Understanding Creative Financing With Eddie Speed

Hosted by: Joe McCall
Special Guest: Eddie Speed

Welcome, this is the real estate investing mastery podcast.

Joe: Hello everybody welcome. This is The Real Estate Investing Mastery Podcast and you're in for a treat today. One of my favorite people in the business is a guest on this podcast and his name is Eddie Speed, and if there's anybody in the business today that has more experience, more knowledge than Mr. Eddie Speed does I would be really, really surprised. There's very few people out there that have been in the business as long as he has that has as much experience as he has and one of the things I'm going to be asking him about his man shed some light please on this current market, what's going on up or down, crazy like what are the types of deals we should be focusing on in this market, and he's got some great answers and advice for you guys. I'm excited to have Eddie on and just want to remind you to first of all, go to RealEstateInvestingMastery.com.

Joe: We have transcripts of all of our podcast now, our new ones, we have transcripts on them, so if you're listening to this and you thought, man, I want to read that again, or I want to go back and you can get the transcripts to all of the podcasts at RealEstateInvestingMastery.com, alright. The second thing I want to let you know is I, a lot of you guys know this, some of you don't, I have a free class on wholesaling. It's Called Wholesaling 101 and it's a mind map where I go through all of the basic steps of how to wholesale a deal from beginning to end. The whole thing is completely free. You get my contracts, my marketing pieces, my scripts, my checklists, all of the stuff that people charge a lot of money for you get it for free. And if you want that, just text the word FLIP to 313131 and we'll send it on over to you. Again, text the word FLIP to 313131, or you can just go to FlipMindMap.com. Again, FlipMindMap.com. It's about a 14 part video series, you get the mind map, the videos, the transcripts of the videos, all of my tools, it's all in there it's pretty amazing. A lot of people loved it, gave me really good feedback on it. Again, go to FlipMindMap.com or text the word FLIP to 313131. And as always please if you like the show, leave us a review in ITunes, really appreciate it. Like to know what's going on, what you like about the podcast? What do you don't like? What do you wish we could change? Leave us a review at ITunes. We appreciate it. And you can also listen to us on Stitcher and Google Play. What else? Tune In Radio and maybe SoundCloud. I don't know, but anyway, let's jump into the show. I got Eddie Speed on Eddie, how are you man?

Eddie: I'm good. Joe, how are you?

Joe: I'm doing awesome. I was wearing my Texas hat the other day. Are you a Texas Longhorn Fan? I know you live in Texas. What's your favorite school down there?

Eddie: Well, I went to a junior college over in Fort Worth called Texas Christian University.

Joe: I've heard of that. Yeah.

Eddie: So, no, actually I went to TCU but I went on there on an ag program that they had, which is kind of funny because that has nothing to do with finance does it? So I didn't really go to Texas and I've got friends I got so many people that were so many colors around my office and my friends I don't know. I don't root against Texas, but they wouldn't, they wouldn't be my favorite team, but if that's yours I'm cool with that.

Joe: It's not my favorite team. I thought you would be impressed. I was trying to make you like me more by knowing that I was wearing a Texas Longhorns hat.

Eddie: What happened to your guy that left St Lois football team?

Joe: They're in the Super Bow now, but that's a long story. But guys, if you didn't know Eddie Speed is not from New York. He's not from California, he's from the south. He's a good old country boy. If you get to know Eddie you're going to like him a lot. He's such a cool friend. We've been in a mastermind for long time together called The Collective Genius. And over the years I've asked Eddie so many questions and picked his brain about stuff and I wanted to get him on the podcast because he's been doing some really, really good Facebook videos. I'm not sure if you're putting them on YouTube or whatnot, but I see him on Facebook where you're been talking a lot about creative financing, Eddie and could you talk a little bit. Well first, you know, tell us a little bit about your history, how you got into the business, how long ago and then, but talk, I'd like to kind of steer the conversation towards a lot of wholesalers and investors are struggling to do deals because they're one trick ponies, right?

They've only got one thing in their bag of tricks to pull out and offer to sellers, but many times that's not enough. Right. Can you, so can you first tell us about your history and how you got into creative financing?

Eddie: Well, I arrived in the industry accidentally. I was 20 years old , this was in 1980 Joe and my Martha, my wife did you know Martha's dad and his partner were in the seller finance note buying business in Mississippi and believe it or not, these guys, these two guys in Harrisburg, Mississippi, essentially bought seller finance note buying to all of the south, you know they were kind of the first ones on the scene. So they introduced the business to me and I got started buying notes and one of the worst real estate markets it's ever been, right? And that was when interest rates were 20 and so creative financing, which in that case the solution was specifically the seller of the property would carry financing for the buyer at a lower rate than the bank would make a loan...

Joe: So that's interesting. That's different than it is today, isn't it? People are doing seller financing are charging more interest than the banks.

Eddie: Well, that may not be true though, that would definitely be true if you and I were loaning money, right. But it may not be true that an individual would insist on that, right. And that's kind of what is going to lead to a conversation about that. So long story short, Joe, I've been doing it forever, you know, I mean, I in the eighties, you know, we bought more one off, you know, just notes from individuals always have kept that in our business and somewhere in around 1990 we started buying, you know, notes from real estate investors and I set up notes systems for real estate investment companies, showing them how to create seller financing so that they could then sell their notes, right? And that's how I did a lot of volume. I bought literally Joe, I bought a thousand portfolios and seller finance notes. I mean, not a thousand notes, a thousand groups of seller financed notes. So a big part of my life has been working with real estate investors and various ways of how creative financing could help them with their business. And I, you know, obviously done that forever and that's why I hang out with you guys at Collective Genius. I'm not really a fix and flipper. I don't have anything against it. It's just not what I do and what I've always kind of been that creative finance guy. And it's interesting this strategy that I've really focused on for about the last year I bought my first property where the seller carried financing for me in 1983, right? Because in 1983 interest rates were really high and I was self-employed, you know, and there's just a whole bunch of reasons I could need a qualifier or wasn't bankable.

Eddie: And the truth be known that that was, I look back and think why in the world would you borrow money from the bank when you can borrow money from an individual and they'll let you agree to stuff in the loan that a bank would never consider. So long story short, 40,000 notes later closed and a long time around the space. I'm always looking for that next market trend, market situation and you and I hang out in various masterminds, right? You and I know run, we hang out in a mastermind together and you and I know people that run other masterminds. I tell people, Joe, I think it's a fair statement. I say of the top $500 wholesale or fix and flippers in the United States I would say comfortably, you and I know 250 hours, right? I mean like, know them like, we got the cell phone number we know them well, right? So you know, you know guys like you, I pay a lot attention to what you're telling me you're seeing in the market. And I read the horizon on this, so about a year and a half ago, I started really focusing some of my energy and direction on helping with a new creative financing strategy. New as when I started at 1983. That's a joke, right?

Joe: I'm a little slow Eddie. Sorry.

Eddie: Was a new financing strategy where I would really show people at a very, A level status how to create a transaction where the seller of the property would carry financing, right? And it all started like this, right? What happened was, is I was telling a story to a pretty big time real estate investor guy, the you and I mutually no, right. And then I was just telling a funny story. We bought some land from this lady and I have some partners that, you know, in that piece of the business where we like buying country land and stuff it's just a piece of the business I do, right. But we bought some land and we typically bust them up into smaller tracks and sell them in owner financing, right? So we'll buy 200 acres and break them into 20 acre pieces or a 30 acre pieces and resell them. And people like to have those 30 acres to go ride out on the weekend and take the kids and as I say, go shoot a bear can, you know.

New Speaker: I mean they just want to go have fun on the property. This is a really good customer by the way. They pay well when they pay it back. Anyway, we bought this land and the lady was willing to owner finance and I'm telling this story, so this real estate investor, who's that Ninja House buyer guy I said, yeah, we, we bought this land, the lady $150,000 down and she was going to finance like 300. And she kept saying I've got to have 150,000, now I've got to have $150. I mean just like, she said, it's like excessively, right? So I said, and so my partner, he kept saying, Eddie, the drawback in this deal, because we usually buy and get them to carry financing and we don't hardly pay anything down, right? Usually we don't, but in this case he says she wants a hundred and $50,000, bop, bop, bop over and over and over like, okay, we can, we can do it. And he looks at me kind of funny. He's thinking like, well that's not much as much as your resistance was expecting. Now Joe, I already know that there's six ways I could have structured this deal to give her $150,000 at the closing, that wouldn't have been my money, okay. So I could have done this a little differently and made it work. But what I said in this case was I've got the money in my account and I know that this land she has broken into smaller tracks is very sellable. I mean like very desirable, right. So I knew if we put $150,000 that I probably could resale that property in literally 90 or 120 days, right. Just enough to recoup that. But here's the problem you're thinking, well you put $150,000 down, you got a mortgage on the property, right? I said, now make sure she make sure she understands that when we pay the 150,000 down, we've already bought that portion of the property, okay. That's a subliminal way of saying she's going to release it, right.

Joe: I'm still a little confused though.

Eddie: Okay, we bought it. Let's just say we bought 200 acres of land for easy math, right? So we paid a third down and she released a third of the 200 acres at the closing. She didn't have a mortgage on it because we already paid that down payment, but we dictated the terms and says, you got to release it. She never even flinched, by the way the balance of the money we owed it to her an annual payment, not monthly payments and the first payment with zero interest first payment was three years from closing.

Joe: Okay.

Eddie: And I'm telling this story, this mutual friend of ours, right? And, and I'm just sort of, you know, we're just out one evening having dinner and laughing and telling stories and I'm telling the story about this deal. This guy calls me back a couple of days. I traveled back to Texas, he goes, man, I couldn't sleep last night. I'm like, okay I'm sorry about that. He goes, no, I couldn't sleep last night because your story got me so amped up. And I'm like, what? He said, Eddie, the stuff you know about structuring terms, if every real estate investor could do that, they could double their conversion rate because they're making 20 offers to get a house bought and you're throwing 19 leads in the trashcan. I'm like I know that. And he goes, so build all this training around it. Well, you know, I've taught it in note school. It's not like I've never mentioned it. I've got plenty of students that have done some deals, but I know he said, no, no, no he said, I mean like build the box, like build it out. Like, like really show them how structure deals and do it, I'm like, so I said, okay, let me think about it I called him back in three or four days and I said, you know what, if this market situation is going to do what I think is going to do, we're going to reach a very interesting time in the market, which is, because you remember I've been doing this since 1980, right? I said which is property sellers are going to be hard to deal with and the margin in flipping is going to get tighter and tighter. In other words you're going to make more offers to get one house ball and your margin per house is going to start dropping drastically. Not now have these 250 guys that you and I know. Well, 50 percent of the top 500 guys, right? That story fits about 92 percent of the time right now today.

Joe: Oh yeah. I would say maybe even more than that.

Eddie: I got lucky. Well I didn't want to say 100 percent. I got lucky and read a market a year or so before it happened. Experience does have some advantage, right? So the guys that I'm helping in this business are out there in the market, they're making offers and they're looking at themselves going, if we make 20 offers with one, yes, we have 19 no's in the trashcan and we keep spending more and more money to get our phone to ring and our margins on wholesales are going down. So Joe, I'm going to tell you this and I really do believe this in all my heart and you know me well enough to know that I wouldn't say this lightly, this is going to be the best thing that has ever happened to smart wholesalers.

Joe: Oh, I agree.

Eddie: Because it's going to force them to change and they're going to look back and these transactions that we're teaching them how to do have upfront profit when they resale the house, but they have 30 years of income and now all the sudden it's forcing a wholesaler to transition from just making profit to now he's making wealth.

Joe: Yeah. Okay. So I'm writing down a lot of questions here.

Eddie: Okay.

Joe: What attracts you most? Like what you're saying is typical wholesalers getting one out of every 20 offers accepted, let's say, and that's a pretty good average. If you go on an appointment meet with the seller make a cash offer, you're going to get 1 in 20 accepted. You're saying that if we could learn more about creative financing, where we can offer the seller terms, whether it's owner financing or lease option or subject two or whatever. If we can offer terms, we can get maybe three out of 20 offers accepted with the seller, right?

Eddie: Yes. Because you're giving them their price.

Joe: Yes, okay. Now somebody's going to ask Eddie, how can you give them their price? Let's go through an example deal if that's all right. How does that even work, that doesn't make any sense.

Eddie: Okay, so just simple math, Joe. We have 100,000 dollar wholesale value, right. Your numbers say all you can pay as you and everybody else in town has ratcheted up what you pay for houses drastically different than you were paying five years ago, right? You've ratcheted up what you'll pay as cents on the dollar but just 100 you are done, stick a fork in it there's all you can do, right? Then the seller goes, no, no, I want 125. And you're like, there's just no way I'm stuck. I'm out, right? So what happens in that scenario is if, if you said, okay, Mr. Seller, I'm willing to pay you 125, but let me tell you how I'm going to pay you, okay? It isn't going be 125 cash, it's going to be this closing statement is going to say 125, they're going to tell their relatives they sold the house, the 125 so there's no embarrassment, but it isn't, it isn't a real 125 number because it is, they have carried the financing for you excessively under softer terms that any lender would ever do it, right. A bank wouldn't agree to what the seller will agree to. Now, the reason you that you have to learn how to do this right is because you didn't have to learn what to offer. What I find a lot of times people say, Oh yeah, I make seller finance offers. You and I have many, many friends that say, oh yeah, make seller finance offers. They do, but they don't know what they're negotiating for, right? Or it's a one trick pony. I make a seller finance offer and I make, this is how I make my offer. What I teach to do is a little different strategy with a much different effect, right. What I teach is listen to the seller, find out what their real pain is, make an offer that absolutely fixes their pain, okay. But then you negotiate terms around it that give you everything else you want.

Let me give you an example, okay. I know you and I are going to do a training pretty soon and I'm going to use this... I like this example because it's fairly simple and it's easy for somebody to say quickly, so I'll use this in the training that I do, but I think I can still discuss it today and it won't wear out anything that we won't lose any zeal or what people see later, right?

Eddie: See I was devastated from Seattle, Kevin okay. Hottest real estate market in the country, right? Everything's on fire. And then he buys this property like a year and a half ago so this is like insanely on fire back then, okay. The seller is willing to seller finance, okay, but they insisted on their retail price, which was 325 and they insisted he pay them five percent interest. Okay, well that kind of takes a lot of the whole big opportunity out of it, right? When you got to go pay bank interest rates, right. Now he didn't have to personally guarantee alone are qualified and there's 25 things that he writes into his agreement with them that otherwise as far as how he owes the money back, the conditions, the terms a lender would call it, right? So he can soften up his liability and soften up other things and how he does it but he's still kind of got the sticker shock problem because they insisted on five percent interest, right? Well here's, here's what he brings it to me and he says, Eddie, my numbers say I am stuck at 265 and they are stuck on not given me a budget off of 325. And I think that's where everybody in the industry is, right. And he said they're willing to seller finance, but then there were insistent they must carry a five percent interest. He said, I just don't see how we're going to pick our way out of this deal. I said, look, my sense is if you try to get them to negotiate down to three percent interest or whatever, you're going to run them off. He said, oh no I've asked them, I asked them six or eight times you are totally right. He said they're stuck on five percent. I said, just reduce the amount that they're going to finance you on the first mortgage, do a first mortgage.

Eddie: He was going to only pay $5,000 down on 325 house only $5,000 now. Okay. I say Kevin, listen, just finance $260,000 at their five percent and that makes the payment that you want to make it, which is about $1,400 a month is a duplex, okay. I said, make your payment $1,400 a month. He goes, okay so they won't 325 with 5,000 down, which means that they will be seller financing normally, how much 320, right. And I told him the only put a first mortgage of have 260, which means there's a $60,000 difference, right, see the problem, but it debt services at the number of my guy Kevin wants, right? So he says that's where I'm stuck. They won't reduce the interest rate to let me lower my payment and if I raise my price up where they are, I'm not really a bargain deal anymore and I certainly don't want to do it. And I said, listen dude, this is where 99 and nine tenths of guys that think their A players at buying on terms or stuck trust me. But there's a reason that I've helped more real estate investors with it in the country over the past 39 years doing this than anybody else. I said, because I have the advantage of I've seen three or 400,000 owner finance notes. Nobody else has had my vantage point, right? I said here, I said, here's something that I almost assure you they will do is that you get them to carry a second lien for you that no bank no lender would ever did. He said, so $60,000 second, and I said yes, and he's kind of nervous because he says, but Eddie I've already told you I'm kind of stuck at that payment. I said, listen, do a zero interest zero payment due in 15 years.

Joe: Zero interest zero payments due in 15 years, brilliant. So did the seller take it?

Eddie: They took it. He, he lost his nerve, he lost his nerve and he went for 10 years and they didn't even, they didn't even then he said, well, you know, I don't know what they would've said. And I said, listen Kevin, you made a good deal a little more seasoned guy like me just knows that I would've probably went for 15 the odds are, you know, more than 50/50 they had taken it and you could have always choked it back to 10 that they just absolutely. But see he in his mind, they kept insisting on five percent interest, right. So when he was thinking financing, he thought all of the financing had to have an interest in it, right. So that's one of 50 ways, Joe, that I could cut a deal up, right? So we call it deal architecting, right? Because otherwise, let me ask you a question, Joe, of all of our pals and you out there in the marketplace every day, how many of, how many people have gotten 15 or 20 percent for making a trade and you just couldn't. It, they wouldn't match your numbers and you couldn't match theirs, right? Is that happening over and over and over?

Joe: 15 to 20 percent. I'm not sure. I understand.

Eddie: Okay. You're 15 or 20 percent off of what they want versus what you can pay, right?

Joe: Oh yeah. Yeah.

Eddie: One of many ways you can fix it is get them to carry an air note for that difference.

Joe: Air note. Why do you call it an Air note?

Eddie: Yeah, it's just, it's, it's monopoly money, zero interest, zero payments due 20 years from now.

Joe: It sounds to me like you kind of start from the cash flow and work backwards from there, is that a fair assumption? Like if you're looking at a deal, you have to kind of know what you're, what you need as far as cash flow to make the deal work, right?

Eddie: Because how am I going to exit most of these properties? Now what's my background, right? I have taught real estate investors for 30 something years how to create seller financing that's really good paper, right? So when I sell it, I'm going to sell it on a wrap note and while I may not be paying any interest or little interest when I'm buying it, when I resell it, I'm going to be collecting six or seven percent interest. So if I can buy it under unrealistically soft terms then I can sell it on just realistic terms. And the difference is I resell it back, buy it for nothing down. I resell it for 20 percent down, right? I find some self-employed guy with good credit. We're not looking for a bomb here, right? I'll find some self employed, solid citizen guy is just not bankable, great guy with 20 percent down. I mean, you know, in $200,000 to $40,000 down and then all of a sudden I'm paying the seller finance note under which I bought it every month and then on the other side this guy, I sold it to on a wrap note paying me and I can make $500, $800 a month for the next 20 or 30 years. Now that's a winner.

Joe: Well, talk a little bit too about the difference between when you're selling a house on owner financing versus renting it to a tenant. What are some of the advantages to that?

Eddie: Well listen, everybody builds their own biases as they progress in the business, okay. I will say to you that what I don't care about for lease options is I find that usually really don't convert, right? They give you some money and they do a lease option in three years they're supposed to buy it, but it, the odds of it happening aren't as high as I want them to be. Now, listen, it doesn't mean that you made a bad trade. I just like thinking in terms of I'm the bank and I'm going to collect cash flow for a long time, right. And I don't have to go redo the deal, remake it and so there, so I like, I like people that are here legally but aren't citizens, right. There is a ton of them that make a lot of money, okay. A lot of money, doctors, lawyers, Indian chiefs kind of thing, right. Here they make a lot of money, they're not bankable and they have big down 20, 30 percent down is not uncommon. The other thing I like are well established self-employed, right? And sometimes there's electrical contractor that's a good guy, doesn't have bad credit, had an electrical contracting company for 20 years. He's just not bankable. What does it mean he's bad customer? So I liked that guy. I had good luck with him and I'm really like the thing that I did, what's really interesting over time as people start understanding more about this is the kind of property that I ended up buying with seller financing is a better grade of property overall it's a better grade of property than properties I just bought for cash.

Joe: Yeah. So you'd just rather be the bank than the landlord.

Eddie: Well, why wouldn't you? I mean, you know, who pays all the expenses every month.

Joe: So the tenant can't call you to fix stuff right if your the banker?

Eddie: Yeah. And I don't have to pay their bill. I don't have to pay their bills. You know I don't have to pay the taxes and insurance and the water bill and the, I want them to pay it. I want them to have a good deal and a good home and I believe I'm doing good for them, right. What I've structured when I bought it, they're completely incapable of putting together, right. So I, I'm not. The reason I'm getting well paid is because I'm creative, right? That's the real if you really want to put down to the nuts and bolts, what caused me to be able to do this, it's just I have creative knowledge that most wholesalers don't have, right. I have creative knowledge to put the deal together and then I go find some homeowner that is looking for an opportunity for home ownership that somehow they're outside of the conventional lending world, but they're not bad, right. It's not like they're, you know, I've got, you know, strings of bad credit and all that stuff and it's just a win win.

Joe: I've known that Joe forever, right. As long as you've known me, I've known that like deep, deep in my soul, right. But the reality is that I've been highly encouraged by some guys like you and you specifically saying, Eddie, the market needs, they need another strategy other than buy low, sell high, and that's going to force the people that we're teaching to do this, the regular real estate investing business, it's going to force them into something they probably wouldn't have pursued before because they just weren't forced to by necessity. If it's a necessity they're going to turn out fine there. They're going to wake up and find that it's the best thing ever happened to them because this is way better than just flipping.

Joe: Yes. Will you walk through another example deal Eddie?

Eddie: Yes.

Joe: Alright, keep the round numbers at 100,000. The house is worth $100,000 and the seller owes 75,000. They want to sell there's not enough room to buy it for cash. Can you structure owner financing or terms out of that deal?

Eddie: Of course you can't. First of all, are you going to take the sub two on the first?

Joe: Well I would have to. I think would.

Eddie: Okay. Well, I mean you would. I can see if you had a little more equity. I can show you another way to do it but I don't want to get too confusing today. But okay I'm going to do a sub two on the first, right? So they got a four percent loan and at 75 grand and you know, so that's all fine and good but they're like, hey man, we don't really want to just sign away you know, you're taking over our mortgage and walking away with nothing, right. Which is what happens all the time on sub two right. Then write them a second.

Joe: What do you mean by that?

Eddie: Well, in your scenario there, there's $25,000 theoretical equity, right? They were like, we want retail. You're like, well, instead of going, no way that would work. You're like, okay, let me tell you how I could make that work.

Joe: That's a good way to do it.

Eddie: I'm going to take over your mortgage and you are. You're going to have to wait. But the good news is you're not going to lose any equity, and right now you're in a position where this is the only chance you got to not lose your equity and you write them a $25,000, zero interest, zero payment.

Joe: In second position. You take over the first note...

Eddie: Joe Let me tell you a little secret at the time when you do these seconds. My deal is complete disclosure, okay. My deal is never ever, ever, ever about not disclosing, but when I do something that's like, I know it's kind of ridiculous and a bank wouldn't do it, I'm fully telling them what we're doing. I'm not hiding anything from them, but let me just tell you this, half the time when we do a second, it's not recorded. But here's the deal and you're saying, well, I don't really understand how I'm going to do this. First of all, Joe, let me just tell you something. If you did a 15 year zero interest, zero payment note, okay. If, if you brought it to a note buyer like me, assuming that it was filed against the property, right, there's no equity in it. You got to second lien, 100 percent financing, no payments, no interest in the future. If you asked me what that 25,000 notes worth today for about $1,500 bucks, it isn't worth nothing. But so let me tell you this, one of the causes, one of the many, one of the 50 clauses that I say that you have a possibility negotiate and every deal, right. That a bank or mortgage company or a hard money lender is never going to agree to is you got first right of refusal and I mean this is strongly worded first right of refusal. I mean like it lets you tie it up for 120 days after they've already got a buyer standing in the wings that's already committed to buy it and committed to it, right. So if they want to match your offer or somebody else's, yeah, fine. But then you got to give me time to do it. And with the right talk off, they'll, they'll do that. Here's the deal, okay. They're going to become impatient and they're going to want to cash out early and I can't tell you Joe, whether you're going to buy it on year four, I can't tell your going to buy it on year eight or year 10. I can't tell you which year, but I can tell you right now, you are going to buy out their, zero interest, zero payment note at a deep discount in the future just, you can just write the book on it, right?

Joe: Oh yeah. So what would be, how would you talk to them or ask them that question?

Eddie: Well, here, first of all, at the closing, you're not, you're not trying to go make the next trade, right? The deal after the deal, which is what I just described to you, right, buying your own note at a deep discount in the future, the deal after the deal just has to happen when they want it to happen, they've got to become impatient, right. And they're not impatient to closing their happy with the deal you've already made, right. So, so I would just say if you ever decide you want down the road, a lump sum of cash instead of the loan, then you know, obviously we've written an agreement that you're going to call me and we'll just figure it out. It'll always be something whether it's if we look at some numbers and it makes sense, we'll do it. If it doesn't make sense and we'll keep the deal the way we got it right and I don't overly pester them.

Eddie: I mean I will let them know about once a year I'll do it, but in that scenario that you and I just discussed, I not even solicit them to do the second for a year or so, right. I may wait a couple of years right now. They will eventually sell me that note at a discount. I would say comfortably I'm always going, that type of a note. That's an extreme note. You heard me refer to it while ago as an air note, right? Meaning a note that's just, it's just, you know, it's just like, you know, you're just writing numbers on a white board because it's just, you know, it's almost kind of like not real money. I don't know I'm not teaching you to not pay it back. I'm just saying to you that, think about it, Joe, when you write that flown and you paid full retail, right. Everybody thinks you've lost your mind, right. All your buddies at the real estate meet up, thinks you have lost your mind, okay. You've paid 75 percent of market value for the property. Took over the first, now you've got with a low first mortgage payment right now you can wrap it, rent it, do all that kind of stuff you know. Now you've got a cash flow machine, right? But the truth be told, everybody thinks you lost your mind because you went and paid retail. It's just you didn't pay retail paying $25,000 cash. And that's where the people that you and I have been around our whole career in this business, they are just entrenched, buy low, sell high. I had a student tell me the other day at a class they went and saw so and so who's kind of all that in a bag of chips in Houston, right? Big real estate investor and they are well known and so and this guy said you cannot make an offer that exceeds 75 percent of market value in it ever makes sense?

Joe: If there's cash flow it does.

Eddie: Joe, that got started in this business in 2012, okay. I started this business in 1980 and I'm sorry, but he may be all that in the bag of chips in Houston, but in my mind he's still a rookie because there's money in that. You and I know it, right? There's money in that deal in how you structure it.

Joe: Yes. So what kind of cash flow would you have to have in that deal?

Eddie: Most of the time. Here's just a pattern that I see. Most of the time when you buy it, you're buying it at about 40 to 50 percent of normally what debt service would be. Just kind of that's about how the numbers work. Most of the time, the soft terms they've given you equates to you're only at 40 or 50 percent of what normal financing would be if you're bankable and you went and signed your life away down at the bank to get the loan. So it was pretty easy to figure out how you go and make money.

Joe: Alright. Talk about the cash flow on this deal.

Eddie: Just to help your audience connect to your first second, right? I know you've already moved past the numbers in your head, but if the normal debt service on a property was a thousand bucks a month, right? With soft terms, your payment might be four or 500. So if you can save that much every month because your loan is like inordinately ridiculous terms that a banker or lender, another lender, a mortgage lender wouldn't let you do, it's pretty easy to figure out how you make money out of it.

Joe: Right. So bottom line, you're okay with being leveraged, quote unquote, at 100 percent of the value of the cash flow is there as long as the cash flow is there. Plus you're also thinking in the back of your mind sometime in the next five to 10 years, I could probably discount the second note that the seller is holding back, right?

Eddie: Right. I know from experience that the odds of me not because I'm cheating them and not pay and I'm just, I'm paying them every month. They're not chasing me around. They just want to cash in early. The odds of me making a deal and buying all of that debt that I owe them at a deep discount literally is about 100 percent.

Joe: Right. What kind of, what kind of discount would you be trying to get?

Eddie: Fifty cents. If they seller finance me at two percent interest on 30 years and I pay them we paid long for six or eight years and all of a sudden they call me and says, Hey, we want to, we want to cash you out. I'm not going to offer more than fifty cents for it.

Joe: Where would you get the money to cash them out?

Eddie: Man, I know somebody in the note buying business.

Joe: Yeah.

Eddie: And that guy will, will come, can come up with scenarios for me to make upfront income, me to restructure the deal with him and renegotiate what I owe. I mean, there is just crazy things I can do when I got a buddy in the note buying business.

Joe: So as the investor, I'm Joe Blow your average investor. I come to you and I say, Eddie, I got a first position note that I've taken over subject two from the bank. $75,000. This house is worth $120,000 now. So maybe my first position note is at 70,000. I've paid it down five grand over the last few years. And I've got a seller with a $25,000, second position note. They're willing to negotiate, they want their cash out they're, willing to take half of that $17,500. Eddie, I've got this deal. What should I do?

Eddie: Well, a couple of things, Joe, that second lien that's written at such a crazy, ridiculous terms, zero interest, zero payment, it's not a 50 percenter it's 15 or 20 percent or maybe never going to be worth fifty cents on the dollar. So that is like an, that's like a really, really highly discounted note because it's just so extreme. But the bottom line is this, okay. If it were me, okay, if it were me, Joe, I would resell it on a wrap note.

Joe: I'm going to translate that to mean you would sell it to an owner occupant who's going to live in it.

Eddie: I'm going to sell it to the owner occupant and I'm going to do a wrap around mortgage. So I'm going to, I'm going to owner finance them and they're going to pay me every month. And let's pretend you're my underlying guy that I owe them well, you know, I bought the property from you with seller financing. So I've got from my payment every month that I'm receiving, I've got to now make a payment to you, right? So the thing that's so good about that is when I seller finance it, they're going to pay me a good down and that money that they pay me down becomes profit at the closing. But if can negotiate the right terms I could sell that wrap note.

Joe: Yes. Now you're talking about you get a good buyer in there. Who's the, what did you call them? They're here they're not citizens, but...

Eddie: Their ITIN buyers, their green card, they're legally here. They're not illegal. They're legally here they're just not American citizens. The government refers to them as ITIN like those are the initials. It's not like highway I10, right.

Joe: Right. But let's, I'd like to run the numbers so it's clear in my head and I think people listening will help. So you've taken over this first mortgage...

Eddie: So let's say I resold it. I took over the first, now you got to remember this scenario you're giving me Joe is like the tightest numbers we could put on a deal.

Joe: That's why, that's why I gave it to you.

Speaker 2: But even with that, let me tell you what I can do. I resell this house, I resell this house or a $110,000 bucks with 20,000 down. I make 20,000 when I sell it because I paid nothing in it when I bought it and I sold it for 20,000 down I pocket 20,000 in my pocket and the loan and it's cash flowing every month, okay. So this deal rocks along. I have, they have a $90,000 first lien mortgage to me, okay. This deal rock and they're paying me like seven or eight percent interest, right. I'm not, I'm not getting zero. I'm getting seven or eight percent.

Joe: So you're cash flowing three, $400 a month.

Eddie: Yeah. Plus 20,000 in my pocket. But here's the deal. I go along in this deal and four years into it, the guy with the second lien says, I want to cash out, right. And as you said, the first is paid down to 70. I owe him 25, but he's willing to take 12. Well, that's too much as fifty cents on the dollar. He's willing to take eight grand. I turn around and sell that 90,000 our owner finance note for 85k. I have a $90,000 note with the guy that paid 20 percent down and excellent credit and a four year pay history, I sell that loan for 85, eighty eight cents on the $88,000, right. Which is in th low 90 percent range. I can do that all day long every day I've got more buyers that want alone like that that I can find, okay, now they expect me to sell them a first mortgage, okay, so that means when I sell that note, part of the proceeds from that little selling, that loan has to do what?

Joe: Pay off the first.

Eddie: You got it. So I got to go pay off this $70,000 and pay off the second. So I've got 78,000, 70,000 plus I paid them eight, I got $78,000 and I sell it for 88. I collected for years worth of payments and I make $10,000. I made 20,000 when I resold it, I collected payment for four years, now I make another $10,000 when I buy them out and sell the wrap note and I made 40,000 bucks out of a deal that had no equity in it

Joe: On a deal originally that most people would have thrown away because the seller was stuck on their price or they couldn't do a cash offer with it. Well that's the beautiful thing about creative financing. There's a lot of different ways to skin a cat and we don't like skinning cats, but there's a lot of different ways you can do these deals. I want to if you could Eddie, could you talk about, let's say you find a deal with a lot of equity in it, okay. Let's say it's $100,000 house and they owe 25 on it, okay. What are one or two different things that you could do and the seller stuck on their price. They want $100,000 because that's what it's worth, but they only owe 25 on it.

Eddie: Right. And I want the audience to be clear, right? Like I've done this so much in my head and on white board and on paper I just can kind of white board it out as we're talking, but I realize you guys kind of have a disadvantage at this point because you don't really, you don't really see me write up the numbers the way that I'm writing out the numbers in my head, okay. But that deal is a no brainer. They owe 25 on the first, could I take it subject two, right? Yes I can take it subject to it so I could just take over the mortgage and have them carry us $75,000 second. The other thing I could do, if there's some reason that it wasn't doing a sub two deal is I could make it I could buy it and do a $25,000 first that is written at a higher interest rate and I keep my payment where it still cash flows really good and then I sell that loan to a note investor at the closing and when he buys that note from me, the title company, the money to pay off the underlying mortgage so I can move it from a sub two loan to a loan that I created that I sold at the closing table and the money, the note buyer paid for that note could go to solve the underlying problem.

Joe: But you don't have a buyer in the house yet, right? You don't have a buyer who's living in the house, hasn't been seasoned yet, so how do you overcome that?

Eddie: Yeah. Let me ask you a question. How many people you know is self directed retirement account that would make a $25,000 loan secured by $100,000 house and earn eight or 10 percent interest?

Joe: I could make a couple phone calls.

Eddie: You got it. So I don't have to have it resold to find such a good deal that somebody with retirement account money would go fund it. Now am I going to make it a great deal when I resell it? Yes. But I came up with a note strategy that wrote a check at the closing because I created a note that's sold at the closing so that I could solve the problem so they could close. I mean they could have a $25,000 IRS lien, right? Boom I can fix it now. Once again I did, I did disclaimer, right. Trust me, I've got all this mapped out in my head. I mean like I've got play after play after play. We could do this, we could do this, we could do this, right. The only way people really get this though at some point is we have to progress to like get to the point that we can do that, right. But, but, but just think in terms of I can't fix every real estate problem, but I promise you I can fix twice as many as wholesaling is fixing for you right now.

Joe: That's a good way to put it. Well Eddie, couple things I want to talk about here. People got to look you up on Facebook. You've been putting out some really good content videos and one of the things I like about your videos is that you write down the numbers as you're talking. So it's hard on a podcast audio like this, kind of follow the numbers for some of you guys, but if you were to see Eddie talk about this stuff in a class or on a whiteboard or something, it just, for me at least, it helps clarify things, makes it so much easier to understand. So I want to number one, invite you guys to go look up Eddie on Facebook. I think your Facebook page is called The Note Authority, right? Or Note School or something like that, right? Is that right Eddie?

Eddie: The Note School? Right kind of my handle is The Note Authority, so like on Instagram and that's The Note authority, but it's The Note School and I have a personal Facebook page and we put stuff on there too, but got to Note School for sure. I mean I shoot terrible videos a week where we get into this stuff in different ways and once again it's, you know, it's a progressional thing because there's so many creative things we can do. I can't, obviously I can't show an audience the most creative thing I could do and eight minutes on a Facebook live, right. But obviously it starts them thinking that way and I realized today like us just kind of going through the numbers. Here's the punch line to what we just discussed today, what we just discussed today, solved two or three significant real estate problems that a wholesaler is stuck and walked out the door and turn the deal down, right. We just fixed three different real estate deals today that virtually everybody we know that's just wholesaling has got that deal in the trashcan.

Joe: Yeah. And it's really not that complicated either because I think I'm a little worried that some people are thinking owner financing and automatically they kind of check out like it's not that complicated it's really not that hard. And when you can look at the numbers on a whiteboard or on a video, it makes a lot of sense, right. I think the trick is learning how to explain it to a seller when you're talking to a seller, having the confidence to explain it in a real simple way. That is something that Eddie is the best at and I think that you have a lot to share. Eddie, I'm really glad that you are actually teaching this stuff now because again, with your experience doing buying and selling notes, you've seen this business from a completely different perspective than most of us have. And I'm so glad that you are now teaching people these owner financing strategies from the perspective that you had. Plus we didn't even talk about on this podcast you know, the cycles that the market is going through, you've probably been through what, four or five different corrections in the market since the early eighties?

Eddie: Yeah. I was born in the business and serious correction, right.

Joe: Okay.

Eddie: And then, yeah, I've seen it many times. This is, and once again it, we said this before, but it just, it's worth repeating the whole punch line that this entire business, the whole punch line to this absolute entire business is that when markets have these stresses, which is the market we're entering right now, it forces people to learn things they wouldn't have learned before and I believe that learning this changes their real estate future for the next 25 years. And had the wholesaling just stayed crazy and it's been crazy, right. Had wholesaling just stayed crazy and whatever, you know, it wouldn't have, it wouldn't have forced, you know, a guy that was just doing wholesaling to kind of go rethink how do I really go build wealth out of this and this strategy we've been discussing all day is absolutely a wealth strategy.

Joe: Yeah. It's really important to understand guys because as the market is changing, sellers are going to be saying no to your cash offers. A lot of them they're saying no because they have to, right. For one reason or another, they have to get the price that they need and you need to know some basic understanding of creative financing so that you can actually help them sell their property. And there are a lot of different ways to structure these deals. Eddie and I are going to be doing a webinar real soon here. Going to be talking about this and I'm excited about this webinar because it's going to be very visual too. So you'll be seeing Eddie with his slides, talking about example deals, talking about how to structure these deals and you can just get a taste of it. We're going to be doing this webinar real soon here. We're working out the details, but I want to give you guys a link that you can go to that will give you more information. If you go to REIMPodcast.com/Speed for Eddie Speed, R E I M

Podcast.com/Speed. You're going to find information there about the podcast. Also, if you go to the show notes for this podcast at REIMPodcast.com or RealEstateEnvestingMastery.com. You look for Eddie in the search bar you'll find this podcast. You can read the transcript of everything that we just talked about here and you can get links to Eddie's Facebook page if you want. Do you have any other place, Eddie, that you can send we can send people to if they want more information about you?

Eddie: Yeah, I mean obviously Note School has a website, NoteSchool.com. And there's some really good little stuff in there that's just free non-threatening stuff that's really helpful. I've written, we have a newsletter that you can go find as a result of getting to The Note School website, right? We have a newsletter we do every month called the Buy Line B Y U or B U Y The Buy Line. And I do a pretty extensive article every month about something related to something like this. Like why is the market condition well, how big the talk off is. Like as you said, the art of this deal is getting a seller to agree to it. I mean, it's cool that you can run numbers and scratch out numbers and you know, lay out how, you know, cash flows and stuff like that. And obviously that's what I've been doing my whole life so I'm pretty practiced at it. But the truth matter is what I really think that I help people the most with is not just what you're negotiating and what you should be negotiating for, but more importantly how to position it where they're like, okay, yeah, I'll do that.

Joe: That's the biggest battle.

Eddie: Yeah, it's going to be.

Joe: Well, I just signed up on your website. I'm looking forward to getting your newsletters, NoteSchool.com.

Eddie: Alright my friend. You and I are going to, you and I are going to do this. We're going to do this, this training, this webinar, and it'll be a little easier to kind of follow there because as you said, we'll have, you know, we'll have it laid out in a way. You can kind of see the numbers and here's what I would say to somebody. You listen today and you're like, they're right I may not have followed every number they had that they discussed today because you know, that's a little bit more of an advanced thing, you know, just to follow it in your head. But the truth be told it doesn't matter. Like I know what they're saying is right and if they can restructure that many deals and make profit out of something that everybody else is passing, I could drastically change the effective from my real estate investing.

Eddie: And here's the last thing I'm going to say to them, Joe, we're not going to stop you from doing wholesaling right. Just go make your one in 20 buy just like you're doing right now. Go do it. Then when the customer, then for the 19 that say no, what if we go find two or two, one or two more trades in the middle of that, right. We're not going to stop you from how you're making money, we're just going to take your existing leads and create a super monetization of deals that you're throwing in the garbage.

Joe: Yeah, this is so important, and I've been preaching on this for a long time on this podcast and on my own Facebook page. If you want to be successful in this business, in this market right now, you've got to be familiar with and understand creative financing, owner financing, lease options, subject twos all kind of falls into the same hat, but it's important it really, really is. So again, guys, if you want to go to the podcast, go to. I'm sorry, the webinar that we're going to do with this class, go to REIMPodcast.com/Speed. REIMPodcast.com/Speed. We'll have more information about how to get to that class there and if it, even if you're listening to this later, after we do the class, you can watch the recording. It'll be on that page as well. Thank you again, Eddie. I sure appreciate you being on the show.

Eddie: Alright, my friend. I really enjoyed it. You guys have a great day.