HARD MONEY CASH LOANS WITH VINCE HARASYMIAK OF DOMAIN CAPITAL

January 9, 2017
Episode 359

DOMAINSHERPA.COM

How would you like to buy a premium domain name – you know, one that costs more than $50,000 or $100,000, but just like when you're buying a home, you're not putting 100% cash down, but instead leveraging your down payment into a large sale. You can do that in the domain name industry too. Stay tuned to learn how!

Three sponsors of today's show.

First, if you're buying or selling a domain name or portfolio and you want an estimate of it's value, Estibot.com is the place to go. Just like you'd visit Zillow.com to get an estimate of a house value, Estibot.com provides key information about the most important statistics so you can make an informed decision based on data.

Second: Serious about online trading? Secure your funds, keep your merchandise safe, and use a company that keeps the buyer and seller protected the whole way through. That's Escrow.com. Payments you can trust.

Finally, if you're a domain name investor, don't you have unique legal needs that require domain name technical know-how and industry experience? That's why you need David Weslow of Wiley Rein. Go search for David Weslow on DomainSherpa, watch his interview and you can see for yourself that he can clearly explain issues, can help you with buy/sell agreements, deal with website content issues and UDRP actions, and even help you write your website terms and conditions. David Weslow is the lawyer to call for Internet legal issues. See for yourself at DavidWeslow.com.

Michael: Hey, Sherpa Network. Thank you so much for joining me today. My name is Micheal Cyger. I'm the publisher of DomainSherpa.com, the website where you can learn how to become a successful domain name investor and entrepreneur directly from the experts. My goal on the show is that you watch these interviews, you take away strategies, tactics, ideas, you become successful yourself, and then you come back to DomainSherpa and do an interview.

Leverage, in financial terms, is when you borrow capital to increase your potential return on investment. It's extremely common on both Wall Street and by everyday people alike. I did it when I bought my first house in San Jose, California, and then sold it for $60,000 more than I bought it for just six months later. And then I also did it on my second house in Ridgefield, Connecticut. Today's Sherpa helps investors by making these types of loans to get a better return on your investment. And there are a few other types of scenarios that he finances as well. I'm pleased to welcome Vince Harasymiak, director of operations at Domain Capital, one of the industry's oldest and most established financial services companies. Vince, welcome to the show.

Vince: Hi, Michael. Thanks for having me.

Michael: Great to have you on here. You know, you and I were chatting in the pre-interview. Like, I can't believe I haven't had you on here yet, because I always hear people using Domain Capital talking about financing domains. Oftentimes, when I look up premium domain names, it'll say Domain Capital, which tells me that it's financed through you guys. So it's great to have you on the show finally.

Vince: Yeah, yeah. You know, it'll be nice to, you know, tell people a little more about what we do. And we do keep a little bit of a low profile. But, you know, I'll be happy to answer questions. And, hopefully, you know, we can strike up some new business as well.

Michael: Very cool, and we're gonna learn a lot today. So let's start with what kinds of services does Domain Capital typically provide?

Vince: Sure. We provide probably three main sets of services, and the first one would be, like you were mentioning before, more of a traditional debt financing. Someone wants to go out and buy a domain name or a portfolio of domain names, we help them leverage that purchase. So they will put down a portion of the purchase price. Our max loan-to-value is normally around 60%. So let's say we're doing 100,000, they would put up 40,000. We put up the other 60,000. We hold the names as collateral. They repay the money that they borrowed. They get to use the names during that term. So they develop, monetize, keep all revenue generated. And when the payments are complete, ownership of the names goes back over to them.

Option number two would be if someone came to us and said, “Hey, I have a portfolio of great domain names that I wanna leverage to raise money, because I have another investment I'd like to make, you know, outside of domain space.” Maybe it's a piece of real estate. Maybe it's something else. “And I can't walk into the traditional bank and say, ‘Hey, you know, here's my list of, you know, five great generic domains, and I'd like to borrow against them.'” So in that case, someone will come to us and say, “Hey, you know, here's my list, I'd like to borrow X amount of dollars.” And then it works the same way from there. Once we agree on the terms, the names get assigned over to us. They still maintain all day-to-day operations so that the DNS points to wherever you want it to point. You park it. You develop it. You monetize it. You have the ability to sell it and prepay it out of the deal. And, again, once the payments are complete, ownership of the name goes back over to you.

And then the third basket is a little smaller. That's when we started to do probably more aggressively last few years. If someone has what they think is a great opportunity on a domain and they don't wanna pay the interest, we'll take you on as a partner, you know, sort of backed up by the lease. So we'll go out and acquire a name together. We'll probably put up the lion share of the money. And in exchange for not having to make any payments for a defined period of the loan, maybe it's nine months, maybe it's a year, we'll go out and try to flip it at a set reserve and, you know, turn our $200,000 investment into 500,000. And then we get back the money we laid out. We go 50-50 or whatever was determined, you know, on the upside. And that way, you know, it's a chance to strike on what you think is a great opportunity and what we'll view as a great opportunity, you know, without paying the normal monthly interest check. And then if that term expires, you know, at that point, we'll either continue our partnership, or we'll flip it to a regular lease. And at that point, you would, you know, pay your monthly interest and principal. And, you know, at that point, you also own 100% the names. You don't owe us anymore on the upside. So that's [inaudible 00:04:22]

Michael: Got it. All right, so we're gonna dig into all three of these different options a little bit more and understand, you know, some of the details of how they work. But to give the people an idea of how big Domain Capital is, you know, I'd like to ask a couple of questions around transactions, number of deals you do. How many transactions do you typically do in a year? Like, how many did you do in 2016?

Vince: I would say 2016 was probably around 35 to 40, and I'd say like most years are around that number. That's probably where it falls, you know, a few per month. You know, we tend to be very selective. So there's a lot that we do pass on. You know, we're really looking for, you know, sort of the best of the best of what we're presented. But we're, you know, maybe doing one in six, one in seven of, you know, leads that come our way for whatever reason. But I'd say that's probably where it falls, you know, most often.

Michael: Great. And we'll dig into why you accept some and don't accept others. But typically, you know, I've worked at GE Capital. You talk about doing leases on equipment. You'll talk about the total value of the equipment under lease. What are your total assets under management at Domain Capital right now?

Vince: I would say assets under management, for the most part, sit around 20 million from year to year. Now, that includes the stuff that we would...you know, sort of performing in the portfolio, you know, spinning off the interest, the traditional deals, stuff we've done in partnership, and, you know, any inventory that we're holding, whether it be something that we happened to buy on our own, which is somewhat rare, or if there was a default, something that we're holding and looking to sell back into the market.

Michael: All right, Vince, before we dig into the nuts and bolts of how you value domain names, how loans are qualified, distributed, etc., I wanna take a step back and learn a little bit more about you and your role at Domain

Capital. How long have you been in the domain name industry? And how did you get started?

Vince: So I have been here since 2006. I guess it was sort of the summer of 2006. And Domain Capital was started in late 2005. So my background had really not anything to do with domain names. I got out of college in 2002. And I worked in television production for the NBA, Major League Baseball. I even did an Olympics for NBC over in Torino, which was all great experiences. I love the work. It was new every day. It was exciting, you know? The only problem with sports television production is the hours tend to be very crazy. It's a lot of travel. It's working holidays. It's working weekends. And I wasn't sure that that was quite, you know, sort of how I want to spend in my next 30 years or however long.

So around that time, 2006, I had finished the Olympics. I went back to Major League Baseball. And I was starting to get serious with my girlfriend at the time. And her brother, who is now my brother-in-law, is Rob Alfano, one of the partners here at Domain Capital. He had started the business with his good friend Gregg Freeman, another one of the partners. And they were kind enough to ask me in 2006. They started the ball rolling. They asked if I'd like to join them. I said yes. And, you know, 10 years later, here we are.

Michael: But like you're in production in television, and they're talking about, like, investing in these domain names, which are these, you know, just things in the ether. Weren't you looking at them and, like, saying, “Really, like, you guys are making money on these?”

Vince: I didn't know quite what I was walking into. They kind of took it slow with me in the beginning. I did have a little bit of an idea. When I worked at Major League Baseball, I was working for their Advanced Media group. They were on the cutting edge, and they still do a lot of the production. I think they still handle it for the NHL. I believe Disney took an investment in them recently. So I knew a little from there about, you know, the creating the content and the brand management that they did. So I had an idea, a little of how it worked.

But it really wasn't until I got here in 2006 and really just hit the ground running and started to try to learn. You know, I would credit Ron Jackson, the DN Journal sales reports that came out weekly, you know, those were helpful going through. And I'd only been here for a few months, I guess it was, when I went to my first traffic show, which was traffic...I think it was at the Westin Diplomat, and that was, like, October 2006. So that was a really great place to learn. You know, I was kind of a blank slate at that point. I had only been doing it for about four months. And, you know, you go there. You're meeting with, you know, everybody who's important in the industry. Everyone's kind. They're willing to sort of show you the ropes. And stuff like that was really influential in helping me get to up to speed somewhat quickly.

Michael: So you've seen the highs and lows in the industry. You started 2006. 2006 was good. 2007 was a better year. You had the whole market buoyancy, because of the housing bubble that was going on in the United States. And then 2008, bombs, right? Like, you get the whole market implosion. Domain values were plummeting. How did you handle that when you were doing deals in 2006 and 2007 that suddenly the values were decreased in 2008 and 2009?

Vince: Yeah, I mean, luckily, we were able to get away without too many, you know, serious defaults, whether it be lucky or smart, probably a mix of both that the portfolio held up well through that time. But, yes, it was a crazy time to be walking in, because 2006, 2007 also, we were financing hundreds of thousands of dollars in each of those auctions for the most part. So it's kind of like "Ah, this goes on forever." Like, this is gonna be easy." We're always gonna show up to this little event. You know, Monty[SP] gives us a shout-out in the beginning, and away we go. That didn't last forever. But we were able to sort of weather the storm for a few years with everyone else and still remained strong. Looking back, it's been now seven years since sort of the bottom of that mark.

Michael: Yeah. And so your title is director of operations at Domain Capital. You are pretty much the person that people go to when they want to potentially finance a deal at Domain Capital.

Vince: Yeah, I mean, they come through all three of us. More people find me, but through all three of us. It's a pretty even split. And I think it's a role that sort of just evolves, you know? Like I said, Rob and Gregg were nice enough to sort of let me step into this in 2006 when I had no experience, no knowledge of this. So I kind of was willing to do whatever and grew from there.

Michael: What do you enjoy most about your role as financing service provider?

Vince: It's gonna sound cliché, but I do like the people. I mean, I think it's interesting to work with, you know, a lot of entrepreneurs. Like, we don't really work with any large companies, you know, maybe one or two. It's mainly small shops, you know, either one-man or two-man outfits or small businesses. So it's nice to work with them. Also, everything is a little different, you know? That's one of the things I loved about television production and sort of carried over into this is, you know, you're not doing the same thing every day. I don't wake up on Monday and say, “All right, on Monday I do this. And on Tuesday, I do this,” you know? It's always gonna be, you know, sort of outside the box. And, you know, everything's got a little bit of a different flavor.

Michael: Yeah. Yeah, that is exciting. And, you know, you had mentioned that you're doing all different types of deals. I contacted you right after I interviewed David Clements, who is well known at brannans.com as a domain name broker and has recently purchased batteries.com, you know, just a phenomenal brand, the brand in the...I think it's $18 billion North America market for batteries. And he mentioned on his show, so it's public information, that he financed the domain name and the trademark through Domain Capital. So, you know, there's an example of a deal that you did.

Let me ask you, before we get back into the storyline, do you personally invest in premium domain names?

Vince: I don't do anything personally. Anything we do is through Domain Capital. I don't have a side portfolio. Like I said, you know, it's myself, my brother-in-law, and Gregg is like family also. It really is like a family business. So anything we do, you know, we do together, you know? So it's the highs and the lows, all for one, one for all.

Michael: Very cool. All right, so let's get back into domain name financing. You mentioned your three types of financing deals, the debt financing for new purchases, the portfolio, borrowing against your portfolio and using that cash flow to grow or do some things, and then partnership opportunities. How good does a domain name need to be to finance?

Vince: Well, I'd say, for the most part, we're comfortable with one and two-word category generic dot-coms. It's the lion's share of our business. Also, you know, two letter dot-coms, three letter dot-coms, you know, number dot-coms, two and three numbers. You know, that's gonna be most of it. It's gonna be stuff that, you know, on a per domain basis, it's probably a minimum of 5,000 to 10,000 per domain, unless, you know, you're buying a really large portfolio. And I think that the cost basis then becomes very appealing based on, you know, what you're getting it for or, if it's a refinance, sort of what we're leveraging your portfolio out. If we think it's significantly below market, okay, then it's a little different. But I wouldn't wanna...anyone to not call me because they don't think their domain name is good enough. I'm here. You know, I'm easy to find. You know, like you said, you see my name on Whois records. Don't ever assume that “Ah, my name is not good enough. Like, they're not interested.” I'm happy to take the call, answer the email. And I'd like to be the judge of that whether that domain name is good enough.

Michael: All right, I'm a little worried that you're gonna get a lot of emails from people that want some cash on their portfolio.

Vince: I know my phone is on airplane mode, so I'm happy to.

Michael: All right, so you're looking for one and two-word category-defining domain names, two letters, three letters. Clearly, those have liquid value. You know what the market value for those is, two and three-character numerics. So, basically, at a minimum, you're willing to finance $5,000 to $10,000 per domain name.

Vince: That's really probably what I think the domain name should be worth. What my loan to value is sort of gonna depend on the specifics of each deal.

Michael: Gotcha. So let me clarify that $5,000 to $10,000 minimum what the domain name is worth, because on DomainSherpa Review or in DNAcademy, we often talk about there's a retail price, and then there's a wholesale price, right? The wholesale price is the price that it's selling on NameJet. It's the price that you can get today if you reached out to five investors over, you know, this week, and somebody gave you that price, that sort of the liquid wholesale price. And then if you're willing to wait, like batteries.com, for the end user, the highest and best use case, you're gonna get, you know, significantly higher than that. When you're talking about the value of a domain name, are you talking about the liquid value, the retail value, or something in the middle?

Vince: I'm always going to try to lend at the liquid wholesale value, because of sort of the way our business is structured. If there is a default, you know, I don't necessarily wanna have to wait the 5 or 10 years for the homerun return on something. Maybe a case where I do choose to do that, if for whatever reason we take a name back, you know, we say “Ah, we think this has a lot of appeal, and let's wait for it,” compared to what we think we can get now. But I am gonna evaluate every deal with the wholesale value in mind and, hopefully, be able to strike it on that number.

Michael: Yeah. So if somebody bought a domain name at a really high value in the past, like maybe the wholesale value is $30,000 today, but they bought it at $50,000, you're only gonna lend 60%, where you said your loan-to-value rate is on that $30,000, what the wholesale value is today.

Vince: I would probably recognize close to the wholesale value on that. Let's use an example. If someone went out and bought a name four years ago for $200,000, and it was for a business, maybe the business didn't work out, and, now, you know, we say it's worth 40, that's what we agree on, I'll try to land close to that 40 or somewhere around there. You know, I'm not gonna take another 60% up. The 60% really deals with when there's an actual market transaction, whether there's a sale. [inaudible 00:16:59] it would be a sale that we can recognize and say, “All right, this has changed hands. This is a number that we can actually recognize.” It's not always available, and domains someone registered in has never changed hands, we don't really have that market transaction to go by.

Michael: Yeah, that totally makes sense. So let's talk about the valuation of domain names, because you really need to set that wholesale value. What metrics do you look at when you evaluate a domain name for financing?

Vince: Well, if it's something sort of in the two, three, four-letter market, that's easier. Everyone that does this for a living sort of knows where are those trading, what are the ranges. If it's something that I think is gonna make sense as sort of a product or something that's gonna [inaudible 00:17:47] out well on search volume and click price, I'll look at that, sort of apply...all right, this is how many times you get searched, this is the click price, what's the competition, and sort of guide myself towards a number based on those metrics. I like to use SEMrush for those. I think that's one of the better tools. You kown, the names that have sort of become all the rage in last few months are sort of the one word brandables. You know, that's a little harder to do, to be honest. You know, what is fast.com worth, you know, before it sells in the high-six figures. So that we just sort of use our knowledge of the industry, you know, try to compare it to any similar names in the past.

And also, I like to see what offers have you had on it. You know, if you're gonna bring me a name and say, “Hey, I wanna borrow X amount of dollars,” let me see sort of verifiable offers, maybe through your Sedo account or your Uniregisrty account or through email. And I'm pretty good at looking and being able to tell whether that's a legitimate offer. And if I see you've been offered 20 from one guy, 18 from another, 60, okay, let's sort of use that as information, not as the end-all-be-all, but I think it's helpful to put that together as a piece of the puzzle.

Michael: Yeah, that makes sense. You know, I'm gonna through out an example, because I learn better through examples. rose.com is a domain name that I would love to own. It's owned by like an electronics company I think. But if you look at, you know, rose. It's a flower. It's a color. There are probably hundreds of companies named Rose-something in the world, probably lots of trademarks indicating there's a lots of companies who have invested in developing their intellectual property. I would love to own rose.com. It's probably retail. It's probably, you know, a million dollars. Let me back up. What would you think is the retail value of rose.com? Four-character...

Vince: Yeah, I mean, I think it's gonna be a million. It's also gonna depend. You know, I would assume that the person holding it is gonna want a million dollars for it depending on their situation. I would say the only way that it probably ever shakes free or for less, like you said, it was owned by a company. If that company, you know, goes out of business, and it gets sold an IP sale, you know, maybe then it starts to trickle back to sort of more of a wholesale number. But that's kind of name like I don't know if you're ever getting wholesale depending on the owner.

Michael: Right. Well, you know, look at batteries.com, right? David Clements had a conversation that he mentioned on the show with the owners for years before the company fell into...you know, I don't know, about disarray, but like into decline. And then he actually bought the domain name. But I don't wanna talk too much about batteries, because I know some of the details, and I don't wanna go into them. But if rose.com, which is currently a company, does go, you know, bankrupt, let's say, what would you think is a fair wholesale price on rose.com? What would you finance to that?

Vince: I think if someone came to me and wanted to buy that, you know, and if we were going, say, 50-50 on it, I think we're at least into the low to mid six figures as what we'd be comfortable spending on it. You know, I don't wanna [inaudible 00:20:54]...

Michael: So you're saying a 100,000 to 500,000 is where you would feel comfortable?

Vince: Yeah, I'd say 200,000 or 300,000 probably is...you know, I'm gonna put up 150, you're gonna put up 150. I'm gonna hold that you're gonna pay me back, and I think that you're eventually gonna try to sell, you know, and really get that big price tag. It's like you said, there's so many meanings for that one.

Michael: Totally. But that's like sort of the third option that we talked about with that partnership opportunity where you and I are gonna work together to buy this, and we're gonna work out the details. I won't have to pay you interest. We'll be a partnership on this. What if I just wanted the domain all to myself, Vince, and I came to you and said I wanna finance this. Would you finance 60%, what you said was your loan-to-value typical ratio? Would you finance 60% or $150,000 off the $250,000 purchase price if I got it for that?

Vince: Yeah, my loan-to-value is probably gonna be based on that. It's gonna be what I think in my head and what kind of deal are you getting. You know, if you're getting rose.com for 100 grand, I'll probably do the whole thing. I think it's fine for me at that point, you know? If you walk away on day one and, for whatever reason, never pay me a penny, I own rose.com 100,000. I'm okay with that. If you're spending 450, you know, now, we're probably more...we're going 50-50, or I'm doing 60%. For that third basket, the deals for there that I really find interesting and I'm looking for is I'm looking for you to come to me and say, “Hey, listen, I can get rose.com for $70,000, because I know the owner of the company. And he's retiring. And he's gonna sell it, and not in a public auction. And I have this great opportunity. And I want you guys to put up all the money for me, so I can capitalize on this." That's sort of what we're looking for in those third...really unique opportunities where for whatever reason we're buying below market value.

Michael: Yeah, totally. And I want those opportunities too. So don't just call Vince [inaudible 00:22:43]...

Vince: We all want those opportunities. I do find that that's how...some of the greatest purchases and sales in this industry have been made through situations...so always be ready for the opportunity when it presents itself. I know, of course, the domainers that have negotiated for a name, you know, agreed to the deal, and flown across country with a cashier's check to present to the guy while he log into his accounts and set up from one account to another and then flew back across the country that same day. So always be ready, always be ready.

Michael: Totally. And, you know, I'll just emphasize that's why networking is so important in this industry. If you come to NamesCon and you don't shake Vince's hand in person and make sure that he knows your face and your name, because a year from now, when you have no money and you hustle and you track down 100 single word premium domains, and one of those companies finally goes bankrupt, and you're at the right time, right place, and you need $100,000 or $200,000, and you call up Vince, because you wrote down his phone number when he gives it to us later in the show. And you get that deal faster than anybody else, like that's how business is done.

Vince: For sure, for sure. When opportunity knocks, please knock on my door next.

Michael: Yeah, yeah, yeah. All right, so let's talk about this debt financing, the first case where I wanna buy a great domain name, I'm gonna need to borrow money from Domain Capital. What do the terms typically look like for financing?

Quick break from three sponsors of today's show:

First, if you're buying a domain name from a private party and want to know what else they own, DomainIQ.com is the tool you should be using. View their entire portfolio, filter by Estibot value and be a better investor. $49.95 for 250 queries per month. Visit DomainIQ.com/portfolio to learn more.

Second, Chinese investors are paying top dollar for premium domains. But to do a deal, you need a broker who speaks Chinese, understands the culture, and can guide investors through payment options. You need George Hong at Guta.com. George is a native Chinese speaker with investor connections in China. Email Sales at Guta.com.

Finally, Efty helps you manage your domain portfolio, giving you clear insight on its performance while helping to boost leads, sales and revenue. Forget spreadsheets and archived emails — manage your entire investment portfolio in one place with a secure and confidential platform. Become a professional domain name investor with Efty.com.

Michael: What do the terms typically look like for financing?

Vince: So the terms are normally, like I said, up to 60% loan-to-value. The interest rate is 15%, always. It's been that on pretty much every dollar that we've ever lent here. And the term is normally between two to five years, for the most part. That's something that I'm willing to be flexible on, based...you know, what your cash flow is like. Obviously, shorter term, you're gonna pay a little less interest on the deal. Longer term, your monthly commitment is gonna be a little less.

Michael: Yeah, how do you set that when you're not sure? Like, if I'm buying a domain for $100,000 and a wholesale that I think is a $500,000 domain name, and I wanna borrow 60%, let's say, $60,000, how do you and I figure out if I wanna have a two-year loan or a five-year loan?

Vince: You know, that's really gonna be for you to decide. I will most likely present you with both options. I'll let you know what they are. You know, if it's a name that I feel like I wanna be on the shorter end of the risk spectrum, maybe I'll only offer two or three, if I think “Hey, I wanna get out of this. I don't necessarily want it for five years.” But if I think of buying for either one, I'll leave that up to you. And that's gonna be, again, sort of a business decision for you. You know, do I want to lower monthly payment and pay more? Do I want to pay higher and get it over with? There's also prepayment available on our deals. You know, after month six, through the end of the term, they're all locked in day one, so we make it easy for you. If you have an offer to sell the name, you know exactly “Hey, I owe Domain Capital 47225. That number never changes. There's no hidden fees. So you just call me up, say, “Hey, selling the name for 150. I owe you guys 47. Let's set it up, escrow.com, whatever it may be. And we make a nice clean closing.

Michael: Gotcha. So I can terminate the loan early. I can prepay it early?

Vince: Yes. It'll be all the outstanding principal plus a portion of the interest. It'll be at discount to you on what you would have paid over the term of the loan. And like I said, it's all spelled out. And we usually go over that stuff too as part of the process of getting you approved. I'll send you a sample schedule. We'll take a look at it. Do it that way.

Michael: That sounds good. And so does the creditworthiness of the borrower factor in the loan? Like, if I'm going to buy a house or a car, you're gonna do a credit check on me. You're gonna look at my creditworthiness. Do you do those sorts of things with domain names as well?

Vince: We do, we do. But the credit is really more...it's kind of two things. Number one is I wanna make sure you can pay me. So I'm gonna try to get a feel for you and how is this monthly payment gonna work. Is this funded through revenue from the name, the portfolio, whatever it may be? And then we do have you fill out a credit check. We run the credit. And I'm looking for a big red flags, tax liens, bankruptcies, judgments, just things that sort of mark you as maybe not gonna be a great payer. But at the end of the day, these are asset-based loans. So if the assets are good enough, there are some things on the credit that we can get around.

Michael: Yeah, that makes sense.

Vince: Again, call me. Don't assume that “My credit is not good. These guys will never work with me.”

Michael: Yeah, because it's asset–based. Like, you're most concerned about the asset.

Vince: Yeah. The majority of it is based on the asset, how good is the name, what is the risk level on the name, and the rest is sort of ancillary to that.

Michael: Yeah, totally. Do you ever do UCC, I think it's called, checks on the domain name to see if there is outstanding loans against it, or it's [inaudible 00:27:36]…

Vince: We do check. Our paperwork covers that too. As best I could, I'll go through the Whois and make sure that if you're contacting me, again, whether it's lucky or smart about that, we haven't had really any situations where we've ended up with a name that we're not supposed to have. But if anyone wants to start title for domain names, again, call me. Make my life easier.

Michael: All right, so the terms are up to 60% loan-to-value, two to five-year terms, 15% annual percentage rate. What happens when the borrower defaults?

Vince: So if there is a borrower default, we own the name 100% outright. That's similar to a hard money lend. We foreclose. We take the name. We're gonna have to resell it to be made whole on the debt and whatever upside might be there is ours. For the most part, though, I found that, normally, we try to work with people. I'm not gonna cut you off. Payments are due first of the month. For the most part, I'm not gonna call you up on the 10th and say, “Hey, name is mine now.” I will work with you. And there tends to be not a lot upside left for us if we do have to take it back for a default. At that point, I'm usually lucky if I can get my money back.

Michael: Yeah. What percentage of your deals are in default at any given time?

Vince: It's luckily fairly low. I'd say between like 5% to 8%, maybe like a 1 in 20 sort of deal. Again, we're very selective. We do try to make efforts if a person is struggling with the payment. We can refinance it. We can try to work it out with you. I made a lot of friends in doing this too. So you never like to put a friend in a tough place either.

Michael: Totally, get it. Usury laws are regulations that govern the amount of interest that can be charged on a loan, and they try and prevent excessively high rates. You make loans on premium domain names that last two to five years at a 15% annual percentage rate. It's a hard money loan that name access the asset basis. But you have competitors that offer also hard money loans, and they're at like 3% to 5% per month, which converts to like a 45%, 80% annual percentage rate. What's the difference between what you offer and what they offer?

Vince: I think that there's is more of a short-term solution. Like you said, I don't know I'd wanna be paying interest like that for a long period of time. I think ours, from what I know...and I don't wanna speak to anyone else's business that I'm not totally familiar with, but from what I do know, our deals tend to be larger for the most part. I think we do sort of the higher value domains. And that really seems to be the difference.

Michael: Yeah. It's sort of quick money loans versus...and short-term money loans versus long-term business plan.

Vince: Yeah, I think those are more sort of under the pawn model, and we're more of the traditional borrowing. Although, it's obviously a rate that justifies the riskiness of the assets that were lending against. I think that that's sort of the difference, more traditional financing compared to “I need money quick. I'm gonna hopefully only need it for a month or two. And then I can pay it back and get my name back.”

Michael: Yeah. Okay, that makes sense. Who finances the loans that Domain Capital provides? Where does this capital come from to do the financing?

Vince: We are privately funded out of a family office. We were actually born out of a technology leasing company that did a lot of hardware and software lending back a couple decades ago. And there were some outside investment opportunities around 2005. Guys were going out and buying a premium generic domain name. And let's say that they were gonna buy it for...they we're gonna raise a million dollars. And they we're gonna spend 750 of that to acquire the actual domain name that the whole thing was based on. And my brother-in-law had looked at that, had been familiar with the other business, and said, “Hey, why aren't you guys leveraging this purchase using debt over time, not spend three quarters of the money that you raised to secure the asset?” And then the guy said, "Well, that's great. But nobody offers that." So we kind of stepped into those shoes, realized that there's a whole sort of aftermarket functioning without a financing arm. And we filled those shoes and have done it for the last 10 years.

Michael: Yeah, that makes sense. And so when a deal does go bad and you have to take...you try and work it out, and you can't, and you take back the asset, basically, you're getting a domain at 40% off the wholesale value, maybe even like more, because they might have made payments to it. Do you immediately just call up your network and try and liquidate the domain name and get your money back? Or how does that typically work?

Vice: Yeah, I have a list of people I know that buy actively that I'll run it past. We also use the same outlets as everyone else, whether it be through NameJet or through Sedo or through Uniregistry, whatever it may be, whatever we think for that particular name, what's the right venue. We'll also begin to feel the increase. Normally, during the term, we'll pass along every inquiry. We never response for you. So if I'm one Whois and someone says, “Hey, I wanna buy this name, bb.com, I'd pass it along to the owner. He responds directly. We'll start handling those inquiries and dealing with prospective buyers coming in and out. And everyone always asks me is there a list? If you email me, there is a list. People usually like the list more. Once they see the prices, they like the list less. But, yes, there is a list.

Michael: When a default does happen, and let's say it's $100,000 liquid value, like it's a great domain name, $100,000, you've already got like $40,000 of it, are you gonna try and liquidate it for 100,000, just get the rest of the money? Or are you gonna try and like sell it for 200,000, which is still a good...maybe a little bit higher than wholesale?

Vince: Yeah, that's probably very specific to each name, what do I think? How liquid is it? Is it a market that I think is appreciating rapidly? Should I hold this? What would I think? Are there are companies out there that I think would be a match for this name that may need some time for the lights to go on? What do I think the upside for it is? If I don't think there's a lot upside, let's just do it. Let's get rid of it. If not, fortunately, we still have to pay back the money that we're borrowing. But the carrying cost in a domain is not always that high. It's not like I own foreclosed homes that I need to do upkeep and pay taxes on and things like that. We have the luxury of being able to wait on the few that we think are worth waiting on.

Michael: Yeah, totally. All right, so we talked about debt financing and the typical structure that you have for those. We talked about your partnership opportunity that if people didn't wanna pay back interest on a monthly basis that there is that partnership opportunity for them to work directly with you on that. The second financing solution that you provided is this portfolio own...I mean borrowing against your portfolio. So if I own five domain names that are liquid value of say $40,000, $50,000 each, you might loan against those domain names. How does that typically work out? Will you do a 60% loan-to-value on those as well?

Vince: Yeah, in that case, I would like the persons come to me. What I see just people do is come to me and present what amount of money you're looking for for what it is that you're looking to do. A lot of times, it's a domainer that the list of names they own is sort of the best assets that they have. So they could have something going on in their personal life that they need to raise money for. Maybe it's a new business idea where they say, “Hey, I wanna borrow $500,000 to put into an alternative business, and I can do this leveraging my domain portfolio.” And I think it justifies the interest based on what the upside of the new opportunity is. So in this case, let's decide what your amount is, what are you willing to put up and sort of try to level the table from there. What are you comfortable leveraging to raise that amount, and what are we comfortable putting out? There's not so much a 60% component to that. It's more like “Let's just make a deal. Here's what you need. Here's what I'm willing to do. And we'll find a way to make it work.”

Michael: So if I came to you and said, “Hey, Vince, I wanna take a loan out against my portfolio for five years at 15%,” I'm gonna take that money that we agreed to, and I'm gonna put in a Bitcoin, and I'll be able to service the loan from the Bitcoin appreciation that I'm seeing, because it's like way low, you might consider something like that.

Vince: Yes, as long as the list is good enough and I'm comfortable with the amount, I don't really care what you do with it. That's really up to you. I would like it to be something successful, because it increases my chances of being paid back. But at the end of the day, I have to assume going into all these deals that I'm never getting a penny. And if that happens, am I okay with that? So, yes, Bitcoin...

Michael: And you're doing just a percentage of the wholesale value. So if the deal goes to hell in a handbasket, as they say, you're only doing a percentage. You'll be able to liquidate it, get out from under the loan, and make your investment [inaudible 00:36:47]?

Vince: Yeah. If there's never a payment made, I'm okay. I can turn around and then sell that list and get my money back and put it into the next guy that wants to go and buy Bitcoin.

Michael: Makes sense. Do you see anything changing in the future with respect to financing of domain names to be purchased or an asset portfolio? What do you see coming up in 2017? Or is it more of just the same debt financing portfolio, financing partnerships?

Vince: Yeah, well I hope it continues to grow. That would be number one. Yeah, and I would love to see, you know, sort of the liquid market continue to function. And I'd like to see it improve. That would make I think everyone's life a lot easier, but especially ours, just more outlets to really go out there and be able to sell names. And I don't see too many changes. I would love to see more of those partnership opportunities. Yeah, I think those are interesting. And I think I like the upside on those. So that would be something I'd love to see more of in 2017.

Michael: Definitely.

Vince: And maybe for some people that are watching this.

Michael: Yeah. All right, last question for you, Vince, what do you wish all investors knew before they contacted you about potential deals?

Vince: Well, I hope they know that we are very easy to work with. Like, we've been doing this for 10 years. I always say when anyone wants a recommendation, please ask around to anyone that you know. It's a small community. I'm sure someone that you know has used us. We try to be accommodating to everyone meet your needs. And I really hope we're approachable and people realize that 15% sounds like a high interest rate. These are risky assets, though. And we're always trying to provide a service to the industry to help people grow their portfolios, make money, and be successful.

Michael: Yeah, great. And how can people get in touch with you if they wanna discuss domain name financing?

Vince: Sure. Best way is probably to email me, vince@domaincapital.com. Or you can call me, I'll give you the office number 201-227-8800, extension 13. And those would probably be the two main ways.

Michael: Awesome, I'm gonna go look through the NamesCon Right of the Dot auction that's coming up, see what kind of domain names I might wanna invest in, and then give you a call.

Vince: Okay, great, sounds good, sounds good.

Michael: All right, if you watch this show, you've heard about financing, leverage, the opportunities that existed that you may not have known about, but I didn't ask that question that's in your mind, please post it below in the comments on DomainSherpa. And I'll ask Vince to come back and answer as many as he can. If you received benefit from today's show, learned something new, thought differently about investing in a new domain asset class, take a moment please and just post a comment below, say thank you. Click the Twitter link and thank Vince on Twitter. I'm gonna be the first to say thanks to Vince, Vince Harasymiak, director of operations at Domain Capital, thanks for coming on the DomainSherpa show, sharing information about how to leverage domain name purchases for a higher return on investment, turning some of the domain names in a portfolio into cash that you can use to grow your business. And thanks for being a DomainSherpa for others.

Vince: Thank you, Michael. I appreciate you having me.

Michael: Thank you all for watching. We'll see you next time.