

# INTERVIEW: Todd Pigott

Founder of  
ZINC Financial, LLC

## IN THIS INTERVIEW TODD PIGOTT DISCUSSES PRIVATE LENDING, FICO SCORES, AND NEW STRATEGIES FOR AVOIDING BAD LOAN RISK

**OVER THE PAST TEN YEARS**, Todd Pigott has had a front row seat for the private lending industry. His company, ZINC Financial, LLC, serves clients in California, Arizona, and Nevada and specializes in investor rehab financing.

There has been a dramatic shift in how private lenders approach the business. In this interview, Mr. Pigott discusses that shift and the new criteria for deciding which projects and investors to fund.

**PRIVATE LENDER:** Can you tell me a little bit about your business? What's the niche that you play in?

**PIGOTT:** Sure. ZINC Financial is a private lender. We specialize specifically in investor rehab financing. In other words, we finance distressed assets, not distressed borrowers. We are not a subprime lender. We finance investors who buy properties at a disposition value, rehab them, and resell them for a profit. We're strictly a short-term lender for investors who acquire those properties that are not compatible for conventional financing because of their current distressed state. REOs, fire damage, water damage, probate, any property that is a distressed property that can't get a conventional loan by the nature of the distressed asset is a transaction that we would finance.

**PRIVATE LENDER:** Do you see private lenders as serving a very different marketplace than traditional lending institutions?

**PIGOTT:** There's no question they're filling a huge, gap in our financing world. Banks have really withdrawn, and they are busy with their current REO or workout programs. Plus they've become very strict in their underwriting. Commercial properties, residential, whatever the situation is, their criteria is very strict and actually very lengthy – two months, three months, and four.

Private money is a much quicker and a much more liberal means of financing. Private money is growing exponentially and is going to be that way for the next decade or two.

I also feel that private lenders can distinguish themselves between each other.

We're in California's Central Valley, and there's a lot of private money lenders here. But to be really honest with you, I don't consider them our competitors because we each do different things.

There's one guy that just does commercial. There's another guy here that does a lot of land up north. We focus on investor rehab. There are private lenders that just do churches, that just do gas stations, that just do day care centers.

A retail bank may not be interested in a convenience store or a church. And so private lenders are moving in to fill those needs that are readily apparent out there.

**PRIVATE LENDER:** How has the recent economic scene affected private lending?

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**PIGOTT:** I’ve seen private money lending move substantially. I don’t view us as hard money any longer. Hard money used to be based on the disposition value of the asset, and if a borrower could walk and breathe, they got a loan.

Today I don’t think that’s the case. We look at credit. We look at reserves, and we look at the capacity to repay pretty heavily.

The quick answer is: today’s hard money is yesterday’s alt B, alt A money, and that’s where it’s at. It is difficult today to find a hard money lender that is not going to somewhat entertain credit, somewhat entertain capacity to repay, and somewhat entertain reserves of that borrower.

Those days are gone, and any hard money lender that isn’t looking at other attributes of that borrower or that property is going to be out of business because it just doesn’t work anymore.

**PRIVATE LENDER:** So it seems that the banks have pulled out, creating a vacuum that private lending is stepping in to fill.

**PIGOTT:** Yes. I just read an article that was about a borrower who was desperately looking for a hard money lender. His credit’s shot, and he’s having a horrible, horrible time.

That’s hard today. If your credit is shot and you have two short sales and two foreclosures on your credit, over the last decade, hard money lenders would not have cared.

Today, they do care. I would not loan money to that guy. So we’ve moved up in our underwriting criteria.

**PRIVATE LENDER:** Is that simply because there are more opportunities, so you can be more selective?

**PIGOTT:** I think so. The person who loans on the value of the collateral as their only determinant, is going to quickly find themselves

simply buying real estate for \$0.50 and \$0.60 on the dollar. That doesn’t provide cash flow to the very business of being a lender.

**PRIVATE LENDER:** What is the difference between the people who make it in this business and those who don’t?

**PIGOTT:** Overall, the people who don’t make it are not careful in their underwriting. I think organization and compliance and legalities have played a huge role in that as well.

Organizational skills, compliance-related skills are really big right now. And that goes into the underwriting. It was very easy to fund slop for a number of years, and that slop paid their bills and was churned. And so that was easy.

I get investors that call that say, “I used to flip properties, and I made a lot of money.” It was easy to flip in ‘02 and ‘04 and ‘05. It was easy to buy a house, throw on a coat of paint, sell it by dinner time and make \$30,000. It was easy to loan and get paid back.

So the people that have fallen off that tractor are the ones that were unorganized, not compliant and didn’t have a strict underwriting guideline.

The only ones that are going to make it today are the ones that have that strict skill set because it’s no longer easy. It’s a very hard business.

**PRIVATE LENDER:** Plus there are increasing compliance issues.

**PIGOTT:** I think there are 46 laws that are pending in California for mortgage-related matters. In the four years predating '07, there were four. So it's hard. It's truly very hard. You've got compliance. You've got regulatory, and you've got horribly strict underwriting right now because the exit strategy – and this is very critical – the exit strategy for that borrower is very, very tight.

Commercial? Very difficult exit strategy. Same thing with residential. Your exit strategy is really to sell to an FHA home buyer which is a person with two years identifiable income, good FICOs, good debt – all that good stuff. That's hard right now.

See, most private money is short-term. So at the end of the day, you're going to loan short-term money to this guy at a high rate, how's he going to get out of that? Well, that's difficult today.

So the newcomer in the industry has compliance in one basket that's growing, and regulatory oversight which is also growing. They've got the borrowers with a weak exit strategy because it is very difficult to sell the property.

All these components that are pushing down and it's really hard. Not to mention the difficulty of getting the private equity to lend in the first place. You've got to get a credit facility or individual investors, and that's hard right now. People are very leery.

So for the newcomer, I welcome them to this industry. I think it's a great industry. I love what I do, but these books and infomercials that say this business is easy are completely bologna.

**PRIVATE LENDER:** Right. Let's just say you were at a conference and chatting with a new person who's getting started in the industry. What would be the advice you'd give them?

**PIGOTT:** My true advice would be this: get ready for some long hours and some hard work because you've really got to dig your heels in on these previous topics. You have very strict underwriting, strict compliance, and strict regulatory oversight

Listen, it's a great field. Nothing is more fun than finance and private money. I think it's great. It's typically weekdays. It's not nights. It's not weekends. You're not running a restaurant. You're not dealing with minimum wage people.

**PRIVATE LENDER:** Let's just say that you could start fresh, but knowing what you know today. What would you do differently?

**PIGOTT:** I would look much, much stronger at the individual's credit. No question about it. An individual's credit indicates their thought process and their character. I am not speaking specifically – and this is very tricky – of a FICO score. I have investors that have low FICO scores because they have a lot of debt or they have a lot of mortgages. Those are excellent borrowers, and they just happen to have a low FICO. There are high FICOs that are hugely risky because they only have five trade lines.

Hard money lending used to be all in the collateral, not credit. And you know what? Those deals bit my company in the fanny. And they bit a lot of other hard money lenders in the fanny as well.

If I had it all to do over, I would be much stricter on credit because a guy that's got 19 charge-offs is a walking problem. He's also the guy that's calling your office with profanity. He's the guy calling your office saying it's your fault. He's also the guy calling your office going, "I can't pay my bill. What are you going to do for me?" He's a walking problem. He's a walking headache. He'll take up a lot of your time.

The mere fact that the collateral is worth \$500,000

is not enough. I don't want to give the guy \$200,000 because he's just a walking problem. His character is not going to live up to the responsibilities that I'm bestowing upon him.

So if I had it to do over, I would not lend to bad-credit borrowers. I would lend to borrowers who had a specific need and a specific purpose for a specific period of time. I don't know if that makes any sense, but –

**PRIVATE LENDER:** No, it makes total sense.

**PIGOTT:** I want to lend to a guy who needs a short-term loan to get his car wash up and running, and then he's going to have a conventional lender take it out.

I want to lend money to a church that needs to have that church built, but then they're going to have a conventional lender take out that church.

I want to lend money to a restaurant that doesn't have all their equipment, and they need some bridge financing to get their equipment in there. And then once all the equipment's in there and they stick the "Open" sign up, then they can have a conventional lender.

Private money lenders should look for specific niches, not just credit-worthy borrowers. That's why my focus today is distressed assets, not distressed people.

I do not loan money to bad credit people, period.

**PRIVATE LENDER:** You're saying that you need to look at more than an applicant's FICO score. What do you look for?

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**PIGOTT:** I look for judgments. I look for charge-offs. I look for "consumer disputes this issue." Someone's got six disputes with the cable company? By the way, I'm not trying to be comical here, but they've got disputes with the cable company and a Walgreen's and a jewelry store? They've got disputes with all these

people that are all under \$1,000? They have disputes that are all over this credit report? They're a problem.

They're a risk. So when I see charge-offs, disputes and judgments – those are all disagreements the potential borrower has with people over money. That indicates a problem. I don't care about the FICO. I look at those issues within their lifetime. That's what's important to me.

I'm okay with a guy that has a foreclosure. If a guy has got three pages of trade lines and he's got a strong history of paying those trades lines, but he's got two foreclosures in 2008, you know what – I understand that.

I'd rather loan money to that guy than I would the other person who has limited trade lines and charge-offs, collections, disputes, and judgments.

As a matter of fact, I've got a credit facility that I work with that actually pays extra to have the FICO score removed from the report. They pay extra to have it off the report because they want the loan officers within their bank to focus on the actual reporting, not the score. You've got to drill down.

Character matters. And character is the credit report. It's not the FICO.

**PRIVATE LENDER:** So what's your ideal investor?

**PIGOTT:** Earlier today I had a great example. He's an engineer. He's got comps within a half mile that are worth \$550,000. He's got a bank that wants the house sold within seven days. It's got some defects and he thinks he can get it for \$435,000. He's willing to put down 20 percent in capital.

He just simply wants to leverage his capital with somebody like me. He's completed between eight and 10 deals and all of them have been successful and made him money.

This guy sounds very astute on the phone. It sounds like he knows the game. He's researched the comps. He's done this several times. He knows what he's doing. He's an engineer by trade. He's got some intellect. And he's not interested so much in our interest rate or really even the points.

He's got an \$80,000 profit sitting there, and he needs two things that are much more important – speed and reliability. That's what he's telling me. "I need speed and reliability. If they accept my offer tomorrow, which I've heard from the asset manager they will, I need to know I can get this done."

I'm thinking to myself, you called the right company because that's why we charge what we charge – for speed and reliability. So we can get that done, especially if you're willing to put in \$90,000 of your own capital.

**PRIVATE LENDER:** Right. Well, he's got skin in the game.

**PIGOTT:** I asked, "What's your credit like?" And he said, "Credit? You're a private money lender." I said,



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"No, we look at credit. What's your credit like?" And he's, "Well, gosh, I haven't looked in a while. I don't use a lot of credit. I pay cash for things." I said, "what's your credit like?" He said, "Listen, there's nothing there to hide. You can pull it. It's fine. I'm just telling you I don't have a lot of it." I said, "Well, then that's fine. We can deal with that."

A few years ago, it was very easy to go buy a house with no money down, paint it, and turn around and sell it. But that wasn't real time. That was really a monopoly period because Wall Street was sucking that money like a vacuum, and it was a bad drug habit for Wall Street. It really was. I mean that's what it was. They were just sucking that stuff. So it's very easy to fill that vacuum with more junk. So that's what we had. But to do this right, it's different today.

Now, we have to find true distressed assets, rehab them and then truly sell them. It's a hard process. You've got to be a true real estate guy. You've got to really truly search for that distressed asset, really truly know how to rehab it, but really truly create value.

We do two to four of these per month ourselves. But we truly create value, and we truly put out a very quality product. It looks like a new house, but we truly create that.

**PRIVATE LENDER:** That raises the value for the whole neighborhood. Plus, the benefits to the community for doing that are huge.

**PIGOTT:** It's a win/win/win. It really is. And we don't get rich off of it, either. We make fair money.

**PRIVATE LENDER:** Plus, it's better than running a restaurant.

**PIGOTT:** (laughing) Absolutely. ■

**ABOUT THE AUTHOR:**

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*Learn more about ZINC Financial, LLC at: [www.zincfinancial.net](http://www.zincfinancial.net)*



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