Big Profits In Creating Small 2nd Notes

Hosted by*:* Joe McCall
Guest: Bob Zachmeier

Joe: Hello, everybody. Welcome. This is the Real Estate Investing Mastery podcast and I've got a great show. I'm excited about this because I say that all the time, but this is like, it is always true. It is always true, but today's episode is especially cool because we've got Bob Zachmeier on the podcast.

Joe: Now those of you that know him, you're like, yes, those of you that don't know him, you're going to like, well, who's that guy? Like, why am I, why is Joe so excited about this? Let me tell you why. Because Bob was a guy that I heard on an interview that he did about three years ago with a friend of mine, Sean McCloskey. And I don't remember Zack or Bob, how Zach, sorry, but I don't remember how, I don't remember how Sean McCloskey met you, but I think he heard you talk at some event and he was blown away and said, can you, can I interview you? And you said yes. And I listened to that and I thought, holy cow.

Joe: And I went and I immediately bought all your stuff and then I just devoured it. Most of it, I'm still going through it because you got so much awesome stuff. And then we've just been going back and forth over the last couple of years trying to get you on the podcast. You've been busy. I've been busy. And then we stopped talking. And then finally Bob is, is driving down his RV on his RV from what? Florida to back to Arizona. Is that right, Bob?

Bob: Port Saint Lucie Florida to Tucson, Arizona. 2200-mile trip.

Joe: And he sent me a text, Hey Joe, I like your podcast. I was like, I about fell over because Bob Zachmeier listens to my podcast and I said can I get you on the podcast? Finally, he said, yeah, sure let's do it. So, I wanted to interview him, guys, and share with you some of the cool things that he does because I've not met somebody that is more creative on how he or she structures their deals.

Joe: And I've been thinking a lot more lately about owner financing and notes and what is all that, you know, because a lot of the, you know, most of the deals I've done, almost all of them have been regular wholesaling deals or lease option deals. I've done a few owner financings deals here or there, but I've just had a real interest in this stuff because this is why it's so important for us now. The market is changing, it's shifting and there's a lot of uncertainty in the market.

Joe: I was just reading on CNBC today in the news, they're predicting that 2020, and this is from the National Association of Realtors, so for what that's worth, do you remember, Bob, National Association of Realtors predicting, you know, in 2007 and eight that everything's fine. Nothing's going to happen. Just everybody needs to relax...

Bob: Right. When Greenspan came out and said there was an irrational exuberance and Lawrence Yun, the Chief Economist said, oh no, no, everything is fine. There was no recession coming. And that was the biggest miss in history probably.

Joe: I kept somewhere a few years ago I found that original article like, and it was very important. I mean, a lot of people look to the National Association of Realtors and their chief economists as, as you know, having all wisdom and these, this amazing group of prognosticators or whatever. But they got, they could not have gotten it more wrong. It was just embarrassing. Anyway, their latest predictions are actually that 2020 will be a very difficult market. They're actually saying that 2020 prices will drop for the first time since the recession nationwide. So, we'll see for what that's worth.

Joe: But my whole point in all of that is when the market is changing and shifting or, and even going down, owner financing works in all markets, right? But especially now when it's, as it's going down, it's going to be more important than ever to understand creative financing, to understand notes, owner financing, stuff like that... And I know no one better than Bob Zachmeier and there's a few other guys.

Bob: Well, thank you.

Joe: I just also interviewed Eddie Speed. And so, but I mean this, you guys are in for a treat. So, having said that, real quick guys, if you're listening to this podcast on iTunes, I want to ask you to please leave a review and let us know what you think of the show. Go to iTunes, leave a review, subscribe to the show and really, really appreciate it. But one more thing too, and I talk about this all the time, I've got my book, right? It's called REI Secrets: Daily nuggets of real estate investing wisdom to get more leads and close more deals. I think my volume number two; I'm going to have more chapters in there about creative financing, owner financing and notes and stuff like that because this is, this is such an important topic.

Joe: But volume one, it's called REI Secrets. You can get the book for free, just pay shipping. It's about seven bucks I think for shipping and handling. You get the book for free. It's about an inch thick. Every chapter is designed to be read really quickly. It's, each chapter is about a couple of pages long. You get the book for free. It's called REI Secrets: Daily nuggets of real estate investing wisdom to get more leads and close more deals. You go to REIsecrets.com. Okay. Go to REIsecrets.com. Check that out. Mr. Bob, how are ya?

Bob: I am good, Joe. Thank you for having me on.

Joe: I was, I was blown away that you texted me that you were actually listening to my podcast and I was honored and I thought, man, this is so cool. You, you've been in the business a long time. You used to be the number one REO broker in Arizona. Is that right?

Bob: That's correct, yeah. We, during the recession from 2009 through 2012, we sold 2000 REO properties.

Joe: Wow. And Arizona...

Bob: In four years.

Joe: When you consider Phoenix, especially, is a huge state, huge markets down there. And so, can you talk a little bit about your story because you were doing a lot of REOs. You were a traditional listing agent, a broker, and you still, you still have your broker broker's license, right?

Bob: I am a broker. I'm actually retired. My company, I just got tired of being responsible for other people. But I was a broker. I owned Win3 Realty. It was a mom and pop business I started with my wife and during the recession, you know, the only business... our prices in Arizona fell by 50%. So, none of our past clients could afford to sell their home. And the only game in town was REO. And we had started applying and applying and applying and of course not getting anywhere.

Bob: And then I heard about this conference in Dallas, Texas back in 2007 called... What the heck is, I can't believe I forgot. Anyways, so let me just, there's like 6,000 people that come to this event and it's the biggest REO conference of the year. And so, I bought a suit and I went to the conference and cause nobody in Arizona... it's hot here. I mean, we don't wear suits when we go to appointments. We wear Hawaiian shirts.

Bob: But I bought a suit, went to this conference and I came home with a Freddie Mac account and I said, okay, I know how to get accounts now. And I just started jumping on a flight. And every two weeks I was on a plane for three years, I ended up bringing home 65 different banks that I, that I represented for selling the REO. And you know, it's crazy the amount of traveling and racked up a million miles on American Airlines during that time. And I was, you know, there's over two months a year staying in Marriott hotels and it was just, I was a road warrior, but I brought that back.

Bob: My wife, one of the very first conference was in 2007 and then '08, '09, '10... And then, you know, went from basically starving to death because none of our clients could sell to, you know, just running 300 listed properties at a time with 28 W2 employees and 22 real estate agents working for me just to handle the buyer leads.

Joe: Wow. Wow. So, were you making a lot of money during this time?

Bob: We, well, there's a big difference between gross and net. Right? I was grossing like $3.2 million a year in commission, but my payroll just for my W2 employees, my payroll was $42,000 every two weeks.

Joe: So, $84,000 a month. Almost a million dollars a year.

Bob: Yeah. That's in the W2 employees. Don't forget that you have to pay the agents at least 50% of the commission that you earned. And then you have the overhead from running for offices and having a payroll. And then people, the biggest expense in REO was, you know, things that a normal real estate agent doesn't do, which is fixing them, you know, making all the repairs. I had a three person, basically construction department, so we would have to go out and meet contractors and get a quote and submit it to the bank for approval. And then of course I had to pay for all those things out of pocket.

Bob: There were times the Freddie Mac was one of my bigger accounts and they fixed everything. And there were times that Freddie Mac owed me $300,000 in reimbursements and it's scary, you know? And then what if, what if they decide not to pay? You know, a lot of them, the companies actually that became a profit center for them as, you know, they kept shortening the window when you had to turn in your expenses and no, you turned it in too late. We're not going to pay you back for that new kitchen you installed. And it just got to be ridiculous.

Bob: Up until... In 2012, that's when you get hit in the face. We sold over 400 years. It was starting to decline. You know, the number of REOs, the market was starting to improve, but we sold over 400 properties. And at the end of the year, I'm managing my books and my wife went home to visit her family in Texas for Christmas. And I just said, look, I can't go. I, something's wrong. Either we have somebody embezzling money from us or, or there's, there's something bad wrong.

Bob: And the good news was nobody was embezzling. The bad news was it was costing us more to sell the homes than we were making in commission. And after selling 400 homes, we ended up losing $32,000 that year in income. And that was it. My wife came back from Christmas and I said, Hey, great news; nobody's embezzling from us and. But these are the, all the banks and we have to fire them all. She starts crying. It's like, oh my God, that's the only, only business we have is banks and what are we going to do, you know, for making a living. And I said, you know what? We could have shut down our business, went to Mexico and drank margaritas on the beach for a year and not spend $32,000 so that was where the, you know, something had to replace the REO.

Bob: And that's how I fell into the note space. And I noticed that a lot of good people were getting back on their feet and especially those that had had foreclosures and short sales, they were back making good money again. They had really good down payments, self-employed people, but they were in the penalty box for seven years from, you know, from the foreclosure. They had a short sale and back then nobody was lending to self-employed people.

Bob: So I found this little niche in the market and at the same time, my mother was in her eighties and my father passed away in 1996 and their financial planner had, you know, advised them, don't put all your, any more than a hundred thousand, in one bank account because that's what's FDI, you know, insured. So, they ended up having about $1.3 million at the time and they had it separated into 13 different accounts. My mom would make $4,000 a year per account. So, she was making 52 grand in interest and that was a 4% interest rate.

Bob: And, and then the market hit and all of a sudden, the interest rate in 2007 went to 0.2 and her $52,000 a year income dropped to $2,600 a year. So, she just basically lost 50 grands of her income. And I started seeing her not take trips that she'd gone every year down to Branson, Missouri with a bunch of her older lady friends. And, and you know, I had a local client, self-employed on several businesses and roofing companies and multiple rental properties. And it wasn't that he couldn't get a loan because of bad credit. It's, he had too many loans and he wanted to buy a home for his daughter to go to the university of Arizona. And it was a $300,000 home and he was putting down 100,000 cash and the bank would not lend him $200,000.

Bob: So, I called my mother and I said, hey mom, why don't you cash in a couple of those as money market accounts you have at the bank and this guy will pay you 7% interest on your money. And she says, well, what if he doesn't pay me? And I said, well, then you would get a $300,000 home for $200,000. Oh, okay. And it didn't really occur to her to sit down with a calculator and run the numbers. So, each one of those accounts was paying her $200 a year, you know, $16.66 a month. So basically $33 bucks a month is what she was making on those two accounts that had a total of $200,000.

Bob: When she got her first note payment, she called me and said, I think they made a mistake. I was like, what do you mean? Well, they sent me, they sent me a check for $1,330 and I said, yeah, that's right. You're going to get that check every month for the next 30 years. And then she goes, oh my gosh, do you have any more of these notes? And that's where my note business started... My own mother.

Joe: What year was that?

Bob: That was in 2009

Joe: That's a great story. Wow. Helping your mom.

Bob: Yup. And helping a local client. And it's so cool... The retirees are getting massive amounts of money. She was making 35 times more at a 7% interest rate and the bank was paying her 0.2 so 1% would be five times more than the bank was paying her, but she was getting seven. So, it would take her 35 years to get that much money from the bank as what she would make on a note in one year.

Joe: Alright, so you started getting interested in notes. Your REO business was kind of dying down. You went through a point too, didn't you, where you had, you know, went from a couple of hundred, 300 to just a few of them almost within a few months. Right?

Bob: Oh, and in six months' time, I mean I went from 300 listed bank properties to under 30, and I went, I had four offices open and all these employees and I spent a year just running around putting out expense fires, you know. I was bleeding money and so we just, you know, downsize next to, I got down to two employees and the office building that I owned and I sold that in 2016. And this is, you know, the whole change in our society, all the brick and mortar are going away. I mean, who's killing it in the insurance business? Geico, they don't have brick and mortar offices, but who's killing it in the retail space? Amazon. Who's killing it in the rental car space? Uber. You know, it's the largest car company in the world. They have zero cars and Airbnb is the largest no hotel business in the world. They have zero rooms.

Bob: So, I mean it's all going into the cloud and, and it just, you know, made sense that I don't need my brick and mortar office. And then if you're going to have a building, you've got to have people to be there to in case somebody walks in. So, that office was costing us $4,000 a month in overhead. And I basically sold the building, we sold it for $350,000, had a little bit left on it, like 35,000 left. And then with the commissions to the commercial brokers and we ended up walking away with just under $300,000 cash. And I invested that into notes and what was costing me $4,000 a month, is now paying me $3,000 a month. So, that was a $7,000 a month turn. And you know, that's just staggering.

Joe: One of the things I remember you saying was you got to a point to where you stopped going to seller's houses. You would actually tell them you would schedule an appointment for the sellers or your potential clients to come to your office. You remember that?

Bob: Yes. I started looking at my time. And then if you're familiar with Bill Pareto and Pareto Analysis, it's the 80/20 rule basically. So anytime you get too busy to get all this stuff done, you look at your schedule and you say, what am I spending the most time on? And one of the biggest time wasters in real estate is the amount of time you spend getting ready for an appointment. The drive time to get there. And then a couple of hours you spend with the person there and the drive time to get home. I mean that pretty much eats up better portion of the day just going on a listing appointment. So, I decided, well, I got to find a way around that. And so, when I would talk to people on the phone, I said, Hey, I'm available this afternoon at four, tomorrow at 10, which time works better for you?

Bob: And then they would choose one and that way they're not picking a time when I have a date night with my wife or anything else, I'm laying out the time and controlling my time better. And then whenever they would pick the time, I said, great, my address is, and I'm just giving the address and you can hear this kind of like hesitation on the other end. It's like, well don't you need to see my house? And I just say, yeah, of course I'll need to see your home. But all real estate searches begin in a real estate office and I want you to see your home the way buyers are going to see it before I come and look at it. Does that make sense? And, oh my gosh, you'd have no idea the amount of time I've saved in the last 10 years since I started doing that.

Joe: I love that. So, you're telling them, you're telling them basically all real estate searches start not necessarily in a real estate office, but actually in a, well they kind of do, but their working with a realtor, but on the computer.

Bob: Right, right. And then, you know, it's kind of funny as this note thing has developed, people that have, that can't get a bank loan... Do you believe that they're predisposed to pay a higher price for a home?

Joe: Yeah. Yeah. You use a good analogy. I like, you know, if you're, if you have granite countertops, you pay more for a property with granite countertops. Right? If you've got beautiful landscaping and backyards scenery, you pay more for a property for those premium upgrades. Right? Well, it's the same with owner financing. It's a premium upgrade, isn't it?

Bob: Yeah. It's the best amenity your home can have right now because the banks, almost every bank sells their note at the closing table. And basically, if you don't fit in one of their boxes, because they don't tell them as one offs, they lump them together. These people all have a 720-credit score. They've been at least two years on their job and you know, they have all these criteria that they bundle up the loans and sell them off. And I was just actually a reading an article this morning that came out from the Federal Housing Finance Agency through the first six months of this year, the banks sold off 117,466 nonperforming loans and they're not coming as foreclosures anymore. They just, they're, they're going straight to Wall Street. The REO broker is dead. And it makes sense that the banks do that because basically they can sell to Wall Street at 62 cents on the dollar.

Bob: And everybody's like, well geez, if you sold it on, on with a local broker, you'd get 100 cents on the dollar. No, you've got to, the average foreclosure time in the United States is 18 months and the average carrying cost on a vacant property is 2% a month. So, right there you lost 36% of the property's value. Then you've, you factor in the cost of the real estate agent and the title company and the foreclosure attorney and the biggest expense is the staff of the bank that managed all the REOs and they ended up making less than 35 cents on the dollar. They make almost twice as much as selling them off to Wall Street. So that's why this whole thing just shifted and everybody that thinks we're coming to another recession and REO is coming back. If you're a real estate agent listening to this podcast, I mean you, you might as well be unicorns and Lochness Monsters and Bigfoot because it isn't going to happen.

Joe: Well, what is Wall Street doing with these defaulted notes?

Bob: When Wall Street buys them... Well, first of all, there's a whole bunch of hedge funds that got into the space like Blackstone went into Phoenix and bought 6,000 homes during the recession. And everybody thought that when the prices recovered, they were going to sell them and make all this money. Well, they didn't sell them. They actually securitized them and took out credit lines against them and sold off securities and they've been buying more and more and more so. So, the big hedge fund companies are buying them and then they have regional buyers, somebody that buys in the Northeast, somebody in the Southeast, the mid Midwest, and then the Pacific Northwest and Southwest.

Bob: So, they have a regional buyer that just buys all notes that they get in this pool the same day and they'll mark them up, you know, like 50 cents on the dollar more than they paid. And so, then the regional buyer goes and sells it to either a state buyer or a city buyer. And these things can be sold like three times in a week. And each time the people are marking them up and making a huge profit off of what they paid. And by the time it hits to the local, you know, Tucson buyer, Phoenix buyer, Denver buyer, I mean the places are selling it, it's still a good deal, like 80 80 to 90 cents on the dollar, but there's no money in that to flip it anymore, like there used to be an REO, because all these hedge funds have peeled off, you know, all the cream and then the...

Joe: But there's still a buyer in there who's late on their payments and is defaulted, right?

Bob: Yeah. And they're buying a nonperforming loan and then the hedge funds or the end user who buys the note is actually foreclosing on it. That keeps the banks out of the headlines. I mean that's the Achilles heel of a bank is being national headlines. And you know, we used to get directives right before Thanksgiving that we are not to foreclose on any more properties until after New Year's because they did not want to be in the headlines of a paper kicking a family out over Christmas.

Joe: Wow.

Bob: Their publicly traded companies... that affects their stock.

Joe: So, if a buyer is in a house and they're defaulted, they're still getting evicted or foreclosed, but it's happening from a smaller local investor?

Bob: Right. And the local investor can actually go in and say, Hey, what happened? Can we work with you? And let's work this out. What if we restructured your note and stretch it out for more time? And, and you know, there's all kinds of things that you can do. Well, a bank couldn't do that, mainly because of, you know, the federal government having all these regulations about so many protected classes. You could have someone that had a 720-credit score. And in the old days, the local banker in your hometown would say, Hey, you're a good borrower and let's just restructure this for you. Well then, another person comes in and it has a 480-credit score and they're late on everything and they're horrible. And then, you know, they don't restructure the notes for that person because they know it's not gonna work.

Bob: Well, you know, the government comes in and says, Hey, you gave it to this guy because of this protected class thing we're in and the other guy was in the other protected class and therefore, you know you're discriminating. And so, the banks took the stance that we're not gonna do anything for anybody and we're just going to foreclose.

Joe: Alright, so let's talk about the way you're doing deals today, which I think is so cool. And this is really the main thing I wanted to talk about. We're talking about notes, right? And I hope nobody is checked out because notes, they sound complicated, they're confusing and they're like, I have no idea. I don't want to learn something new about notes, but we're talking about buying houses, right? We're talking about flipping houses, we're talking about income from houses. So, forget the notes language and don't let that get confusing to you because one of the reasons why I like Bob so much is because he really, really does a good job of simplifying it. And we're going to give you some tools and resources here that are frees and videos and stuff that you can look at from Bob. It teaches you how this stuff works. Alright? So, Bob, you know, do you, would you rather, are you in the business of buying notes, you know, or are you creating notes?

Bob: Well, it's sort of a hybrid model. So, let me just start off. I like to have a hand in the creation. So, Dodd Frank has rules that say how many notes you can create in a year. And basically, if you originate, there's a limit that you can originate three notes a year. In some States it went to five. So, I don't originate any notes. So, the analogy I use for this, Joe, is if you are a homeowner, you can sell your own home without a real estate agent, correct?

Joe: Yes.

Bob: If you want to sell your neighbor's home and represent them, you need to have a real estate license, right? Correct. So, if you are a homeowner and you want to sell your home and carry the financing, you can do that because you own the property. But if you want to carry the financing on your neighbor's home, you need a loan origination license. So, technically the way that deal works. I love what you said about keeping it simple. When people ask me how it works, I just say it's just like a normal sale except for instead of using banks, we use people. I mean it doesn't get much easier than that. So, then I go to the seller.

Bob: So, let's just say that you want to sell your home and you heard a commercial on my radio show or something. And then you call me and you say, I want to sell my house. So, I'll come over to your home. And the first question I'll ask is, when I sell your home, what are you planning to do with the money? And then I just zip my lip and listen. Really? Oh well I got to buy another house. I got to pay off my mortgage. I want to pay off my car. I got taxes due. I mean they've got just a bazillion reasons why they can't carry.

Bob: And then I say, well now let me ask you a couple of questions. Do you want the real estate process to be slow or fast? Do you want to put your house on the market and have it languished for months or would you rather just be done next week? And they're like, Oh, I pick fast. Okay, do you want the negotiation to be harder, easy? Do you want somebody that's coming back after they hit you on the price, then they come back and hit you on the inspections and then they get you on the appraisal and all the way to the closing table you're fighting and negotiating or do you just want an offer tonight that you're comfortable with that you go to bed and you're done.

Bob: And you know, of course everybody says they want the fast close and the easy negotiation. And then the last question, would you prefer more money or less money? And it's a stupid question, but the people said, well more of course. And I said, okay, what you've just described is a seller finance transaction. Your home, because of supply and demand, very few sellers are to carry the financing on their homes. So, there's very few homes out there for the people that don't qualify at the bank. And you could get probably somewhere in the neighborhood of $10,000 if you carry the financing and it just makes sense because when you get your money back at some later date, five, seven 30 years from now, it's not going to spend as far.

Bob: So, therefore you need to get more for it upfront. And if you ever go to sell that loan, you may have to discount it and that's why you need to charge more for it upfront so that you'll have the ability to discount it at a later date if you ever needed to sell. So, basically if you did the financing, you could get an extra $10,000, these buyers are not going to ask you like all the other buyers for 3% in closing costs, which is quite common across the country because the closing costs when you don't use a bank are just a few hundred dollars. I mean they can afford to pay it themselves.

Bob: So, right there you're going to save 3% and then the repairs, most of the people that buy these properties are contractors, self-employed contractors that can't qualify at the bank. And they can fix that house way cheaper than you can. So, they're not going to hit you on bunch of repairs. And so, you're going to save money there. And then also most of our seller finance closings happen in less than two weeks. So instead of a six to eight week close, you're looking at a two-week close. So, these are all the different ways that you're going to save money.

Bob: And then I just wait for it. And you know, they're all excited about getting the more money, but then they, they say, well Bob, I can't do that. I have a loan, I have, you know, all the reasons and I just wait for them to spit out every reason that they have, why they can't do it. And then I just say, what if I found somebody else to do the loan for you? And basically, you will originate it, but they'll buy it from you at the closing table?

Bob: I mean, how are the loans that your local lender is originating? They're originating in their name and they're selling them at the closing table, right? So, we're just doing the same thing that banks do. So, how many, how many can I do with Dodd Frank? I didn't originate any. I'm buying them from someone else.

Joe: Okay. Could you say that last statement again? The question that you asked the seller.

Bob: So, do you want more money or less money? Because a buyer, if you finance the home, we could, we could sell it for a higher price. We could close on it faster. We would have no seller paid buyer closing costs or concessions and basically very seldom any repairs. So, you're going to make money on all fronts. All you gotta do is finance them and then wait for it because 99% of the time they're going to tell you they can't finance it.

Bob: And that's where my favorite two words in the universe come up. What if, I mean, what if is so powerful. I mean, remember the HP commercials? What if, what if? What if? So basically, what if you're not making a commitment, but you're opening their mind to an opportunity that that could exist. What if we could just finalize your deal tonight? You could go to bed. Your home is sold. There are no more people coming into your home, no more making the bed, picking up toys, you know, and having to come home to other people's cars in your driveway. None of that stuff. You have one decision left after tonight and that is what day do you want your check? Nine out of 10 people are going to take that deal.

Bob: Well, well not quite yet. What they're going to, what they're going to say is, yeah, but for how much? Because they're used to all the wholesalers coming in, offering them 65 cents on the dollar. And so, then that's where we pull out the, like what if you sold your home in a traditional fashion, you would have X percent for commission, you would have buyer closing costs. They're going to, more than likely 80% of the people in these lower priced homes, which is what I focus on... what if we don't have any of that? No buyer closing costs, no repairs. If you did a traditional sale, you'd have 2% in repairs, 3% in buyer closing costs, 1% for your closing costs, and then whatever the commission is in typical in your market or whatever you negotiate with your agent. I don't want to price fix here, but...

Bob: And then you're probably going to lose 10% of the value of your home just in selling costs. And then the home inspector comes, I haven't found a home inspector yet that says, Hey, nice house, you should get it right even on brand new construction. So, so I always tell people count on 2% for the inspection repairs. So, now you're sitting at 88 cents on the dollar that is on a full price MLS offer. You would get 88 cents on the dollar. What if you could go to bed tonight with a contract for 90 cents on the dollar and never no more showings. And no more hassle and you pick your own date, instead of having a buyer come in and say, I want to pay this much money. That's the list of stuff I want you to fix and this is the day I want you out. That's the way a normal transaction works.

Bob: What if you just went to bed and you decide that you're, you know, we're in a sellers' market, why are you letting the buyer dictate the terms? And people like that and like to take control of your sale instead of sitting in limbo wondering when and if it's going to sell and for how much you could go to bed tonight with a net sheet telling you what you're going to walk away with and now you've got to do is plan instead of getting stuck into this little two week window of finding a house somewhere that may or may not fit your criteria, and certainly will not be your dream home. What if you can go out several months and find the home you really want. And I can close as fast as a title company can. So fastest close with a title company I've ever done as I walked through the house at eight o'clock in the morning and I owned it at three in the afternoon.

Joe: Alright, so let's talk about this then. How can you get sellers 90 cents on the dollar and what are the steps involved with that?

Bob: Okay, so first I want to point out a major difference between me and the wholesalers. Wholesalers and like HomeVestors, the largest wholesale company in the United States, they buy what kind of houses? What's their slogan? Ugly, ugly houses. I want pretty houses. So, what do those people do when they get to the nicest house on the block that needs absolutely no repairs. I mean, most of the wholesalers are going to no bid it because they don't want to get shot, you know, offering this person 65 cents on the dollar when they're the nicest house on the street, it's not going to work. I say, you know what, refer those people over to me because I can get them more than they would make on a traditional real estate sale. Right?

Bob: When you have a faster close on your terms, let's just look at a wholesale model... If you were going to be a flipper and buy that home at 65 cents on the dollar, what do you think you're going to have in acquisition costs?

Joe: 5%?

Bob: Closing costs usually. Yep. So, it's so 5% in acquisition. How about disposition? You got to pay a real estate fee typically and your own closing costs again, unless you did a hold open policy and then the repairs, you're going to get hit for inspection repairs. So, I mean normally it's not uncommon to spend 10% you know, selling a house with everything, even though you just renovated it all, they're always going to find something. So, and then what about the repairs themselves? What percent of the purchase price do you think is average for a flip? Probably 10 to 20 yeah. Yeah.

Bob: So, when you bought it at 65 cents on the dollar, how much did you really make if it costs 10% to sell, 5% to buy... Right there, that takes you from 65 to 80. If you've got 10 to 15% in repairs, at best, you're going to make a 5% profit. And every month that you own that house, you're bleeding out 1% in carrying costs. Correct? So, I mean that's a tight model at 65 cents on the dollar. Well what if I didn't need to do any repairs and what if I didn't need to have, I never took title to it. I was just the lender on it instead of the owner of it. Now I just avoided two sets of closing costs and all of the repairs by selling it to someone.

Bob: And I'll give you an example. We had a home came in and there was not a bank under the sun that would have went on this property because it basically had signs of a roof leak. It had a home with an addition with a garage. And there was not one grit of shingle left on any of it and you know, we were getting bids of $12,000 to replace the three roofs. And so, we just went out to Craigslist and Facebook marketplace and we marketed for roofers to shoot us a quote to roof this house. And when the bids would come in, we'd say no, that's way more than I want to pay. Hey, you wouldn't want to buy this house, would you? And the seventh roofer said, yeah, this would be perfect for my dad.

Bob: So, here was the deal. You put the roof on and bring us five grand down and we'll carry the paper for 30 years. So, we avoided all of the upfront costs. That weekend my business partner drove by. There were 16 people working on those roofs and grandpa got on a new house. I mean, isn't that a great story? I mean it's just so we're able to sell it for market value because we found someone that looks at a roofing job as something, they just do every day and they don't like, Oh my God, it's $12,000 for a roof. They're like, I can get the materials for probably 3,500 and this is a smoking good deal.

Joe: Okay. So, you were saying you get to seller 90 cents on the dollar. So, structure how that deal works. You also said earlier something about the seller will create the note and you'll bring a buyer for the note. They'll buy the note from them or something like that. Is that what you were saying?

Bob: Yeah. You're familiar with most major markets in the country. There are people that are running the guaranteed sale program? You know, if you buy a home from me, I'll buy yours or something?

Joe: Yes. I've always wondered how...

Bob: So, basically, I knew as well that their contract has one inch of text that shows what they're going to do and 10 inches why they're not going to do it. So, I only buy yellow houses on Tuesdays, you know, I mean that's just kind of, most people are scared to death of having to buy that house. And if they do it, they're paying, you know, wholesale prices. And the difference between me is I say, look, I actually want the house because I want to put a note on it. And if you need the money before I found a buyer, I will buy it myself. Okay.

Bob: And it's kind of funny, you know, a lot of these homes in these neighborhoods have bidding wars because they're so short of supply. I've got people tripping over themselves selling me their houses at 90 cents on the dollar because they net more money on my sale and I'm the easy button when it comes to closing. I close on the day they want the money.

Joe: Alright, so can we talk about how you actually do it? How does the process work? So, you can use an example deal, I don't know what, $200,000 or $100,000.

Bob: Yeah, let's just for this call and since it's, you know, people listening and when they're jogging and driving and let's just use $100,000 even though we don't have any of those left, we used to. So, let's just say that the MLS value in that home is $100k. I could sell that house in my sleep if I financed it for $115k and then we don't have any upfront fees. There's no points or anything on the loan. How much do people pay banks when they get a loan? I mean everybody says count on 3%. You know, your closing costs are basically half of escrow, half of title, and the origination fee from the servicer, which is usually a hundred or

$200 and that's a total cost. So, basically, they would write an offer of $115k, they would put a minimum of $15,000 cash down because I don't ever want them to be upside down in that house.

Joe: So, you're bringing a buyer. Now, first of all, let me, are you doing this as a realtor or as an investor for your own deals?

Bob: I do both. I never do both at the same time. So, if I am a participant in the deal, I will not be the real estate agent because I have a conflict of interest. You know, the minute I start working for me can't represent someone else. Right?

Joe: So, let's approach this deal as you're an investor for yourself.

Bob: Correct. Okay. So, that person is buying a home for $115,000 putting down $15k... That leaves $100,000 to be financed, right? So, most of my lenders are not, you know, investors. Investors are what I call greedy pigs and you know; they spend money to educate themselves and very few people get excited and very few investors get excited about a six or 7% interest rate. But someone that's earning 0.2 at the bank is highly excited over a six or 7% interest rate. So, basically now we have $100,000 worth of financing that's necessary. But remember that the MLS market value of that home was $100,000 and we have $100,000 of financing that how secure is that for a retired person who doesn't have the ability to earn money anymore in their life? That's not, that's not secure at all. Right?

Bob: So, then basically what I will do is say, you know what, I really don't want you to be at risk. So, let's break the loan into two pieces instead of you taking on $100,000 loan... Why don't you just take on 70 or 75? Depends on the deal and what the value is. But so now you are in a first position loan at $70,000 and I will take the second position loan behind you for $30,000. So, the buyer's paying $115k, bringing in $15,000 cash and the hundred that's leftover for loans is broken into $70,000 first. Then in $30,000 second. So, how much did the seller, except they were all excited to get $90,000 because that net was more than they would make on, you know, selling it a traditional way. Right. So, so I need $90k. The buyer brought in $15k of the $90k, and the retiree brought in $70k.

Joe: So, the seller needed $90k. You've got $70k from the first private investor and you got $15k from the buyer.

Bob: Right, down payment. So, that's 85... So, I'm $5,000 short, right? Basically, I can bring in $5,000 and I own a $30,000 mortgage.

Joe: So, you bring in 5k of your own money then, $5k to buy a $30,000 second mortgage. So, you're creating a second mortgage note.

Bob: Correct.

Joe: Right. Okay, good. So, I'm writing these numbers down cause I'm hoping everybody else is following along. What are the interest rates in that first position $70,000 note?

Bob: Typically, we do between six and 7%. Risk and reward go hand in hand. How many other investments can you think of, Joe, that could lose 30% of their value and you still are whole?

Joe: Not very many. None.

Bob: To earn that much, a 7% rate of return on a 70% LTV loan is very attractive to retired people. And a hundred, just for easy math, $100,000 in a bank would pay $200 a year, 0.2%, right? So, that's $16 and 66 cents a month. The same hundred thousand in a 7% note would pay $665 a month instead of $16 a month. So, hey, could you use an extra $650 a month? I mean, who's going to say no to that?

Joe: So, what are the terms to the buyer that you're selling this? You know, you're selling it for $115,000 they put down 15 grand. What, what are the terms, like what interests are they paying?

Bob: Seven, six to seven on the first and depending upon risk, when I said I go 70% to 75%, I'll never let one of my retirees go higher than 75%. I just don't want them being at risk. If they're 75%, then they would get seven. If they're at 70%, they might get six and a half or six. But it's a 30-year fixed rate loan with no balloon, no upfront fees, no prepayment penalty. We encourage the buyers to pay it off early. If they can fix their credit and go in and refinance and get something under for, you know, the power on, that'd be great. And then, you know, I can always tell when a note has been paid off because I'm the first phone call that retirees make and they don't want to go back to Wells Fargo and make their 0.2, you know, they say, hey Bob... I need another note, this one paid off early!

Joe: So, what's the fee?

Bob: I mean I'm not a lender. I'm not a licensed lender, so I can't charge any fees. Basically, this either drives my real estate business or my second note business, not, but I don't make any fee or anything from that retired person.

Joe: So, then you really, you're just putting that private investor, that retiree you're not the borrow in that note, the buyer is, the end buyer is?

Bob: Correct. The end buyer is the borrower. The seller originated the note and because they had a note of their own that they had to pay off and an underlying mortgage, they couldn't carry the note. I always give that homeowner the opportunity, you should carry this, you will make more money. You'll walk away with more money than you would gross on a traditional sale. And if that was the case and they carried it themselves, then I would just be paid as a real estate agent, not as an investor. And if they don't want to carry it themselves...

Joe: That's why you brought that up earlier because the seller originates the note you get paid then as a broker.

Bob: Correct. Right. Okay. I want to go back to the, it's almost like, I'm, you know, you're paying someone $90,000 for a hundred-thousand-dollar home and you're cheating that seller. And the first thing is how much commission did they pay? None. So, right there is whatever, five to seven typically percent in your pocket. And then how much of the buyer's closing costs did you pay? None. There's another 3% in your pocket. How much of the repairs that the home inspector would find did you pay? It's very seldom that one of these contractors ask for any repairs because they got a bunch of friends that can do it on the weekend for a case of beer.

Joe: So, no commissions, no repairs, no inspections.

Bob: You know, it's kind of defeats, you know, logic. But wait a minute, I can get an offer of 90 that nets me more money than an offer of a hundred.

Joe: Yeah, exactly. And there's also no carrying costs. I mean, compared to like on average it takes three, four months to sell a house, doesn't happen here.

Bob: Right. Normally, I mean, I literally have a waiting list of people that want a house. And you know, if you're a real estate agent, it's really tough right now to be a buyer's agent because there's so little inventory and everything that comes up for sale, there's five offers on the first day and people are fighting over these houses and bidding the prices up. And when you're doing financing and you're offering someone the opportunity to be a homeowner that no one else will let them have, their payment will be cheaper than rent, usually between a hundred to $200 a month cheaper than what they're currently paying in rent total out the door costs.

Bob: So, I mean, you're helping these buyers actually save money now instead of the landlord getting all the appreciation that's going on, they get the appreciation, they have forced appreciation through paying the principal down on the note. They're saving money on the rent every month. And depending upon their tax situation, they may or may not be getting a text deduction for the mortgage interest in the property tax.

Joe: Yeah, makes sense.

Bob: So, the buyer is excited. They're getting a house for less money and they own it and they get all those things. The seller also got more money. I mean, buyers want the lowest price. Sellers want the highest price. This situation actually lets them both get a better deal than they would get in a traditional sale. And we're throwing in the neighbors. You think the neighbors are happy that we just sold this house for $115k? What did that just do to their property value?

Joe: Raise it up. Okay.

Bob: Do you think maybe if you're a real estate agent you should be sending out postcards, congratulating them on the new high price you just got for them?

Joe: Oh yeah, for sure. Talk about the second loan then. What's the interest rate on that?

Bob: Typically, one point higher. But sometimes the same. I just did a deal this morning where the buyers put down $80,000 on a $220,000 home. And this is way, I mean it's $220. So, our minimum down is either going to be the premium or personally I don't deal with people on a deeded sale for less than 10% down, so at minimum they're going to have $22,000 down. This guy has been on his job 21 years. He's kind of a, does some roadie kind of work for a major rock band and he makes, he been with him 21 years and he have an 807-credit report, but they only tour a few months out of the year. So, when they go to the bank they say, Hey, send us the last two months of bank statements and pay stubs. And it's like, what pay stubs, right?

Bob: So, he put down $80,000. I mean I would lay awake at night hoping this guy didn't pay me back. Right? You've got a $220,000 home. I wouldn't wish ill will on anybody, but basically you needed $140,000 loan. So, we could have done just a first on that note. But again, I'm not, this one came through my personal channels, not real estate advertising and it was just kind of a referral from a friend. And so that one I wanted to take personally into my IRA or you know, preferably a Roth IRA where you get, you know, that kind of a discount with without ever any income tax because you already paid tax on the account. The lender brought in $122,500, the retiree on a first position loan, he got 7% on a 30-year fixed rate loan and that is a payment of $815 a month.

Joe: That's what you're collecting?

Bob: No, the loan is professionally serviced by the local title company. I use Stewart Title; they service the note and they collect the payments. They withhold for property tax and insurance and then they pay the first and they pay the second and the servicing fee from here is $10 for the first note and $5 for the second and $10 for the escrowing. So, a total of 25 bucks, buyer pays the $25 that's part of their payment.

Bob: So, anyway, this loan was $17,500 and this is an arrangement I made with the seller. It's like, look, if I can bring you someone that would pay a higher price than what you would sell it for and this is a flipper guy that is going to do quite a bit of business. So, I said, let's make this a partnership that we both win. So, whatever the premium is, we will both get a portion of that as part of our profit. You get it as a paper profit on your flip property. I get it as a discount on my note. And then he's not paying any real estate commission either. So, you can discount the note by what they would have paid for commission or a fraction of that. And that's a, now you can buy into a note that, you know, there's $17,500 note basically required a check for $3,100... That's a pretty good investment.

Joe: Yes, yes. Well, this example deal we were talking about a hundred-thousand-dollar house. He created a $30,000 second note in second position, the seller, the buyer's paying seven to 8% on that. By the way, the total payment that the buyer is paying is usually less than rent, isn't it?

Bob: Yeah, at least like I say, between a hundred and $200 less than rent. And that includes the taxes, the insurance, the debt service, and the servicing fee. Total out the door is less than rent.

Joe: Yeah. So, then what is the, what would the payment on that $30,000 be?

Bob: The payment on that at 8% is$220.13 a month. $220 and 13 cents. And I'll tell you, Joe, I've got a bunch of them like that. And I mean, I've been doing this for almost 10 years and I just had one last summer pay off and it was two of the letters, 60 months that I'd held it. So, in five years, which national average five to seven years of holding a house, that loan had paid $220 a month for 60 months. So, I received in payments $13,200 and during that 60 payments, $1,481 had been paid off toward principal.

Joe: Well, okay, let's just...

Bob: Those, go ahead...

Joe: I'm sorry. I was just going to say, looking at this, if you're getting $220 a month times 12, you're getting $2,640 in the first year. On just interest payments. And but by the way, is that second note, is that also amortized over 30 years?

Bob: Yes. With no prepayment, no upfront fees, no points or anything like that.

Joe: Alright. And so, you put $5,000 into that. So, you just made 53% on your money. That's insane.

Bob: But that's what I make interest. What about the principal? I made 600% the day I closed it. So, if you spread it out over a five-year payoff, that 600% is 120% a year. Because you know at the end, I've already collected $13,200. I paid five grands for the note, so it takes me 22 months to get my money back. If I'm the real estate agent on that transaction, basically I get the equivalent of my commission every 14 months for the next 30 years. For any real estate agent listening and that should just like rock your, I mean it's like holy crap, how many houses have you sold and how would you like it that every 14 months you got the same commission for something you did last year and the year before and the year before.

Joe: So, then I'm just looking here then the money in this, cause now instead of being a landlord, right, and buying a house with your own financing or your own cash, you're now being the bank and you're creating a second loan getting, getting $220 something dollars in cashflow without any of the hassles and headaches. Am I looking at that right?

Bob: Or property tax or property management or repairs or maintenance or insurance or any of the phone calls or vacancy. The biggest, you know, the vacancy thief, you know, I basically say instead of being a landlord, you become a lien lord.

Joe: I've never heard that before. Lien lord. That's awesome. Alright. So, like how many of these deals are you doing?

Bob: At least one a week.

Joe: One a week. Cause here, because I want you guys to see what the power of this is and hopefully it didn't take us too long to get there. You're basically giving the sellers 90 cents on the dollar and you're, and you're, you're not...

Bob: Right. Which is more than they would net. I want to point out it's more than they wouldn't net on a traditional sale.

Joe: Exactly. And you're not asking them to carry back any financing.

Bob: Nope. No. I'm asking them. They declined. I always give them the first opportunity.

Joe: Right, cause they're making more money that way. But they usually will say no, they want all their money. And a lot of times, by the way, don't these sellers sometimes become their own, your next private lenders too, don't they?

Bob: Exactly. Now they just got a bunch of the capital and they were like, look, I can't carry the whole note, but I like this idea. Do you have any, any use for, you know, $50,000 or, you know, whatever they have. And it's like, yeah, we can make that work.

Joe: So, this is really, really cool. Like, you know that you may give them a $90K maybe and then they could be, well, never mind. I was gonna I was confusing. Here was something, Bob, this is, might be one of the longest podcasts I've done in a really, really long time... ever. And this has been so good. We might have to break this up into two parts.