JAMES:
The number one thing is if the borrowing lets you accomplish what you're trying to do, and we'll sometimes use this phrase of whether it pencils out, meaning when we do the math, we actually look at it, that you're better off at the end of this loan than you were in the beginning. If you can't pay your bills and you're looking to, whether it's a consumer or business, and you say, well, let me just borrow $10,000 to cover my bills, you're probably going to have the same exact situation next month, except now you've got one more bill because you've got to pay this loan. And that's where you have to probably look at making a different decision.

CORWYN:
Good morning. Good morning.

Great morning, guys. Welcome to another fabulous episode of Exit Strategies Radio Show. Hey, I am your host, Corwyn J Melette, broker and owner of Exit Realty Lowcountry Group in beautiful North Charleston, South Carolina. Hey, if this is your first time listening to this show, you are in for a treat because our mission here is very simple. That is to empower our community through financial literacy and real estate education.

Guys, we are legacy building. That's what we do. Super excited for today's show. Always got to give a shout out to those who listen to me faithfully. People that tune in out in Hollywood, folks out in Moss Corner, y'all know my mama out there, cannot leave out, have to.

Usually I start with them. Pastor Vanderbilt Evans Sr.'s wonderful bride, Ms. Sandra Evans, who tunes in, always said, God jacks me up if I don't put senior on it. He want to make sure that people know that he the first.

I love it. Look here, got to give a shout out to the Lequeu family, Michaelis, who listen, my folks, and Maren and Mullins who tune in as well. Guys, look, we're off to an amazing start on today and we're having a great time and we want you to join us for the ride. So I'm super excited about today's show, guys. Why? Because we're talking about money.

And hold on, let me get that thing right, because y'all know we like to do this thing here like the OJs sometimes, and it's that money. That's what we like to talk about. So about making smart money decisions. That's what we're talking about. When borrowing can help you build wealth instead of losing it.

So what we want to do is get you in the mindset and the frame today that not all debt is bad. Sometimes the smartest financial decisions, guys, isn't avoiding debt altogether. It's just knowing how to use it wisely. So I'm super excited today because over the last few weeks, we've been talking about creating opportunities, preparing financially for home ownership, and just preparing financially overall. And our conversation today is going to help us expand on our idea, whether you're looking to finance a home, start a business, you're looking to invest in your future, every financial decision, remember that has long-term consequences.

So understanding how lenders think, how to evaluate debt, how to protect your financial future isn't just important for people who seek to own businesses. It is valuable for anyone making major financial decisions. So today is about becoming a wiser borrower, a stronger financial decision maker, and ultimately a better steward of your financial or your family's financial future. So today we're discussing smart borrowing, financial readiness, how lenders evaluate risk, and how making informed financing decisions can help families and entrepreneurs alike build lasting wealth. So our guest today is James Mendelsohn.

He's a founder and managing partner of Proximo Capital, has a background that takes him to Capital One through McKinsey & Company and Private Equity. James helps business owners make smarter financial decisions and build financially resilient organizations that can grow without sacrificing long-term ownership. So this matters because this is your future, guys. This is your future. All right.

So I want you guys to join me in welcoming to the show today Mr. James Mendelsohn, Managing Director, Proximo Capital. James, how are you doing today? Hey, I'm great, Corman. Thanks for having me. I'm excited about our conversation.

Awesomeness, awesomeness. So James, if you don't mind, high-level, who you are, what you do?

JAMES:
Yeah, high-level, my firm, we help people raise the capital that they need for their company to continue growing. We raise debt capital, equity capital. We do transaction finance if you're buying or selling another company. And we work with a very broad network of third-party capital investors and try to bring the right people to the table for our clients.

CORWYN:
So I want to start this conversation because oftentimes people always try to figure out how to do it themselves. I mean, we're in a do-it-yourself, DIY. We're in that space. So why do people, and so many people, believe that debt is bad?

JAMES:
Well, I think for two reasons. I think, one, there's a really strong ethic about doing it yourself, bootstrapping your company, not owing anybody, not getting into debt.

Then I think the other is it's not easy to borrow money, at least in the quantity that most people need. I mean, you can go out as, I think there's just a lot of traps that if you're not really aware, you can get yourself in trouble in a hurry. And I think there are a lot of stories. People get overextended, people overborrow, and they get themselves in trouble. And those stories are pretty, I mean, they're instructive, but for every person that gets themselves in trouble, there's 100 people that succeed.

And I think it's just a matter of really understanding how to use debt smartly and avoiding the pitfalls.

CORWYN:
So I'm going to take part of what you just said, and I'm literally going to come in here, and you got to give me, I've been watching a lot of Grey's Anatomy, so we're going to take a little bit of scalp work, take a little bit off of that. The question I have there is the difference between, because again, people put everything in typically in the same box. So if it's debt, it's debt, and they don't look at it as being a difference between something that helps them versus something that hurts. So how do you categorize debt that is useful, so it helps to build wealth versus creating financial stress?

JAMES:
The benefit is you're not limited by your own money, right? You're using other people's money, and that gives you more leverage.

And that's the good scenario. The bad scenario is where you're just basically borrowing to stave off a bad outcome. So here's an example. Someone who wants to get a mortgage, and they're going to borrow in order to have a home. And owning a home can be a terrific benefit to long-term wealth in terms of capital appreciation of real estate.

It's more stability and security for your family to live in a house as a homeowner versus renter. But if you can't afford it, you're just creating a bad situation. So if your housing budget is $1,500 a month, getting a mortgage that has a $2,000 a month payment doesn't help you. It hurts you. And I think that's the main thing about using debt smartly, is understanding the obligation that you're creating relative to the benefit.

Another great example is personal borrowing versus business borrowing. So if I'm a person and I have a regular W-2 income, and I go out and borrow $10,000, that hasn't necessarily changed my income. It's just created another obligation that I have to cover out of my paycheck. If I have a business and I borrow $10,000 that I could invest in inventory, and that inventory I'm going to sell for $25,000, and so the profit from that more than covers the loan I took for the inventory, that's a better situation. That's where I've used other people's money to finance a transaction that even given the cost of that loan is still going to be profitable.

And those are things, if you find those opportunities, you want to do them as often as you can. And I think that's the balancing act. It's just understanding how that debt comes on to whether it's your personal balance sheet or your business balance sheet. You're making sure you know what you're doing with the money you're borrowing and making sure you have a path through to repay it and come out ahead.

CORWYN:
So you guys, your capital company assists people with locating money.

So obviously, that means that you are involved in this process and have a unique understanding of what's relevant and what's important, what lenders are looking at. So if there is a beyond, but beyond income and credit scores, what signals tell lenders or what signals are they looking for to determine if somebody is financially responsible?

JAMES:
Well, you know, it's a great question. And you talk about credit scores. Credit scores are a great way to measure the willingness to pay. And that's why there's a lot of things that go into credit scores, a lot of different models, nothing is perfect.

But what it really comes down to is it's a very good predictor of somebody's willingness to pay a bill. But that's only half the story. The other is your ability. So that's where looking at income, looking at other obligations. And this is true whether it's a consumer or a business.

Those are the main vectors that any lender is going to look at. You have the ability to repay the loan and you have a track record that says, I don't have to worry about you repaying the loan. Now, the triangulation that a lender is doing is, am I able to collateralize this? Do you have the ability to service it? And do you have the ability to pay it off? So servicing is just if it's a consumer, it's how much income do you have? If it's a business, how much cash flow are you generating? And is there enough to cover it? So a lot of lenders will say, I want to see a ratio where 1.25 to 1.5, which means it's not enough that your business is generating enough cash flow to just cover the loan payment.

You need to have more than that because your business still needs to operate. Nobody wants to loan money where you're right on that razor's edge of not being a risk and being able to make your payments to everybody. So that ability to pay, that ability to service the debt is important. Collateral is important. Collateral is if something goes horribly wrong is that the lender has to take the asset to get paid back.

Classic example, mortgage, your house is the asset. Car loan, car is the asset. In a business, the revenue of the business can be the asset. The physical, if you own a store, the premises can be the asset. And what I always tell people is banks, lenders never want the collateral.

It's a pain. But they have to have that as the backstop in case everything goes wrong. Then the third part is what happens at the end? If it's a 30-year mortgage, pretty easy to see that over the length of that, you'll either pay off the loan or you'll sell the house. But if it's a three-year business loan, how are you going to pay that off? And is the business going to have enough cash or generate enough profits to retire the debt? Or you're basically betting, and some lenders will do this, that someone else will come in and pay off their loan with more debt. But that kind of a bet can be expensive. That's very fair.

AD:
Today's conversation reminds us that borrowing money isn't simply about getting approved. It's about making decisions that strengthen your financial future. That's why we're proud to partner

with Mellifund Capital, helping families, homeowners, and investors make informed financing decisions that support long-term wealth building and hashtag legacy building. We'll be right back. You found a perfect property. You got the vision. Now you need the capital. At Mellifund Capital, we specialize in funding real estate deals for investors who want to build, blip, or hold and don't have the time to chase after banks. Whether it's new construction, a fix and flip, or long-term rental, we offer simple terms, fast approvals, and access to private capital. We even work with manufactured housing projects because we know what it takes to build value from the ground up. Simple. You bring the deal. We bring the money. Visit mellifundcapital.com or call 843-619-7038 to get pre-qualified today. Mellifund Capital, we fund what you build.

CORWYN:
So, smart financial decisions, James. Where is the, I'll frame this as the tipping point. You touched on some of the, you know, the good debt.

No matter who you follow, you know, as a financial guru, you got good debt, bad debt, right? Most say that in some shape, form, or fashion. So, how do you advise or otherwise identify to people when borrowing is a smart financial tool?

JAMES:
I mean, we sometimes look at it, well, I think the number one thing is if the borrowing lets you accomplish what you're trying to do, and we'll sometimes use this phrase of whether it pencils out, meaning when we do the math, we actually look at it, that you're better off at the end of this loan than you were in the beginning. If you're on the, if you can't pay your bills and you're looking to, whether it's a consumer or a business, and you say, well, let me just borrow $10,000 to cover my bills. You're probably going to have the same exact situation next month, except now you've got one more bill because you've got to pay this loan. And that's where you have to probably look at making a different decision.

So, that's where I would say that is, that's dangerous debt, where you're borrowing just to kind of keep, survive in advance. You probably need to make a different decision. But if you're borrowing because you have an opportunity, one of the things for like smart consumer borrowing is anything where you're borrowing for like a house or an education, because those become valuable assets in a business. If you're borrowing for inventory, or you're going to hire people that will create more revenue, or you're borrowing because you want to open another location that will create more revenue. In all those situations, you can do the math.

If it pencils out and you're generating enough revenue so that you can pay back that debt, that's a great decision. Another angle we talked to with business owners is whether they want to use debt or equity. And equity, it always sort of has this appearance of being less expensive because you don't necessarily pay for it every month the way you do with debt, but you're selling forever a portion of your business. And so, it's the most expensive form of capital there is. And so, we always advise our business owner clients making sure that they're not giving away too much equity when they're making these kinds of decisions.

CORWYN:
So, James, that's a very good segue to give our listeners, if you will, different understanding. Business owners, if you're building a business and you seek capital and fusion of capital to assist you with whatever it is that you may need to get that structure, that foundation, or whatever right, the difference between capital and equity, let's talk about that. So, if you don't mind, James, if you could kind of define that and let's kind of dig, peel back a few layers of that.

JAMES:
Yeah, absolutely. I mean, so simply put, debt is you're borrowing other people's money, but you have a fixed obligation to repay it that has set terms, set rate.

You'll have to collateralize it in some way, shape, or form. Equity is ownership in the business. And so, you don't necessarily, there's no repayment unless you pay a dividend, there's no interest or yield on that. But that person is now a part owner of your business. So, you sell 10, 20, 30%.

As an equity owner, you're entitled to that pro rata share of the income of the company. And as your share goes up, you may also be entitled to have a say in how things are run. You also get some rights with your obligations. So, typically, for example, a lender will require anyone with an ownership position above 20% to agree to a business loan. So, if you're the owner of a company and you're thinking of, well, let me just sell off part of my company.

But as long as I at 51%, I'm still in control. You are, but there are always asterisks. Like there's always things when you start adding people to your ownership roster that you just need to be aware of. And we do a fair amount of transactions where people are also trying to buy out their partners because it hasn't turned out as good as everybody wants. Or it can be a simpler thing where somebody wants to retire and they want to sell off their estate.

And particularly if you've been in business a long time, you can be a solo or a partner, but that business can be one of your big assets heading into retirement. And you want to make sure you sell it off smartly.

CORWYN:
So, that brings me to financial freedom. We hear that term very often. So, I want to kind of hit this twofold, which is I want you, James, to define what that means, but I also want to frame that definition into how can better decisions in regards to borrowing help to create it?

JAMES:
Yeah, I think, well, those are great questions.

So, I mean, for me, I think a working definition of financial freedom is that you have income producing assets that meet your needs. And you're not reliant on a paycheck. You're not reliant on a day-to-day working income. You have enough assets accumulated that the income from those assets, whether that's money you have invested, whether that's income producing real estate, whatever it is, produces enough income for you and whatever your lifestyle is. And you can be someone who can live off of $2,000 a month or $10,000 a month, whatever it is.

But that is what financial freedom, I think, a good working definition. I think how do you use debt to get there? I think in the consumer side, like I said earlier, if you're going into debt to buy a house or get an education, these are things that produce income over time. For a lot of people, their house is their biggest asset and the capital appreciation on real estate over time. If you decide to retire, relocate, downsize, the income or the asset that you can create from that transaction can be sizable. You can create income for you in retirement.

From a business standpoint, again, if I'm using debt to build revenue, if I'm using debt to open another location, to expand, to buy another company where the incremental revenue I'm creating with that debt is more than enough to pay off the obligation and now I've created more income. And over time, those earnings just become accumulated wealth. And I think that's one of the secrets to financial freedom. When we look at clients who are looking to exit, either because they want to retire or because they want to go do something else, if you built the balance sheet, built your company correctly, value can be significant. And I think that's a great path to financial freedom for a lot of people.

CORWYN:
So thank you for that. And it's funny, thank you because you kind of got me to what one of my next questions or points or whatever it was going to be, which is, pardon the pun, but the exit strategy. Because oftentimes, there's the old adage, you start with the end in mind. But oftentimes, we're not in this space anymore. So I'm going to ask you your experience with this as well.

But it used to be that people would start a business and they expected that business to be handed down for generations upon generations, right? That, okay, I'm going to build this business. I'll bring the children into it. The children are going to take it over. I'm going to phase myself out. They're going to grow it and keep going.

I'm gone. And then they're going to do the same thing with their children. And now these children don't want to do that no more. So what strategies are you advising for people to consider? Like you said, if you got it right, and pardon the pun, but the exit is going to open up a whole nother set of doors. So let's talk about that.

JAMES:
Yeah, first off, I absolutely agree. That transition and that sale of a company is such an important decision. And it isn't. I think it's very uncommon these days to pass it down to the next generation. And candidly, even if you are, not a lot of people are in a position to be able to just let it go completely as an inheritance.

They'll need that asset value. So it's more about selling it to the next generation than just handing it over. I think the way it was maybe for our grandparents. So I think it comes down to really a couple of things. One is really smart planning, because very few people are going to hand over their keys, whether it's a retail shop or not, and walk away.

And to maximize your value, you're going to have to stay involved in that business. And what we're seeing is typically it's three to four years post-transaction in order to maximize the value, because you're going to get a lot more in purchase price if you're willing to stick around post-transaction, output the transition. And it may not be full time for all those four years. It could be a glide path out. But what everybody wants to make sure of if you're buying a business is how do I retain the revenue? How do I retain the customers? How do I keep the business running? And so that becomes also the preparation.

So it can be a one to two year journey from I'm going to sell my company to the date of sale. There's a lot of preparation. Biggest thing we see is clean financials. And a lot of people, especially if it's a smaller company, if it's run by the founder, it can be completely, bookkeeping can be clean, everything can be fine. But the kind of financials that you'll need for a transaction might be a little bit more involved.

You might have to bring in an outside accounting firm. We've seen the situation where people, again, well-meaning, but hey, my brother-in-law is my accountant. He's a nice guy, but you may not have the kind of financials that are going to maximize your value. And as an advisor in this space, that's my job. And I sometimes have to have that tough conversation with people.

I'm sure your brother-in-law is a nice guy. Mine is too, but I don't use him as my accountant because I need audited financials that are going to maximize the value of my company. So the punchline for me is if you're a business owner, and this is, again, it's just like if you're a consumer. Your house is probably your biggest asset on your balance sheet. If you own a business, it's the biggest asset on your balance sheet.

If you were trying to sell it, you have one shot to maximize the value of this asset for your retirement. Some people own 10 businesses, and that's great. But a lot of, like most people have one, maybe two.

And so it's just about how do you prepare, how do you maximize the value, whether you're selling to another operator, selling to a strategic acquirer, selling to a roll-up fund. You just, you have this opportunity and you want to make sure you do it right once. And that way you can achieve financial freedom.

CORWYN:
So James, this is a very good place to get people your information. So how can people reach you? How can they get in contact with you, connect with you, your company, learn more about what you guys do?

JAMES:
Yeah, absolutely. So the best place is our website, proximocapital.com.

You can connect to me on LinkedIn, subscribe to our newsletter, comes out every month. It'll talk about our observations in the market, deals we've been working on, things we're seeing, and you can follow us on social media. But if people have questions, best thing to do is just to reach out, email me, email our team, and we'll see what we can do for folks.

CORWYN:
Awesome. That's awesome. So James, this is our last question. In theory, I say our last question. Who knows? We might figure out another one. But this one is probably going to make you think, but you may have it off the top of your head. But the best financial advice you have ever received?

JAMES:
James Wow, that is a good one.

That's a great question. I think the best financial advice I ever received, I learned in one of my first finance classes in school, and it's check your math. And the context for the advice was that if you ever discover that you like found infinite returns or something that prints money, go back and check your math.

But it's great financial advice, because like I was talking earlier, making sure a deal pencils out on paper before you make a decision, really making sure you understand your situation and what you're getting yourself into. The math is going to tell you whether what you're about to do is a good or bad idea. Wow.

CORWYN:
I like that. I like that. What I heard was count the calls. That's what I heard.

And then you got to go back and count again, make sure you count it right to start with. I just heard you say that. That's what I'm talking about. Good stuff. Good stuff.

So James, look, I want to thank you for taking time out today to have this conversation and bring this to quote unquote to the forefront, because this is a very relevant conversation. And it asks a lot of questions that we've been picking up from our listeners, which is, look, I don't want to go into debt. Well, okay, I get that. But you want to grow. So sometimes that is necessary.

So I want to thank you for taking time out of your busy schedule to be here on the show with us today. Yeah, absolutely. Thanks for having me. You're welcome. So for our listeners, guys, this is where we're going to wrap it up for you.

All right. This is where we're going to tell you first. Not all debt is bad. Borrowing should create opportunities for you, not a burden. Your preparation creates confidence.

Financial literacy, which we talk about here all the time, leads to better decisions. Long term thinking builds wealth and wise stewardship creates a lasting legacy. So for our listeners, guys, I hope that you took away from today's conversation something along this line, which is borrowing money isn't inherently good or bad. It's how you use it that matters. The most successful people, investors, individuals, families don't make financial decisions based on fear or just emotion.

They make informed decisions based on preparation, discipline and clear vision for their future. So whether you're buying a home, starting a business or planning your next investment, every financial decision is an opportunity to build something greater because legacy. And, you know, that's our thing here isn't built by avoiding every risk is built by making wise decisions that create lasting opportunities for the people who come after you. So our listeners look, I know how I feel. I know what I say.

I know it's always putting two of those things together. I give it to you this way, which is to tell you that I love you. I love you. And we're going to see you guys out there in those streets.