Deals Gone Bad #10: A Subject-To/Rent-To-Own Deal, Turned Drug House with Rick Ginn

Hosted by: Joe McCall
Guest: Rick Ginn

Joe: Hey, what's going on, guys, Joe McCall, Real Estate Investing Mastery podcast, and this is episode number 10 of the Deals Gone Bad series podcast. Feedback's been really, really good on this. And I'm encouraged. This is a good podcast series, in my humble opinion, because it's so important to learn just as important as it is to learn what to do. It's also important to learn what not to do. And so we're going through this series, learning some mistakes that people made. And sometimes these were mistakes that could not have been avoided. But these investors that we're interviewing overcame the bad deals and came out stronger because of them.

Joe: And so that's what I'm hoping that these podcast series will do for you is help you pull out of these lessons, things that will make you a stronger, better, more profitable investor. So if you're interested in that, come on and join in the ride. This is the first podcast of the series that you've listened to. You can get all the previous ones over at my website, RealEstateInvestingMastery.com. Or you can go to the YouTube channel. Just go to YouTube to search for Joe McCall, my Facebook page. But most people listen to the podcast through Apple podcast or some kind of smartphone device. So please subscribe to the podcast. And if you like it, I'd really appreciate you leaving a review on iTunes or whatever. I want to also let you know that I have all of the notes that we're going to be turning eventually into a PDF.

Joe: Right now they're in a mind map. So by the time maybe you see this, there'll be a PDF, but you can get all of the notes. Each of these episodes that we've done so far has at least five or ten really, really good lessons learned. And every episode has been different and better. It keeps on getting better and better. This is one of the most exciting podcast series that I've done in a really, really long time. And I'm going to do my best to try to get this out there and spread the word as much as possible to as many people as possible. So if you want the notes, text the word bad right now to thirty one thirty one thirty one. Text the word bad thirty-one thirty-one thirty-one, or just go to JoeMcCall.com/bad. That's going to forward you to a link you put in your name and email.

Joe: We will send you the mine map or the PDF notes and all of that and you're going to get a lot of value out of this. You can get links to the other episode. You're going to get the transcripts, the notes, the highlights. You kind of like an executive summary of all of the lessons learned from these podcasts. All

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

right. So this is episode number ten and today's guest. We're going to be talking about a rent to own deal, a lease purchase deal that went bad. And this is an investor friend of mine. His name is Rick Ginn. And Rick is in the Florida Palm Beach area. Is that right, Rick?

Rick: Yeah, just a little bit north of there.

Joe: You might know, Rick, I've he's been on my podcast before. He's the creator of the handwritten postcard system, which was really, really popular a few years ago. And he created that. And now everybody's using it, which is pretty cool. So Rick is an active investor. I interviewed Rick's son one time on a podcast called Bags to Riches. He was flipping, he was making bagging groceries. And I think I remember, Rick, his story was he saw these checks, these big checks sitting on your desks for like days and days, maybe weeks. And he was getting, like, annoyed that you weren't depositing these checks, like, what is this all about? Like, isn't this a big deal? And I would just kind of maybe you went to the bank once a week, I don't know. But like so he started flipping deals and I loved his story. You know, he didn't know any better. He put his cell phone number on the bandit signs. You know, he didn't know how to skip trace. He just went to Google and found people. He would answer the phones from sellers during class when he was in school. So anyway, welcome to the show, Rick. How are you?

Rick: I'm great. I really appreciate your having me on. And a little update, Zach turned twenty, just turned twenty-one years old and he runs he basically runs my operation. So he runs dispositions, acquisitions and he's very active on the Internet sharing stories and people like to connect with a story. So I think we actually shared his Bag to Riches with you first. And that was when he was seventeen. Get ready to turn eighteen. So fast forward three years and he's doing phenomenal. So age, money is not a factor in wholesaling. That's the beauty of what we do.

Joe: So I appreciate how you didn't spoon feed him either. Like you, you made him work for it. You have made it harder.

Rick: I was harder on him than any employee or JV partner I ever worked with. And if you have children, you can understand that because they have to go through the journey. There's something about it. And you know what I'm talking about, Joe, when someone you're teaching or a student or even like a colleague, when you get them to that first flip and they get that that taste of that check and the success and that's the aha moment that proves that this works. And I still getting giddy to this day when anybody if they post it on the Internet, a Facebook group, anything just to see when they have that aha moment and to watch it in your own kid. Like, I remember when you first got on the ride a bike, the first flip, a property is awesome

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

and now have it full circle where he basically started the operation that I got this. I'm going to run it. So we have a unique relationship. I enjoy it.

Joe: So I just put the link to the podcast that we did, this was two and a half years ago. We did this podcast and I just put the link to that in the notes. So if you can if you want these notes for this podcast, text the word bad to thirty one, thirty one thirty one. Or go to JoeMcCall.com/bad. And that was a great podcast episode. I gave it to my kids. I have two teenage boys. They read it. They were really intrigued by it. They asked me a lot of questions afterwards. I'm not pushing them into real estate, you know, I'm just trying to help them figure out what it is they want to do. I don't even think they know yet what they want to do yet, but I know they know they can when one son wants to be a car salesman.

Rick: And what I'll do is I'll share the link, I'll send it to you for he has an e-book or just give it out free. Normally he charges for it. And if you ever want to inspire somebody younger says, hey, I can't get into this, just haven't read it, he takes a step by step and documents his process. How he did his first five or six deals.

Joe: I'm looking at the link that was from that podcast and it's not working anymore.

Rick: As soon as we're done here, I'll forward it to you and I'll make sure it works for you. But take advantage. It's a great read and it's something. Have your kid read it and then come back and ask questions about it. And if they have a question, they can actually go on Facebook or YouTube. You can find us at Flip with Rick and you can actually connect with Zack. And he loves to answer people's questions.

Joe: Cool. So it's a book called From Bags to Riches. And you did like in his first couple of months. Forty something thousand dollars.

Rick: Yeah, he had amazing success, but he worked hard. The guy said I didn't do it. I swear I gave him step by step instructions. And it's just something about like when you do it with a family member, it's got I guess it feels like there's more on the line. In a way. It's kind of like and part of us as parents is sometimes you want to make it so difficult to see if they're going to quit the job. And I fully expect it for full disclosure. It was going to discourage them. And it was actually quite the opposite since then, when he went away to college, got his degree and came back and basically runs the family business. So now we were open about it, never forced it.

Joe: So that was inspirational to me. I still think about it a lot because I have four kids and my two teenage boys. One of them wants to I didn't I said wants to be a car salesman. He wants to own a dealership. That's

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

different. I apologize, Luke, if you're listening. My other son wants to do construction. He loves working with his hands. And I don't know what my two daughters are going to do yet, but so we'll see. I just want to make it available to them. But I love this business. I love this business because there's so many things that you can do with it. And it's so easy to start. A kid can do it if they really want to do it. A mutual friend of ours says, and I don't know where he got it from, but knowing him, he probably didn't make it up. He copied it from. But here's the thing. Wholesaling is easy. Wholesalers are hard. And I love that phrase because this business really actually is easy. But we tend to complicate it so much. Right.

Rick: And that's what explaining and teaching a seventeen-year-old how to do it really opened my eyes up and simplifying the process and just taking steps and stop worrying about what everyone's going to think or how you're going to feel. And I think that's the biggest obstacle most of us have with wholesaling. A 17-year-old kid with your experience and zero, anything in there can do it. And he locked down a significant amount of deals in his first six months, and that's it.

Joe: So in a very difficult market, you're talking Florida, the central east coast of Florida, right?

Rick: Yeah, south Florida. So we got a lot of competition here and teach someone how to find deals. And I'm not a big person on creating deals, but we'll kind of lead to some talking about one of my fiascos here.

Joe: All right. So this deal, this bad deal was a rent to own deal. This is when you first got started. When how long ago was this deal?

Rick: Well, I did this deal back in 07, so I started in two thousand three. I had a corporate job. So I've been roughly doing this seventeen, eighteen years. And I think it's important to let people know that the longer you do this, eventually you're going to make a mistake. It's OK. You just learn from your mistakes and go forward. So my purpose for sharing this with you is so people can learn from my mistake because it is a big mistake and I've eliminated it since then. But it caused me a lot of chaos for one year in my life, like really bad.

Joe: I said, that's exciting, but it's not. Let's move on. All right. So what happened? How did you get into this deal? How'd you find it?

Rick: Back in 07, I actually we were still in aggressive marketing. The ball has not dropped on the market yet. And you guys know how this plays. So 2007, I mean, we're at the peak of peak wholesale. Prices are through the roof. And I ran an ad on the back, what we call Penny Saver. And back then my brand was My

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Daddy Buys Houses inspired by my children. That was a big colored full page ad. I think I paid like three or four thousand dollars for it. And I had somebody call me off of it. And I was looking for traditional wholesale deals now. I read several books and programs on how to do list options, and so I was waiting for one to fall. This one just fell in my lap.

Rick: Very, very little equity in the deal. She had about a nine hundred-dollar PITI, which is principal interest, tax and insurance. And she said she just wanted to get out. Her husband left her. I couldn't make the numbers work on a wholesale deal. So I quickly assembled, it wound up actually being a subject-to that I took over.

Joe: What was the house worth?

Rick: So I'm going to have to go back and read some of the numbers. But back then, the house was roughly worth about two hundred and forty thousand dollars like retail.

Joe: And PITI was nine hundred. So what was what would it rent for?

Rick: Well she had one of those adjustable rate mortgages. It was a little bit it had there was more to the story, but she was highly motivated. She just wanted to get out of there. She had a bunch of cats and had a bit of it, like a cat odor. So I figured it's going to cost me about 2K to get the smell out. So if you ever been in a house with the cats like pee and what happened is she had a room where she rolled the carpet up and let them, I guess, just defecate all over the concrete, which I found out the hard way to remove that. So but it was no big deal. It was the perfect scenario for like a subject to it. She didn't want a lot of money. She actually took fifteen hundred dollars to sign the deed over. And I go, OK, well, I'm at nine sixty PITI and the market rates were about fourteen hundred dollars.

Joe: So I'm writing this down here in my notes for nine sixty. That's principal interest taxes and insurance. And the rents were what again?

Rick: Around fourteen hundred, maybe fifteen hundred. But I was very confident in those numbers. And remember back then we didn't have the rent-o meters. You actually had to go out and call on the front lines to see what stuff was renting for. But rents were very high. We were at the peak of the market and I decided to go ahead and pull the trigger. How can I lose? Fifteen hundred dollars down and take over nine sixty and rent it for fourteen, fifteen.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Joe: There's very little equity in the deal, right.

Rick: Correct. Very, very. It was within might have been like ten, twelve thousand dollars but in the conditions of the house it probably wasn't going to get top dollar. If I had to put it on the market I would break even or lose money. So it was not going to fit in my traditional like high equity deal, which is what I that's what I love. Those are my favorite deals. But it was a great opportunity. So it had good cash flow, good cash flow.

Joe: She was motivated. You took over the existing mortgage. You bought it subject to. But adjustable rate concerns me a little bit. Right. So are you going to talk about that? Did it go up?

Rick: Well, the adjustable rate, she just signed it and it was set. It was going to increase. It was locked in for thirty-six months, three years. And then after that it was year to year. So my plan was to sell it on a rent to own and try to cash it out. And three years but a maximum five years. That was my game plan going into it. So it's here's how, now how I was taught. I'm going back to old school. So some of my original teachings, by the way, I read your lease to own. I just didn't I didn't fully enact it. So my initial training was I believe it was Peter Contee, David Finkel back in the day. And so the idea was get a positive net cash flow, so collect more than you give them and then take the cash flow with it and then cash out in three to five years. So I followed the game plan, but I made a huge mistake, which I'm going to roll through this because I love deals. And here's my problem. I'm addicted to deals. I love doing deals. I will actually work on a deal, even if it's like with a buddy, you know, it's like, hey, let's dive in and do it.

Rick: The problem with a lot of us wholesalers is we're so into the chase. The deal, once we ink it, we get bored quick all of a sudden is now someone what we call the real work, the due diligence to follow up the paperwork. And so I read the whole Peter Contee, David Finkel thing up to the point of signing the paperwork and doing everything. I didn't really dive deep into the management piece of a rent to own, I understand, subject to, automating the payments and I know how to deal with the seller. The problem is I didn't spend a lot of time understanding the mechanics of after you own it and some of the risks that you follow through with it. So. So here's what I did. I simplify it. I took it over like a subject to I did all the paperwork. I consulted with some local buddies to help me out with it. And then I noticed just down the street there was a local little real estate office and they specialize. It was weird. It was it's a neighborhood in Vero Beach, just a little bit north of Meeker. And you could walk to the office like three blocks down. And so they go, listen, we've been trying to get this listing forever. Actually, an agent came in and knocked my door.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Rick: She goes, I go, well heck, if you guys could help me find the ideal client that would be great. She said, we've got tons of people looking at the house. I go, why struggle this. Let me go do paperwork on and see if they can find me. So I explained what I was looking to find. I was looking to get someone to put down a chunk of money. And then we would basically be the bank and the realtors like, how do I get paid? I go, you get your full commission. That's the beauty of it. You find me a renter and I'll give you a commission on it. So she was really excited about it. And then the broker came in and I was like, man, this is I got it all figured out.

Joe: So when were you planning on paying them their full commission? By full commission, you mean what? Six percent?

Rick: I was going to give them basically two and a half percent. They wanted three percent. I said give them two and a half percent to bring me a buyer for a full price offer. And we structured it. I'm thinking back then because I was still trying to figure out how to work with realtors is I believe I gave them half of it upon signing and then the other it was set when they passed the final piece out. So I kind of structured it, but that's where my mistake slide into it. So here's the good news is within a week, one week, they found me a buyer that wanted to put fifteen thousand dollars down. Remember, I put two grand into clean up and then they wanted.

Joe: I'm sorry, the mortgage was current. You didn't have to bring any money to get the mortgage.

Rick: She had it all caught up. And that's her motivating factor, is she didn't want to make one more mortgage payment. She couldn't deal with the stress. So the thought she could get fifteen hundred dollars and I would take over the next mortgage payment was very relieving to her. So what I did is I move forward with this real estate company. They call me up, hey, I got a great buyer for you. The guy is going to put down 15 grand and it gets better, ready for this. They said he's going to prepay the first year of rents. I mean, so they said if we do that, can we get our full commission up front? I said, why not? Right. I'm figuring like it's there. The problem is, I was so giddy and excited. I didn't ask a lot of questions. S they were going to handle the move in the check. And I'm like, man, this is great. I'm just going to check out here. So long story short, we signed a deal. We did everything.

Rick: And I did not understand their process and how they, I guess, vetted the buyer. And normally, from what I understand is most real estate investors do this process on their own or that they get a credit check and they do that. I made giant assumptions here. I assume they did a credit check and we had a high-quality type of buyer because the money they were going to put down and then the only thing I checked

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

out was the story. And the story is typically geared towards what you want to hear. And it's very rarely the truth. And the bottom line is I skipped the due diligence process on this buyer, and I didn't ask a lot of questions. It sounded so good. You ever heard that term too good to be true? Yeah, this is it. So I moved in and everything's great. I cash them out. The checks are coming in. I think eight, nine months go by. I'm happy. I'm telling everyone what a great deal it is. This is great. So I remember it like it was yesterday. OK, so back then, keep in mind, we didn't browse through Facebook. That was just coming of age. We still use this thing called a newspaper. So like real pain. I live in a small town.

Joe: And you get ink on your fingers.

Rick: I was one of the biggest advertisers in the paper. I got a lot of motivated sellers, so I'm just kind of looking at the paper. And this is one of the mornings I just we got the paper delivered to our house.

Joe: By the way, do you still get the newspaper delivered to your house now?

Rick: I don't.

Joe: I was thinking about this the other day. I miss that.

Rick: I still enjoy it. But it's have you looked at a newspaper like the real estate? Now, I've saved newspapers from, like I say, from like nine eleven, stuff like that. And I show my son the classifieds. It's awesome. Today. Like, it's like less than a quarter of the paper. It used to be nine, ten pages. Yeah. It was fun. That was the battleground. All right. So keep in mind, newspaper, it's sitting on the coffee table. And I remember my wife, she takes a double glance on the front page. She goes, I know that house. Like, what are you talking about? She goes to the house. Just looks very familiar. I go, once you do one house, they all look familiar. So I'm just kind of like writing it off. Now that's on the front page. All of a sudden I'm getting four and five phone calls. We get a lot of text back then and they go to you might want to look at the front page of the paper, your name's in it. And I go, oh, my God. So my wife reads it.

Rick: On the front page of the paper is Vero Beach grow house busted. Landlord. And it had my company name in there. I thought I Joe, I'm telling you, I thought I was going to die. So it shows a picture of the house with like FBI, SWAT teams raiding it and they're showing it. And they even linked it to a video back then which was cutting edge. And I got such a pit in my stomach, I really got upset about it, I felt embarrassed. Everyone's calling me. So the bottom line is.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Joe: A grow house is what? Define what a grow house is?

Rick: So, you know, so back in the day, marijuana was a highly illegal substance. And what they do in Florida, I'm sure they do it all over the country, is to hide their activities. They'll take like a rental house. And then what they'll do is retrofit it with crazy lighting, insane amount of HVAC systems, and they run to grow house inside. And it's a very profitable venture. The downside is it typically tears the properties up. And they do this all undercover, like you can't find out what's going on. So anyways, I'm on the front page of the paper. I'm in complete panic mode, so I'm calling up the real estate office. They're like, we can't talk to you right now. I'm like, man, what do I do? So I get a call from an FBI agent. It's like you want to come over here, you want us to come to you?

Joe: We should explain to the younger people listening to this like this was a much bigger deal back then than it is today in a certain sense. Right. Like people some people listening. This might be thinking, well, what's the big deal? There's growing marijuana in the house. Right. But would you agree with that?

Rick: Yeah. So it's OK for today. It's OK. It's pretty much legal in the state of Florida. You go to all these cannabis stores, I'm thinking like but I will tell you. So I had to drive over to the house with an entire SWAT team, FBI agent, and they were very nice. And they walked me through and they said, listen, we need more information. And I just said, go that way. They go, well, how did you find them? And I said, I didn't. I just own the property. And I had to walk through. So the broker came over and we got a heated conversation, I guess, can I get the background check? And everything was she's like we didn't do any of that. We just took it for the commission.

Joe: This was actually maybe good that you used the realtor then to find this. Do you think?

Joe: It was. I could have made the, I asked my question. Would I have made this mistake myself? I probably would ask better questions, and I just got so tempted by the money. So the bottom line is like when the federal government comes in on stuff like this, a lot of stuff is at risk. You can have you can have the assets seized from you if they think you're guilty of colluding with a crime. So all this stuff running through my head, am I going to take the house away? They're going to do this. So I did these extensive interviews and they're like, OK, we get it. Don't ever show up on our radar again. And they told me they told me initially, we're just going to take the house away from them. Like, how can you do that? Well, if you commit like a federal crime, I don't know the logistics of it, but they can make your life very difficult.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Joe: Were they asking you questions on why is the mortgage still on the other seller's name? Why are you on title? Was there any kind of mortgage stuff coming up? Because this was right at a time when there was a heightened alert or where things were going on in especially in Florida with mortgage fraud. Right. So were the questions raised with the whole subject to thing?

Rick: Yes. And so I'm not here to give instructions on how to take possession of them. So I don't want to give bad advice at this time. I did deed it into a trust. But what they did just a little thing is they went to the original seller and said, hey, what's the deal with this guy? And I was on the saving grace is I had a very good relationship with her. She was pissed. It was like, I can't believe you did this. I go, I'm so sorry we screwed up. I just took accountability and moved on. I'm going to answer all the questions. It took about two and a half, three months to clear myself of the investigation, all sorts of like pending lawsuits. And I told the broker, you got to make good on this. And I wound up having to get a lawyer. That's a whole different conversation. But they admitted their guilt in it. And actually, I got my commissions back from them and a small monetary settlement. But it took three months to clear my name from the FBI first. OK, so this gets better as I went into it. Here I am, the investor. The FBI goes, OK, go ahead and clean up the property. I have no electric anymore to the house. Ask me why.

Joe: Why? Unpaid bill?

Rick: So what happens is how he got busted is I guess I use so much electricity between the havoc and the lights. Apparently they have like four or five thousand dollar bills a month. They bypass the meter and go straight to the pole. So they show me where they dug it up. Now, this is really dangerous stuff. Wow. So they cut off my electric and FPL told me you're on your own. We're not hooked in that house. They were basically pissed at me like you altered it. You're responsible. You're the landlord. Like, well, I need to get the power on the clean it up two more months I just spent with the electric company. So we have Florida Power and Light and I had to sit in front of a commission every board and explain my case with a lawyer. And I had to post a five-thousand-dollar bond. And pay for all the electrical work to get the house back up.

Joe: So how much was that? This is, by the way, you just won the award for the most depressing deal.

Rick: So the interesting is so I have six basically brand new HVAC systems like all scattered through the house. So I immediately called a contractor and he came out and this one, it cost I go, what if I just trade you out of work for the AC? And he goes, I'll do it. I was desperate. I'm like, now they cut holes and there's all sorts of wires sticking out like.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Joe: They added six HVAC units, that's heating and air conditioning units to the house.

Rick: Like each room. And they would put the compressor out on the patio to try to conceal it. And they build like boxes around it. Still had the vent itself and how this is how they got busted ready for this? FPNL flies, they fly planes over with like heat sensitivity, you see infrared. And so when they get a list of people like this, something suspect, and they give it to some sort of investigation unit and they fly planes over and they go that house, there's something really cooking in there. Nobody has a four thousand dollar electric. And that looks and goes, wait a minute, we're not even getting paid for this. And they do the research.

Rick: They already know they have a grow house and that's how it wound up getting busted. And they do it a lot in Florida. You grow houses aren't really a big thing anymore because it's pretty much legalized across the country. So it's kind of, it's an interesting point because I was talking to my son about this because what's the big deal? People buy this stuff everywhere. I go. It was a big deal back then. People did 20, 20 years to life for this stuff. So here's the best part. You go in the master bedroom, the entire wall is cut out and there is a safe I kid, not you. It's got to be 15 feet wide. And all the way to the ceiling.

Joe: A safe? Like a thick, heavy?

Rick: Big, giant gun safe where you would put in stuff that you really want to protect. So the FBI came in, they busted the safe open. Apparently they took a lot of firearms out of there and everything. I'm just like, look at this thing like, oh, my God. Long story short, I found my contractor, which I was working at the time. I traded him out the safe to start putting the house back together, although it didn't really cover the cost because he had real problems getting it out of there. It was really hard to hole up. We don't even know how they got it in there. They didn't leave a scratch on the door. The bottom line is the whole thing cost me about thirteen thousand dollars to fix.

Joe: That's not bad.

Rick: It's not bad. And here's the lesson I'm trying to tell you. It cost a year of my life. The amount of time I had to put into it. It was exhausting. Like it would bring you to tears when you sit in front of I had to sit in front of a commissionary board to the turn the power back on. And I got grilled. And it was just, it was embarrassing. And we're in a small town. I know everybody. I was on the front page of the newspaper, the seller's testimony. I got FBI agents coming around. My biggest problem is I got excited. I did the deal. We've got a good seller. We got a great buyer. And I didn't ask any questions, so they didn't do any background check.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Joe: Let's talk about it. We'll talk about lessons learned here in a second. Now, how much did you pay in attorney's fees?

Rick: At least five K. I didn't even put that in the factor. You can't just instantly get the power turned on when something like this happens. So you have to prove you're guilty until you prove yourself innocent. So I had to show them I'm not the guy that dug the power. I'm not the guy that found the renter. So in a way, using the real estate office was a saving grace because the liability did come back on them. But it cost me so much time, Joe. I probably lost a couple hundred thousand dollars in deals trying to clean this mess up and it wasn't as easy. Just hire a lawyer and have him go do it. Everybody wanted to meet with me so you couldn't even pass off. You couldn't pass it off to an assistant or anything. And I tried desperately. And it's I was really upset about the five thousand dollars bond because they wanted to make sure I was going to be on good behavior with it. So I got excited with the deal.

Joe: Let's talk about, you were worried about your reputation.

Rick: Yeah, that that was a big part of it.

Joe: Do you feel like that was overblown? I mean, did anybody really did you lose any friendships because of this? Did you feel like it hurt you with future deals and all of that?

Rick: Or, you know, the only thing I ever worry about, Joe, I have to if you're going to be in this business, you have to have tough skin. So I just worry about my wife and kids and, you know, my wife. There's some videos that yet she's not crazy about I've done. But being on the front page of the paper with our name on it is I felt bad for my wife. And the kids were young at the time. So I was just like I had to answer a lot of that and really did I belong on the front page of the newspaper? When you're in a small town, that's a big deal.

Joe: I can't imagine people looking at that thinking, oh, this is Rick's fault. He's a drug dealer, he's a bad guy. You're just a landlord.

Rick: I agree, but I got to tell you, all the grillings I had to go through, I was a little bit shocked. I thought I was like, OK, I own it. Investment property. I guess one of the saving grace is I had a great relationship with the seller, and I never we've left everything on good terms because my experience, whenever you do subject to's, there's always some little hanging piece of thread, either an insurance payment and escrow. And I tell everybody I work with you got to always be on a very cooperative terms with anyone, on any type

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

of subject to, lease option, any type of creative financing. So she didn't run me under the bus, but she could have big. She could. It could have been. It could have been bad. So I think that was the other saving grace. But I just I was just annoyed that I was pegged in that situation.

Joe: And I can see why the FBI might think this was weird or suspicious because the mortgage was still in her name. You bought it from her. You put it in a trust which sometimes signals that you're trying to hide something. Right. So a lot of this might have raised some red flags with the FBI of imagine.

Rick: And keep in mind, I didn't have a ton of experience doing creative financing deals. So I I felt like I was on soft, like, soft ground. And every time I would call and reach out to what I call an expert at the time, they'd be like, oh, you shouldn't have done that. I'm like, oh my God, I learned a lot. But they look, fast forward today. It would be like no big deal. It's not even profitable, like to do these deals. And the funny thing is, so I sold the safe. So six months later, I'm still trying to clean up the mess with the power. I get a phone call from an attorney in Miami. He says, My client wants to talk to you. I go, I don't want to talk to your client like they've caused me huge problems. He wants everything in the safe, his guns like everything.

Joe: The client as in the drug dealer. Holy smokes.

Rick: Consulted my attorney. We kept everything for we kept everything what we legally could do. And then my attorney says, you can liquidate that stuff for damages. I didn't get a lot with it because it was hard to get out and I was just trying to get the house put back together so I could just rectify it and move on. And really, at the end of it, I wound up selling it to another investor buddy who was much more equipped, more experienced, and he took it. Now, keep in mind, as this one year is going, the all the bad news is dropping on the market. So now I'm like, oh, my God. Like and we had a crash and rents here. So our rent went from fifteen hundred down to like eight, nine hundred in our area. Oh the rent. Oh yeah. I actually I gave the deal to another investor and I believe he still owns it to this day. I don't really follow up with it, but I just gave it to him like a little bit of power on the move on with my life. He's like, are you kidding me? And the thing is you just, it wasn't the sellers. It was my fault. I love doing deals.

Rick: I am the worst landlord probably in America. It's just I'm either all or nothing like I'm either super nice or like I don't want to like. I don't understand tenants. And so I had thirty at that time. I had up the thirty rental units that we were managing on my own and I was in the process of liquidating because I was my own worst property management. I mean, I'm not a property manager. I don't want anything to do with it. And I still have property managers that work for me today. And I've learned that just because you have somebody else finish the process doesn't mean your job's done. And I wrapped my hands up and I wound

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

up with this mess. It wound up choking, I think, 16 months total to wrap up everything. And listen, here's the thing is I made that mortgage payment every month. I just couldn't have any problems. And that was the other risk I never foresaw. If you screw up like a subject, too, like my name's on it. The seller trusted me.

Rick: And you've got to make a decision either to follow through on what you committed to or I guess you can. I even thought about giving it back to the seller and I had a conversation with the seller and it didn't go well. You know, I've made this mess. If I have to sell it for a loss, I was prepared to write a check. At the time, I was lucky enough because it had creative terms. I was able to bring in a more qualified investor in that area and he took over. And I'm sure he did well with it because I never heard back from, which means they made a lot of money with it.

Joe: So you had thirteen grand in repairs, but that doesn't cover all of the you paid a mortgage payment every month for sixteen months. Well, the tenant did pay, they prepaid a whole year.

Rick: They prepaid, I mean there was like three or four months left over. So it offset it just a little bit. But like it's I mean, listen, I've lost money before, but when you lose your reputation and your time goes with it and you know what you're most at risk is I was scared to death to do a subject to deal for two years after because I just had the worst case scenario running through my head. Since then, I've learned some deals. The deal went bad because of me. It's because I don't understand property management and. Full disclosure, I didn't read that section of the book because I got so excited, I like how hard can it be to rent it out? You know what I have? Hold on one second. Look what I have right here. That's it. That's it. I love that. I mean, that's a great book. It's a great book.

Joe: The other day, too, by the way. It's a great book. But yeah, there is a section in this book. Let me look it up here, 14 lessons to lower your risk. Yeah, let's do this here. Well, 12 always maintain adequate insurance to cover property damages and lawsuits, disclose, disclose, disclose, do business with integrity. And then there's a whole section, section five on selling your properties for top dollar in managing your property here. So, yeah, it's easy to forget that stuff. And I just want to clarify, too, we're not saying creative deals are bad. There's some real simple things we're going to talk about here in a second that Rick could have done to mitigate that risk on subject to and lease options and stuff like that. But you these are so important to understand, and I hope that this doesn't scare people away from creative deals. You just got to make sure you do it right and don't miss the steps. So let's talk about some of the lessons learned. What were some of the things, Rick, I know you've already talked about it, but let's talk about it again. What were some of the things that you would have done differently?

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Rick: I wouldn't assumed everything that the property management company, a realtor told me was true. My assumption created my problem. I just assumed 15 K down, prepay one year. I mean, we're roughly talking was like 30 grand. I'm like, how can it be bad? When we started asking questions, unfortunately, I was now in the presence of the FBI. And I'm like, man, if I asked this in the beginning and even the agent told me because you would have saved yourself a lot of headache, the the key tip off is here. The guy paid everything in cash and the realty company had some problems about, like reporting the cash. Remember, I got paid via check, so I felt I was in the clear. So what I'm saying is, if you're doing property management yourself or you're hiring someone, especially if you hire someone, you can't make, we all, as investors have these built in assumptions like you're going to get me someone who's qualified. Oh, they didn't do a background check.

Joe: Now, what a background with the background check have found, discovered anything?

Rick: I don't know. I don't know. I mean, that's it definitely probably would have raised some red flags.

Joe: But if they would have done an employment background check, like, let me just put a plug out there for the lady I've been using for years and years out of Illinois. Her name is Carla Reid. She has a company called LT, Services Landlord Tenant Services. Her website is LT Services.us. And she's phenomenal. I've been using her for years. And what she does, this is crazy. Every application that comes in, we get references for employers and previous landlords. You know what she does? And we also ask for paycheck stubs and things like that. She will verify the paycheck stubs because she is found in at least twenty-five. Thirty percent of the time, paycheck stubs or job references or landlord references are all fake or fake. One of them are. So she will call the employer and she just doesn't look at the number they put in the application. She Googles the company and calls the human resources right.

Joe: She also for previous landlords and she looks at the address. She looks to see who the owner of that house is and doesn't call the number that's in the application calls the number that she gets from Skip tracing the actual owner of the property. And the same with the references. She does background checks and it blows me away how many times she finds paycheck stubs that were falsified or people that aren't actually the previous landlord that they put somebody else on there and that's automatically right there. So I suspect that this situation here, if they would have done a real background check, they would have called the previous employer, they would have verified these things and find out these tenants didn't really have a job right now.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Rick: They had a job in the house. So he filled out all the applications because we had to supply everything was all boxes were checked. The problem is somebody didn't actually go through the verification process. And you'd be surprised how many of these property management companies, because, by the way, I still buy a lot of deals from property management companies. A lot of times they have one young lady or young man running one hundred and fifty-two hundred rentals. It's exhausting what they do and they're not paid a lot. And like I can see the Bosco's get these twelve processes. Maybe they if they have to verify it themselves, like back then you had there wasn't companies to really do all that stuff. And I can see how some of the companies, because the excuse was why I gave it to my assistant to do OK, but she's not with us anymore.

Rick: The bottom line is when you hire any type of people with management, you need to understand their processes and be very, very clear, especially when it comes to subject to because in the end, if you really want them to buy it, you actually have to go through some if you can get a credit check, too, that helps. And I skip that entire process like I was never going to have a shot to buy the house. I put in the wrong person. I hired a realty company because it was convenient. It was right down the street and I would ask a lot more questions. So don't assume anything, the assumptions, because what I assume, I assume it's right, I assume they do it like they don't necessarily do it. They're humans and they make mistakes. So my biggest takeaway was don't assume anything. And I will tell you this. The reason I'm not talking about the monetary loss, because it was minor, my reputation and my time, if I could have paid fifty thousand just to make a snap my fingers, I would have done it. But the money ain't going to buy you out of this one. And I'm like, am I going to have to go to like I was like, am I going to have to go to court? Like did I do something? I did. I mean, everything was fine.

Rick: But sometimes it's more, it's not always about money. So when your reputation is on the line and if you've ever been pressed and at some point if you do real estate investing, at some point you will be pressed by someone. You really get to find out what you're kind of made of. And it's obviously scared the crap out of it scared to me. And it was like I learned a huge lesson out of it. So I can't get that time back. And it probably cost me a couple hundred thousand dollars of deals because it made me fearful. I got scared. And when you do and tell me if I'm right, when you're scared, you don't operate under your normal parameters. It's like, I hate going to that. And the market was shifting. I'm thinking like, what the heck am I going to do with this property? So it's my reputation or my time. I got my reputation back. I was fine with the time I could get back. And it took me about two and a half years before I entered. The greatest phase of our creative financing was phenomenal, really, from 09 to 2012. It was. And I did deals, but it took time to repair myself from the damage I did. So.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Joe: So what are you doing now with your rental properties? Do you have many of them?

Rick: We do, yes. So I have a small amount, less than six. And it's by design, they're completely cherry picks properties that are within twenty-five miles of my house because those are my rules, because I like to drive by, look at them, touch it, my rules is I've never allowed to talk to the tenant ever, ever. I used to do a little trick back in the day is I used to go to the property management but I didn't tell them I was the owner. And it's not a good thing because it plays with you like that. Oh, the landlord such he's not a very nice guy. He's kind of a main guy type of deal. So I just don't like lying to people right now. I have six. I keep them in close proximity.

Joe: Do you manage them yourself? Do you have a third-party property management?

Rick: I have a third-party property management company and I overpay them on purpose. So the standard is like ten percent. I do a lot more and I just want to open up the communication and then I kind of I can look at pictures and I can verify, but I can't deal with the tenants because like I buy everyone's hardship story and like you can't do that. So we go through the credit checks, the whole checks and balances, the references are big. And then even when the property management company sends us everything back, somebody I work with will pick two things out on that application and try to verify it. It is time consuming to do it. So and then the ten percent, in my opinion, kind of get what you pay for. So if you really want to be, you still just can't forget about property management. And I tell you, if you're going have more than two or three units, I would find someone else to help you out with. It will actually make you more money.

Joe: Do you think you could hire your own part time assistant to manage those properties for you?

Rick: When I did thirty, it didn't go well. I didn't have a system in place. So, yes, you can hire an assistant, but she's only going to be as good as the processes you put in place. And if you don't have them and you're going to try to create them in yourself, that can be a very overwhelming task. So at one point, my original plan when I got into investing was by ten houses. This is what I got sold on in '03. I get them all paid free and clear with your tenants and then you're set for the rest of your life. Well, it didn't quite work out that way. I actually I think it worked out better, but it got me started in the business to do so. I will never manage my properties ever again because I'm my own worst manager and you've got to go through checks and balances. So I let them set up their system. They share what their system is and they tell me whenever they change it or update it, and then they give us all the paperwork, all the scans of the applications. And then we kind of use a common-sense approach that will pick two items, usually a reference, and then we'll check out the top jobs, a big part of it.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Rick: But like you got to understand, there's a lot of variables like we have renters, they're never perfect. So we get a lot of people with DUI and drug charges. And I'm done being the judge and jury on it because people make mistakes in life. Like, our biggest challenge right now is whenever we have a I have two properties that are fenced, is the dog issue, people will tell you whatever they want to hear. And like I love my dog, I got a ninety pound beast. I wouldn't believe, like if I was going to move around, I'd take them with me. And so I understand. People are going to lie a little bit to do it, so like my property manager would take an extra step and they have to and they meet the dog and the like, Rick, we said thirty-five pounds, but this is a 90-pound Rottweiler. It's just like a hard, I try not to make the final decision on anything, but let me get the property.

Joe: Let me ask you something I've been thinking a lot about lately is, you know, you can look at the numbers, you can get a spreadsheet to tell you anything you want. Right. What I'm saying you can get a spreadsheet to tell you anything you want. It's so easy to manipulate the numbers and look at a portfolio of rental properties with leverage. The numbers with debt, the numbers can look really, really good. So sometimes I thought, well, you know what? My goal then is not to maybe have as many but have a fewer amount of them and have them all paid off. But here's my question. Do you really, can you really make passive income on a portfolio of 10 or 12 homes that you own free and clear? Is there really such a thing as passive income from that for single family homes?

Rick: My 18 years' experience, no.

Joe: Isn't that fascinating? That's what everybody thinks.

Rick: Because it's like property managers are human. So like, I'm trying to take the human element out of it. But you understand, you're just transferring it to someone else. So we constantly get down and she's like, listen, they're really good people. He has a really good job. But they got a 90-pound Rottweiler like that. I have a huge like I love animals. You get my daughter involved in animals like she'll do anything. We took over a property where they tied the dog up in the back, unfortunately, was a pit bull breed. But like I have friends have pitbulls, they're great dogs. But my acquisition guy at the time, he's like, well, I'm going to take this dog, the dog risk of and take care of it. He goes, Can you help me lift them up in the truck? I go, I'm not lifting up a pit bull that's been tied to a fence. I'm like, I'm not riding in the car with you. I love animals, but I know.

Rick: So eventually a human has to make a decision on either a previous occurrence, 70 percent of my applications have some sort of previous offense, usually DUI or like a minor drug possession, single

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

marijuana. Now, like, I don't know how they're going to deal with it. You put people away twenty years and now a guy can go on the local neighborhood store and buy the stuff. So our biggest decision is really on the pets more than anything. But like, I can't have pit bulls. It doesn't matter what the weight is, the insurance policy will eat me alive on it and I can't risk it. A Rottweiler. What's a Doberman? All these other dogs. So ideally thirty-five pounds unless we're in dog deposit everything else. So my property management company will actually interview the dog at the property, which is a big part of it, and then they take it a step further. Now I pay more for this. I let them share in the pet deposit and the most important is look at their previous rental and look at the condition of it, because that's the way your house is going to be.

Joe: I heard one guy when he interviews his tenants, he looks at the car and he walks them to their car and looks at it and see what kind of shape the car's in inside. The other thing he likes to do, if he can, is do the interview with them at their current residence to see what it's like. Now, I've never had a manager do that for me before, but if you can do that, that would be a great idea.

Rick: If you can get in their previous rental, which solves it. But it's not as easy as you think it is. I don't want to figure this part out. Just give me the data. We've got to get down to a final number. I'm comfortable with anyone else making this is another me, because my heart of hearts, I'm an optimist and I want to see the best in everybody. And on the business side of real estate, that can be a liability. So I understand my strengths. I like connecting with people. I love the energy. Sometimes I miss the pitfalls. And that's the whole purpose of us talking here is I skip the due diligence process and I assume someone else would be out for my best interest. And when the chips hit, I was all alone other than a lawyer that was paying three hundred fifty dollars an hour and a contractor that I had to pay and trade stuff up, I was completely on my own. And I will tell you my loss of focus during that time. It almost so it was almost enough to drive me out of the business. That was a market that was waiting and like freaking out. I'm like, you get that conversation with your wife. Maybe this stuff doesn't work. You know, it works. Right? I made a bad decision.

Joe: We need to wrap this up. I just want to review the lessons learned as I typed them in here. And number one, be a deal finder, not a deal creator. I love that. Just never trying to turn lemons into lemonade when it comes to deals. Right. That's a recipe for disaster. Don't assume anything. Don't assume everything the property manager or the realtor tells you is true. Be careful with getting bored with the details. You've got to ask yourself what happens after you own it. Don't get tempted by the money. Use realtors to find your buyers and tenants. Third parties take accountability. You have a good relationship with the seller super important. You have to have tough skin and you got to take care of the sellers, especially in subject

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

to communication is really, really important. You got to have tough skin in this business and don't be a landlord if you're not good at it.

Joe: Right, exactly. And it's important. Use third. Prescreening tenant screening companies like LTE Services that us and put that link in the mind map a key tip off to be aware of if it is if or when the tenant wants to pay everything in cash in advance. And you need to really understand your property management processes and the processes of the property manager are kind of not in any particular order, just notes that I took. Does that sound good? Perfect. I think, you know, they're awesome. All right, Rick. So you're also going to send me I have these notes and links to the podcast we talked about from your son. You're going to send me Zach's e-book From Bags to Riches, right?

Rick: Yeah, I'll send it. Anyone can download it. It's free.

Joe: I'll put that here in the mind map as well. And this has been a really, really good podcast, Rick.

Rick: How can people reach you get a hold of you just search like with Rick on Facebook or YouTube. You can connect with us. And we share actual deals. We do. I've been doing this 18 years. I love I just love doing real estate deals. So I'm never going to stop. And it's a family affair for us. So obviously, my son runs it. My wife's deeply involved into it and not to leave my daughter out. She's studying to be a nurse. I know nothing about medical, but that's her passion and I support her on that. So she'll probably watch her, dad you left me out. So there you go.

Joe: Flip with Rick. Look Rick up YouTube or Facebook. Instagram. Are you on Instagram?

Rick: Yes. All of them.

Joe: Or your son. Is your son doing it for you? Is that what it is?

Rick: Yeah, we partner up on them and he's just he's quicker at this stuff like you guys. I love doing deals, so I like show me how to Instagram and stuff so he's much more apt on it. It's not really my strength, but however we can connect people and share stories to make it better. I thought the story would help out your users. Don't be scared to do subject to deals. Just read the entire instruction head to toe. You can't leave a piece of this out. It doesn't work, especially in creative finance.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com

Joe: All right. Very good. We got to wrap this up. I'm late for another call. I appreciate you so much for being on this, Rick. Bringing up the pain. I know it's hard. And go have some coffee or beer or some wine or something. No, I'm just kidding. I appreciate you so much for being on and look forward to talking to you again soon. And we'll probably do another podcast here soon, talking about a really cool way that you are making offers, blind offers to sellers with postcards, which is really, really going well. So stay tuned for that, everybody. We'll be talking more about that in a future podcast. So thanks, Rick. We'll see you also. Hey, real quick, don't forget, guys, if you want this, the notes and everything, text the word bad to thirty one, thirty one thirty one, or go to JoeMcCall.com/bad. We'll see you guys later. Bye bye, everybody.

Copyright © Real Estate Investing Mastery, Joe McCall
http://www.RealEstateInvestingMastery.com