delayed us from opening up an account. I was offered an opportunity to obtain equity in the company I work for. What made this problematic to opening a PS account and making my first investment there was the [check for \\$105,000](#) that I would soon need to cut in order to take advantage of what I consider to be an opportunity of a lifetime (I know, another concentrated investment).

This essentially put us on an investment hiatus for the rest of 2016.

Now early in 2017, I was determined to finally open and fund an account with [PeerStreet](#). But before I did, I wanted to do a bit more due diligence. Brett Crosby, one of the co-founders, was nice enough to set up a 45-minute call to walk me through his background and give me an overview of how the platform works. At the end of the call he also invited to host me at their HQ in Manhattan Beach.

I couldn't pass up the opportunity to meet the team and get a peek under the hood. We set a date for February 17th. In the meantime, I followed through with opening and funding my PS account with an initial \$5,000 investment. I wanted to have some experience navigating the platform and making my first couple of investments before I met with the team.

Leading up to the meeting, I also listened to two interviews with co-founders Brett and Brew that were conducted on the Invest *Like a Boss* podcast:

- [Interview with co-founder Brett Crosby](#)
- [Interview with co-founder Brew Johnson](#)

These interviews were a great way to get to know the co-founders and wrap more context around the genesis of PeerStreet (the who-what-where-why story).

My Visit to PeerStreet HQ & What I Learned

I spent half the day with the PeerStreet team, including two of the three co-founders. It's not very often that you get a chance to spend time with a founding team like this and I'm grateful for the opportunity. Let me tell you, this is a rock star team filled with extremely smart people.



From Left to Right: Brew (co-founder), Rebekah (marketing), Brett (co-founder), Me (wearing a free hat), Jay (head of investments), Jacqueline (marketing)

So, What is PeerStreet?

[PeerStreet](#) has created a platform that has unlocked an asset class that was previously only available to a select few. To say they are disrupting the real estate finance space would not do it justice. They are completely reinventing the game. Through technology they are bringing both transparency and efficiency, and unlocking incredible amounts of value across the entire ecosystem of borrowers, lenders, and investors.

Some would mistakenly classify them as just another peer to peer (P2P) lending company, but they would be making a big mistake. [As a lender in the P2P space](#), I

know from firsthand experience that this is the wrong classification, and here are two main reasons why:

(1) As an investor on the PeerStreet platform you're not making loans directly to the borrower. Instead, you're helping provide a secondary market for lenders. In contrast, on a P2P platform like [Lending Club](#), you are directly loaning money to the borrower.

(2) The loans on PeerStreet are backed by hard assets (i.e., physical real estate). The loans I make through Prosper or Lending Club are unsecured (i.e., not backed by any assets).

To be honest, the first point above doesn't really matter to me, but the second point is **HUGE** and **GAME CHANGING!**

Before we move on, I need to take a moment for those not familiar with the hard money lending space and quickly define what hard money lending is:

A **hard money** loan is a specific type of asset-based loan financing through which a borrower receives funds secured by real property. **Hard money** loans are typically issued by private investors or companies. - [Wikipedia](#)

So, to be clear, with PeerStreet, you're investing in real estate-backed debt. This brings us to another important concept to briefly discuss, which is the **Capital Stack**. To be more specific, your investment is backed by first position senior debt, which is the safest part of the capital stack, because investors in first position are the first in line to get paid back (whether due to a sale, refinance, or default).

Capital Stack



Source	% of Total	Amount
Equity (based on valuation)	7.9%	\$30,000
Junior Debt	26.3%	\$100,000
PeerStreet Investment	65.8%	\$250,000
Total	100.0%	\$380,000

Hard Money Lending For The Retail Investor

Before PeerStreet, not only was this market largely off limits to most investors, there were other flaws that have since been solved by the PS platform:

- The due diligence process, which can be very time consuming, is taken care of for you. It's a very rigorous process with conservative underwriting guidelines. **Think of this as the first level of risk mitigation.**
 - It all starts with vetting the origination partners (i.e., the lenders). When I visited PS HQ they were up to about 75 lenders that they have partnered with (and growing).
 - They use Big Data Analytics as well as a manual team of real estate analysts to vet every deal. Only 40-50% of the deals submitted make it onto the platform.
 - Every deal is also appraised by a third party. The team operates on a "trust but verify" policy.
- Previously, investors would have had to commit large chunks of capital, with minimums in the \$50,000 to \$100,000 range. **But PeerStreet facilitates yet another step in risk mitigation by allowing diversification and low minimums.**
 - On PeerStreet you can invest as little as \$1,000 per deal.
 - This allows for much less concentration and the ability to achieve diversification across many loans.

It Gets Even Better



There are a few other characteristics to this asset class that are very appealing and exciting to me:

1 - Large Equity Cushion

I have already touched on the concept of the Capital Stack, and the fact that by investing on PeerStreet, you're first in line to get paid back. That by itself isn't all that exciting, but when you pair the safety of being in first position with a significant equity cushion, it gets very exciting.

PeerStreet limits a **maximum loan-to-value of 75%**. The actual average loan-to-value across their platform has recently oscillated between 63-65%.

To me, the loan-to-value gives you what Warren Buffett has famously referred to as **a margin of safety**. On a loan with a 75% loan-to-value, the property could fall by

25% before you're ever at risk of capital loss (that's before considering the interest payments, which only help to increase the margin of safety).

2 - Short Duration

The average duration of a loan on the platform is ~10 months and as long as 36 months. I have even seen duration as low as four months.

The short duration nature of these loans gets me excited about setting up a ladder of many different maturities, kind of like what you could do by laddering CDs. For example, let's say you invest in one loan a month with durations of 12 months. By month 12 you would have one loan maturing - freeing up capital- every month for the next 12 months.

Besides the downside protection you get from the loan-to-value discussed above, I also see the short term duration as another way to mitigate the risk of capital loss.

3 - Robust Interest Rates

The annual interest rates have ranged from 6-12% to date.

Although I have only made five investments on the platform so far, my loans have interest rates between 7.5% and 8%, which is significantly higher than the 0.5% I am earning in the bank.

RELATED - [PeerStreet - \\$0 to \\$77,089.45 in 5 Months](#)

Summing It All Up

It's not surprising to me that because of all the factors discussed above that there has only been one loan out of 550+ that has gone into foreclosure. But don't let even that scare you too much because it doesn't mean that investors have lost money. There are multiple types of defaults and the outcome doesn't automatically mean losses to investors (probably another post ahead dedicated to types of defaults and what happens in the event of each type).

Update (October 2017): They have now surpassed half a billion in loans funded on PeerStreet, with zero losses to investors. Monthly origination volume has now surpassed \$50 Million. This is over 1,500 loans now.

This has officially become my favorite asset class and one I plan to grow very aggressively over the course of 2017. The initial plan is to invest \$3,000 to \$5,000 per month, which could potentially put the account value near \$60,000 by the end of 2017.

The fact that I can earn ~8% on my money on an asset class with such a large amount of downside protection is just mind-blowing to me. **That paired with the fact that PeerStreet has made it so easy to invest in this asset class in a diversified and streamlined manner is nothing short of amazing.**

For my own risk profile, this asset class has the ideal combination of characteristics: short duration, robust interest rates, a large margin of safety, and a robust due diligence process. All that plus loans that are asset-backed, first position, and passive (future post on automated investing features and my personal setup).

- Gen Y Finance Guy

p.s. If you are interested in checking out PeerStreet yourself, [use this link and you will get a 1% yield bump](#) when you make your first investment.



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by

example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)