Raising Private Money For Your Creative Financing Deals

Hosted by: Joe McCall
Guest: Matt Theriault

Matt: Welcome, everybody, to the creative financing lab where Joe McCall, Mr. Pace Morby and myself, we are here each and every week to discuss creative financing is really an important subject. And most people get stopped from getting involved in real estate because they think they have a money problem. And really all they really got is just an idea problem. Yeah. So you can go ahead and solve a lot of those problems with your creativity. And inside of creative real estate investing, we call those creative ideas. We call them terms, and that's how we buy houses by using price in terms of various combinations of that. And I get to sit here each and every week with two of the best in the business. And so good morning, Joe McCall.

Joe: How are you, man? Good to see you.

Matt: Doing good. I just got like I was just telling you offline that just got back from a long vacation in Miami.

Joe: Yeah. You're getting look like you have some sun.

Matt: Yeah, my eyebrows went blond and I was calling Mr. Clean the whole trip. So you have a good time. Yeah, I was fantastic. I actually just really fell in love with that city I've been a few times, but really and this time it was different.

Joe: I heard you either love or hate Miami.

Matt: I loved it this time. It was fantastic. It was Mercedes' fiftieth birthday. So I was once the lifetime event.

Joe: So you should not have said her age. I can't believe you did that.

Matt: Oh, yeah. No, it's just her second twenty fifth birthday is what we were getting.

Joe: My gosh. I'm going to tell her I'm going to text her right now.

Matt: Yeah. Go ahead. And she is fifty and hot and proud of it. So we flew those.

Joe: Let me tell you guys something here. You only see Matt right on YouTube. You don't see his wife Mercedes, but without Mercedes, Matt would be a homeless bum on the street. This is true. And broke as a rope. I'm just kidding. But Mercedes, once you get to know her, you're like, oh, that explains it. Right, because.

Matt: Thanks, Joe.

Joe: Mercedes is awesome. You're cool, too, Matt. But I couldn't be here without my wife, and she's not even doing real estate. But yeah.

Matt: Yeah, behind every strong man there is a stronger woman. Right. And so I'm fortunate in that regard.

Joe: Pace couldn't be on today because he is filming with A&E right now, their new show. And those of you that don't know he's been talking about it, him and Jamil are doing a new like a house flipping show with A&E. I think it's a A&E, isn't it? Yeah. Oh, yeah, they are. They're filming right now this morning. And so Pace couldn't be on. But we're here. We're bringing the goods. We'll bring the goods to you. And man, I thought it'd be a good idea if we talked about raising private money for your creative financing deals and you are the expert at that. And just yesterday, I was talking to a I did a live video on my YouTube channel. Just say it was called Watch Me Make an Offer Live and had somebody give us the city. I went to Detroit. I went to older listings on Redfin. I found a deal that looked like it needed work that only an investor would want to buy. And I called the realtor up and the conversation pretty much went like this. And you hear this all the time. Yeah. You're the fifth person that's called today, the seller. It was listed for one hundred. I figured I needed to be at like forty, but I called the realtor anyway and she said the seller has rejected offers at 60 and 80. We're not accepting any lowballs.

Joe: And so one of the things I said to the realtor was, well, I don't know if this would work for you or not because he was a landlord and he just wanted to get here and he had other property. I said, I don't know if this would work. Probably not. I kind of phrase it in the negative a little bit. I said if I could get him that price, would you consider something like seller financing or maybe not? And she said, maybe. And then I started thinking about, OK, how can I structure this? That would rent for about eight fifty-nine hundred a month and it's probably worth one hundred as a rental. If you were to really go in and fix it up, it might be worth a couple hundred because it's in a really good area that's being gentrified in Detroit. And so I was thinking, all right, well, what if she says, yes, he would do owner financing, but he wants let's say he wanted 20 percent down. I thought it would be good on this podcast, Matt, to really pick your brain. Like, how do you negotiate price and terms? And let's say we agreed that I would put 20 percent down. Where would that money come from?

Joe: Because a lot of people freak out about that and they be paralyzed because they don't know where am I going to get this money for that? And why would a private investor ever want to lend me money on this deal? You know what I'm saying? So maybe we can start with Matt. If you don't mind. I'd like to interview you because you're the expert at this. You're really good at this. Like, how do you negotiate price or terms? Let's say we were having this conversation and I was the realtor or whatever on this particular deal. The seller is not very motivated. They're willing to wait until they get their price. They think it's worth way more than it really is, but they might be open to some kind of creative financing. All right, let's see.

Matt: Put my working cap back on. I'm still working on one am this morning from beautiful Miami. Anyway, OK, so there's kind of there's two things that have to happen. One of you have to, as you mentioned, and use this phrase many times before, Joe, dig well before you're thirsty, right? And so one of the consistent questions I will ask people, you've got to dig a little bit before you're thirsty. And so any time I'm out and about with just anywhere like it could be a it could be a bar at a restaurant. It could be at a party at someone's house. For example, this week I was in Miami and I invited several people. So I got to meet them, but they invited some friends. So I got to meet a bunch of new people. And so you just with casual conversation and if you find there's any sort of correlation or mutual interest with regard to real estate or investing, then I'll add there's three questions I always like to kind of pose just to, you know, test the waters to see if it's worthy of a further conversation. And the big opening question is, have you ever considered getting involved in real estate investing?

Matt: And it's those specific things. And regardless of what they say, regardless of what their answer is, my answer was always really why? And you can say really why? In one million different ways, it could be they say something that you can't. You really why or really why or that's really why. So you can say really why differently. So you don't have to have to know a script. But by asking that question, it opens it up. Invariably, anyone that's the right candidate or a potential candidate for it to be a private money lender for you is going to respond with why do you ask right. Or what do you do or how? Well, I don't know if this makes sense. And here's question number one. So that's the open I what I call my open. And then there's three questions. I don't know. Would you be open to something like an eight percent return on your money? And so that's a very broad question. It's very open or as it's called, a release statement.

Matt: So you ask to be open and almost gets a yes frequently unless they're like a real estate investor themselves don't typically respond. I'm like, well, who's and who wouldn't be? Of course, because getting an eight percent or eight percent return in the real world outside of what you and I do and what we all do here really gets pretty darn rare, especially on small amounts of money. And so that's question number one. If I get a favorable response and by the way, if I get any sort of negative response, I just change the subject, and you see what LeBron did last night, it might be just go right there, just move away. But if they say, yeah, totally get great. So I'm just curious, I mean, what type of money would you have available for that type of return? And then regardless, they could say five thousand, they could say five million. And regardless of what the answer is, you just respond with like it's no big deal. You do this every day. So if they say, I got a million dollars, I'm looking to place it right away. Don't let your fans start showing and the jewels start dripping from your teeth and ready to pounce on them because they'll feel it and they'll pull away.

Joe: Repeat the second question again. I'm writing this.

Matt: Yeah. So it's first of all is would you be able to 10 percent of your money? Second one is what type of money would you have for that type of investment or how much money would you have for that type of investment? And then the third one is I want to get permission to call them. I'm not going to try and close the deal right now. I'm not going to ask them for money. And kind of what you had said when you were talking to your real estate agent, you kind of go negative a little bit. It's you know what, Joe? I don't have anything like that right now. But, you know, deals fall into my lap every single day when that next one does. Would it make sense for me to give you a call to share it with you? Oh, so that would it make sense? So would you be open to almost always gets a positive response and would it make sense? Almost always gets a positive response, particularly if you follow with a no brainer question. You know, so there I just then I just kind of keep a mental Rolodex. So I left with two people that said, yeah, give me a call. So now I've got those two people I can call with my next deal. So that's kind of step one. I'm always doing that.

Joe: Yeah. Let me just repeat that, because I think it's important and I'm trying to write feverishly on my iPad because this is so good. Dig your well before you're thirsty, right? If you're if you wait until you have a deal, before you need the money, you're going to get in a panic mode and it's going to get really hard. Any time you're talking to a private investor and you're in desperation mode, they can smell that from a mile away and it's going to kill the deal. So you need to start building these relationships with private investors and just tell everybody what you do, that you talk to what you do. The other thing I was thinking about, the really good book is called Getting the Money by Susan Lyons right now. Why? Oh, and as Susan and she has a really good question and they're afraid of what you say when you are talking to people. And it goes something to the effect of like when they ask you, what do you do? You say something along the lines. And this is similar, what you just said, something along the lines of, well, I'm in real estate and I invest other people's money and I give them consistent, solid, safe eight percent returns secured by real estate or something like that. Right.

Joe: But you phrase what you do in terms of you invest people's money into safe, secure real estate deals. Right. Simple as that. And then they started asking you a little bit more about what you do. You ask them. I'm repeating your question here. Would you be open to an eight percent return on your money and then the other? If they say yes, how much money would you have to invest if I could get you those returns? Right, and then go a little negative in terms of negative phrasing, you don't want to be again, this is push versus pull. You've got to be so careful with this because you want to pull them to you, not chase them. And the harder you chase the seller or private investor, especially private investor, the harder you chase them, the faster they'll run. And so you have to make them want to come to you. Don't sound desperate, don't sound needy. I'm telling you guys, this works so well. I got a story to tell you after I tell you this third question. So I don't have anything available right now. But would it make sense for me to call you of something like that became available later, right.

Matt: When they gave up their money on that second question, it was that like their cheeks were clenching a little bit, right? Oh, here comes the bomb is about to drop and he's going to ask me for money. Yeah. And then when I was like, oh, cool. That's interesting. Super. So I don't really have anything like that right now. Actually, my friend and Joe and I are working on it right now and something comes up. Would it make sense for me to give you a call? This isn't the right time to talk about this anyway? Like, I just totally suppressed the whole thing and make them feel all comfortable again.

Joe: And now that takes the pressure off totally. Totally. I was going to tell you a story of a guy I know he's funny. I think you might know him, but I won't say his name. He used to go to the most expensive. I'll tell later, he used to go to the most expensive areas of town wherever he was at. Right. And he would go to the local Starbucks or the local coffee shops there, like in the business areas where a lot of successful people were. And he would pretend to be talking to other investors about his deals on the phone. And he's loud anyway. So he would talk about, yeah, we just finished this deal. We made like one hundred grand profit on it. He would never lie. He was always talking about real deals. OK, that's important. But like he would say to our investors, we got them like eight percent on their money. It was all secured by real estate. It was all great. Yeah, they loved it. They're super excited. And he would talk about his deals on the phone obnoxiously so other people could hear him and he would talk specifically mentioned his investors and the returns that he was giving them. Right. And he said inevitably there would be somebody that would leave and give them their business card as they are walking out of the coffee shop. Right. So it's just the whole point of that is, you know, be genuine, be yourself, but talk about what you do, right? Yeah.

Matt: I love that you'll do that several times before, especially when the when the phone rings at an opportune time.

Joe: Yeah, yeah, yeah, yeah. OK, so normally it's like don't be that guy but be that guy. Right. Yeah.

Matt: You can't keep what you do a secret. If you're trying to figure out how to find private money privately, you're going to be looking for a long time because it's a people business. Every piece of real estate you buy or sell to be from a to another person, every ounce of money that you're going to borrow is going to be from a to another person.

Joe: A beginner is going to say, but, you know, I don't have any experience. Right. I don't have any deals under my two. About what if they ask me how many deals have you done or something like that.

Matt: Right. So those types of questions I see maybe a couple of them come up. You haven't read them in detail yet, but you have to be really careful with these hypothetical scenarios that gets stuck in your brain and they stop you from taking action because it hasn't even happened yet and you're just anticipating it. And I'm telling you, if you are anticipating and you are fearing that your disposition, your body language, your speaking patterns, just the tone of your voice is going to elicit those types of questions. So be really, really careful that you don't project that on to your situation, because I'm telling you, you are asking questions from a place of a bunch of people that are watching a live stream on creative financing. Right. And the rest of the world has no clue as to what we're even doing. Right. They just want they want to put their money somewhere. So I understand that you bring the value to the table to those people. The money is the commodity. The deal is worth all the value is. So don't go in fearing that you like your mindset is I'm a guy now I have to go ask for a loan from somebody. No. I got to give somebody an opportunity.

Joe: That's such a great point.

Matt: This is a big deal. What I've just done here, I've been able to generate and beat Wall Street returns with the deal that I have under contract right now.

Joe: So the property that's secured with a note that's secured by real estate, one hundred percent, it's a big deal. What you're offering to somebody is something they cannot find on their own or most likely won't. And so you have this position of it's like a mental shift you need to have of being you're lucky to have me talking to you right now about this opportunity. And it's OK, you know, so you remove yourself from the outcome. You say, listen, it's OK if this isn't for you, because I got one hundred other people that I know are dying for this. Right. You're having that mentality and you're related to what you were just saying. You've got to be careful with anticipatory thinking. Anticipatory thinking will kill your business. All these what ifs. What if that happened? Maybe what if they say this, that that that you will get stuck and you'll never get out of that rut as long as you're in that anticipatory thinking?

Matt: So just because what you're doing is you're negotiating against yourself when you're thinking like that, like you're teaming up on yourself before you even get to talk to the seller. Yeah, right. So you don't want to put the seller in your shoes. You want to put yourself in the seller shoes or the.

Joe: Sometimes I do tell people like if they are concerned, what if they what do they know? I don't have any experience. This is why it is important to have a coach or mentor on your side. Right. Because you could be local or it could be someone like me and Matt who coach people all over the country or paced. But like, it's important to have somebody that you can rely on or lean on for that experience. Right. Because you can say me and my business partner, we've been doing deals for years and years. And that's all you have to say. Right. OK, cool.

Matt: So that's kind of part one. Yeah. Now, when it comes to I guess this is a perfect segue way to go into the experience part of it. If you have a deal under contract that you can demonstrate how it's going to pay you and the other people that are involved, that's enough experience that all people need. So the four questions that every lender has in their mind and whether they know they have these questions or not, they're there. They know what they want to know. How much do you need? How much am I getting back? When am I getting it back? And what happens if everything goes wrong? So those are the four questions. They want to know how much you need, how much are I getting back? When am I going to get it back? And then how am I protected if things go south? So when you're presenting your opportunity to your lender, you want to answer those four questions in that presentation. So you want to answer them and address them before they're even asked.

Joe: Very good.

Matt: Because if you get yourself on a bunch of these little questions and all of a sudden you're on your heels and it's very easy to slip into you trying to convince them rather than them trying to convince you to take their money. And that's a big paradigm shift that a lot of people don't get until all of a sudden you've found you've got a few deals under your belt. And my gosh, I'm getting 12 percent, 15 percent cash on cash returns. I'm getting principal only payments, except that I'm getting stuff with subject to with the loan is already 15-year season. And now we're going to be buying down the principal that you are bringing amazing opportunities to people and now you can start shopping. You say, hey, remember we talked to in Miami and you said it would make sense for you to give you a call. I just want to know that something came up. It looks like it might be a little better than what we thought. Would it still make sense for us to get together? I wanted to call you first because you kind of the last person I talked to.

Matt: But I've got a few other people, but I just want to present it to you first. What? It still makes sense for us to get together. And so that's your pitch, but that's your positioning more is what I was trying to demonstrate, is that I got other people. You said it would make sense. I'm calling you. It just looks like it's going to be a little bit better than it was before. I always like to say that. So I like if I say, would you be open to a seven percent or eight percent return? I'm going to call them when I can give them a nine or ten percent return because, you know, we're at the pool, had a few drinks and everyone's kind of loose, but I need to reach them and kind of drop down and a little bit of an extra return. I got one that's actually better than normal. Would it make sense for us to get together still?

Joe: Yeah, these are great nuggets. What's up, Maria? We're getting some comments in here. That's a great response, guys. Edwin saying, let's go, let's do this. OK, cool. So what are how do you answer those questions?

Matt: So let's go ahead and take your deal, Joe. Yes. So these are just the notes I was writing down as you're going to be a deal, Joe. So the value was one hundred K?

Joe: Yeah, the value is one hundred K as a rental. Two hundred K. If it was all fixed up, it's kind of in this weird area.

Matt: And then the seller was asking what, one hundred. OK, so this is always like when people, when my students bring a deal to me and they want me to help them analyze it, you know, it's normal to come with a big giant story as to like, well, it's a cute little lady. It's a corner lot. It's in a really nice neighborhood and a great school district in the crime report wasn't too bad. And, you know, this would be a great house for a new home buyer or whatever. But I don't care about any of that story when we're first analyzing. I need to know, what are they asking? What's the value of the house? What will the rent for and what are the repairs needed to make sure that we can get this rent? So, Joe, do we have any repairs or rehab in here?

Joe: Let's put ten grand for rehab, cosmetics, lipstick, paint.

Matt: OK, cool. So now what I want to do is when I'm looking at this deal, I want to see is there I want to answer two questions right off the bat before I give it a bunch of my time. Is there equity and will it cash flow? So as we can see right here, Joe says that might be two hundred dollar value if they were going to someone is going to live in it. I like to work really, really conservatively. So I'm just going to say the one hundred value, like he said, as a rental, the seller wants asking. So I don't think there's any more to evaluate it more than that. But there's not any equity here, most likely maybe somewhere down the road. But right now I'm not going to even factor equity because I'm not going to try and flip this property.

Joe: The realtor did say if you did clean it up a little bit, you could get rent of nine fifty to a thousand.

Matt: OK, perfect. With that said, and I'm glad you brought that up, I'm going to go with the eight fifty because if you start analyzing your deals with I, if I get nine hundred then it'll be a good deal. But eight fifty is not a good deal. Or if I can make this happen or if I can find just the right tenant or the right property manager. Or if I added spruced up the kitchen a little bit I could get a little more. We start giving it so much, your deals you start building and a lot of unnecessary risk and start creating a bunch of scenarios to where you can actually end up losing and I don't want to lose. So this is kind of where I go now. If I look at this eight fifty. Eight fifty, I am going to multiply that by 12. That's going to be me, my annual gross rent, what I'm going to do for my quick and dirty math. I will confirm this later after I'm in contract, but I'm not going to waste a bunch of time doing that right now. I'm going to multiply this by 60 percent, so that gives me sixty-one twenty.

Matt: So what I just did is I took 40 percent off of the gross rent and I just kind of allocated that again for quick and dirty math for taxes, insurance, maintenance, vacancy and property management. OK, so this is kind of what I could probably count on to receive after all the bills are paid. But that would be just a straight deal here. So that would be our net rent would be six twenty. This is our I guess, our net operating income. Right. So there's that. And that's if I just did a straight deal for one hundred thousand. So if I wanted to look at that sixty one twenty divided by one hundred thousand, actually let me do it. Divided by one hundred and ten thousand because of the repairs. Sixty-one twenty divided by. So just as it is without leverage I'm going to get a five and a half percent return.

Joe: What do you think of that number Matt. Is that good or bad?

Matt: Well if we're going to since we're on the subject of talking private money, I actually don't like that number at all because this five percent, I need to see how much of this I'm willing to share with my private money person when I bring them this opportunity. So I already know as an all cash deal, five point five percent. I don't know if I'd be too excited about that number for myself. There'd be has to have to be some other variables about the house, like is it in a really good neighborhood? Is there potential on the upside? Do I really need the cash flow right now or is this just something, another little trophy to add to my portfolio? Those are the types of things that I would be looking at if I wanted to lower my standards a little bit on the cash-on-cash return. But I like to get between 10 to 15 percent because if I can get 10 to 15 percent that there's enough there. Say it was a 15 percent.

Matt: I know I can actually pay that private moneylender now seven or eight percent and keep the seven or eight percent for myself. Now, I like that deal, but I know I need leverage it, but it is an all cash deal. And you didn't want that. Maybe I could refinance it later and help them do that, but not too excited about this so far. Now, if we were going to do 20 percent down, as Joe had said. Right. So now we're going to put twenty K down and we're going have to have eighty thousand is going to be would be Seller Carryback. Right. So now I've got to figure out what are my terms, what are my payments here on this. Eighty thousand. Because that's going to have a huge impact on my ROIC. So if we did something, let's do something just very, very traditional and I just show you something I do all the time here. So let me I'm just gonna type in amortization calculator.

Joe: Maybe you can zoom in a little bit on your computer.

Matt: Oh, really? You can't see it?

Joe: Well, it's small. I'm just we can see. It's all right. All right.

Matt: So I like to skip the ads. I know they're paying for those, so I'll be a nice guy and not make them pay for it. But I just go to the first one. That's not an ad. And this is kind of one always comes up a bank. Right? I just come in and I'll put in eighty thousand. I don't do a traditional thirty year just to kind of get me in the ballpark to see what I'm working with. And so three and six months. Right. And then there's the interest rate. So if I calculated this there, it's a four and five dollar monthly payment. So if I go back over here to oops, stop the screen share and then I come back over here to this guy here. All right. So that was a what was that, four-point fifty dollars payment? So I said, yeah, four or five. Yes. OK, so it's four or five. So four or five times twelve is forty. Eight sixty. So now here's my net operating income. I got to take my debt service out of this, so I've got sixty-one twenty minus forty-eight, 60. So that gives me twelve sixty which I call cards cash after debt service. OK, so now I'm going to take this twelve sixty. I'm going to divide that by how much I had to put down. But I also got this repair over here so it's going to be divided by thirty k see at that for what was that. A four and a half percent rate. We are down to a four-point two percent cash on cash return. And I knew that was going to happen just because right off the bat I was looking for my one percent rule. So you can see that there's eight fifty is less than one percent of the value of the house.

Joe: So what that means is the one percent rule is typically when you buy one hundred thousand dollar house, you wanted to rent for at least a thousand dollars a month. Right.

Matt: That would make all the difference in the world right now in this deal. If it did so. I was I didn't have high hopes for this right off the bat. So I already knew that doing something like a traditional 30 year fixed mortgage with four and a half percent, this probably is going to be that great of a deal either. So now I've got to get the seller to really accept something creative so I could offer him. So that was a four hundred five dollars payment. I could say, what would it be cool if I just gave you 20 K down on page of four hundred thousand dollars until the balance works? It'd be four dollars a month until the balance was paid off, that is.

Joe: Did you guys hear what he just said, he's offering to pay them a certain amount until the balance is paid off, which is what principal only payments and this is where the magic happens and you'll be shocked, you may say, oh, I would never accept that.

Matt: All the time. Right. So my cash on cash return would still probably not change too much. Right. And still be back for four percent cash on cash return. But when you're looking at all of the different profit centers, so you've got all the different profit centers, you've got cash flow, you've got appreciation, then you've got the depreciation and the deductions and then you've got the amortization. So these are all parts of over here that you're going to earn a return. So this right here, that four point two percent is just the profit that you make right here. Now, depreciation over the first year that might be somewhere would be small initially. So one to two percent somewhere in there. Amortization on a long-term loan is typically pretty small as well. The amortization is the paying down the debt. But the big distinction here is if I'm paying four and a half percent interest those first 15 years, I'm paying the majority interest on paying down the debt very minimally. So this buy down might be somewhere between one and three percent. It's really, really small. And the appreciation, that's just the icing on the cake. So if we average like a two and a half percent appreciation right there.

Matt: So you're looking at all the all of these other traditionally and all of these ups will say, I just went to three, four, five, six, seven, 11 percent, maybe 12 percent total return, total yield on this deal. But since I offered four hundred dollars a month until my balance was paid off, this eighty thousand, there is no interest rate. So that four hundred dollars a month that I'm paying these four thousand eight hundred sixty dollars, that's a one hundred percent principal pay down. So that changes everything right here in the amortization quarter. So I take that off and I'll take the four eighty six divide that by the thirty K that I have going in there. Right. Because that's a that's for profit. Now it might not be cash flow profit, but it is for profit. This is how you build your wealth. So four eight six zero divided by thirty thousand and now I got sixteen percent. So that's sixteen percent on my amortization quadrant. So essentially now this deal pays me a twenty percent return. Now I know how much I can share with the private moneylender when I go to present this. So they said they'd be open to eight percent. You know what I did? Something just came up, John. I've been putting this deal together and it's actually performing a little bit better than how would normally see. And so I don't know what it still makes sense. If this one paid the nine percent, would it make sense for us to get together? I'll show you how it works. And that's it.

Matt: So now I know how much my deal can pay and how much is going to be left over from me. And so now we can structure that deal. And as you get the cash flow, I keep the the amortization or I keep the cash flow to manage the property. We'll split the amortization. Once we get there, we're going to go ahead and realize that. But I really like that amortization because and is one of my students, Corey can take that. That really turned me on to this. And I mean, it was my strategy. He just told me how to use it better and really do what for himself, where he purchased all of his properties this way, every single one. This will be his initial offer. I'll give you ten grand and five hundred bucks a month for the next ten years. And that would be like his thing. So after three, four or five years, that principal pay down, combined with the appreciation, he would then go refinance that money out through to its very traditional loan. And we did all of those loans for him. So that's how I know this is what happened. So I saw a five hundred thousand dollar check, a seventy thousand dollar check, and then an eight hundred thousand dollar check all go to chory. So he got all of that cash and there was all tax free because it was a loan.

Matt: He didn't have to sell his property. And so he leveraged each property just enough conventionally to where they would still cash flow. Right. So his is cash flow still coming in? The debt that he used to buy those properties are still less than what he's making off those properties. But he got to pull a bunch of cash off the table and go buy more properties with it. Now, he did go buy a Lamborghini, but he did buy some more properties as well. So that's how you do it. And then when you present it to the to the person, it's like, OK, so I have this house. It's probably valued about one hundred thousand. That's pretty much what we're going to pay. The seller is one hundred thousand is about ten repair. And so I'm going to need but they're going to carry about eighty so I'm going to need about thirty and I'm going to ask for thirty five. I always like to ask for more than what I actually need because these deals don't find themselves for free. And don't be shy about asking for that. If they want you to bring more deals, you've got to spend more money on marketing to bring in more deals. That's how I do that. Getting that from good Mitch Stephens, that's a great response and I've never had a push back from that again. Matt. Yeah, so if you only need thirty Joe why are you asking me for thirty-five? That might be what the lender ask. OK, well Matt, these deals don't find themselves for free, so I need to go out and find more deals so I have to replenish my marketing costs.

Joe: These I'm going to write that down. Yeah. Nice. OK, cool.

Matt: OK, so I'm presenting like I'm going to need thirty-five thousand dollars and. And this deal right here, based off all of our profit center, is going to pay about and as I said, 20 percent leave it there about 20 percent. And so we have a couple of options. I don't know if you need the cash flow right now. I really appreciate that's going to help me operate and manage the building so you won't have to do anything. And then what we'll do is we'll go ahead and we'll split the equity that we're building each and every month. So combined with the principal pay down and combined with the appreciation, when we go ahead and we resell or I refinance, I'll split that with you. And we'll just put that on the note as deferred interest. OK, so they're not a partner, their lender still, that was that was kind of a key thing there. So I want to pay their loan is going to be as deferred interest when I sell or refinance. And then, you know, and the market's really hot right now. It looks good, but we always know that could go south. And if it does, and we'll sit here and we'll cash flow until the market comes back. And so that's how they're protected. It's real estate. It's a it's more protection here than you got in the stock market.

Joe: Yeah, excellent.

Matt: We don't like it. And they're freaked out because somebody else really you're not in the business of convincing people you don't want to be in the business of convincing people when it comes to borrowing people's money, because if things go wrong, all fingers are going to be pointed to you. So you want to constantly have these plants in your or. Excuse me, what you digging your well before your thirsty conversation's over and over and over again. So you're not limited to just one person and you're not going to need a bunch of those people. You might get a rejection here or there. But based on this, where else can someone take thirty-five thousand dollars and invest it and get an eight percent return? There's no place that the average person can do that. Not predictably and not this not this security.

Joe: Very good. Let's talk about a little bit more detail here about the how that private investors is protected, OK, because you're putting the seller in first position and you're putting the private investor in second position. Now, by the way, it doesn't have to be that way. Right? You could as part of the negotiating, you could say to the seller, I'll give you that price you want, but let's say they want fifty thousand dollars down. Right. You can say I can get you 50 grand down, but my private investor is going to have to be in first position. You have to be in second position. And there's a better way to phrase that. Maybe, but like. All right. So let's say, though, on this deal, I'm borrowing, what, thirty five grand from the private investor, but the seller is in first position. That private investor in second position is still going to be at one hundred percent loan to value almost. Right. So somebody is going to be asking Matt, well, how are they protected in case the deal goes bad? Right.

Matt: So that's a good question, Joe. The way that you're protected is the exact same way banks are protected. If something, God forbid, were to happen and I became, you know, insolvent and couldn't participate in this deal anymore and you were left with it, you could easily foreclose on me just the way a bank would. And now you have this cash flowing asset in place with principal only payments. Yeah.

Joe: So you can even make it easier. Like can't you put it in your agreement that says you don't even have to foreclose on me. We'll just write in here a special addendum or amendment or something that says if I default, you automatically can just take over this my position in this property.

Matt: Yeah, in another I mean, I don't get that question too often anymore, but it would be, you know, if you want to. I'm not there's no chance in hell I'm letting this deal fall with four hundred dollars principal only payments. This is a golden goose for me. So but if it happens then this is how you're protected. You could just foreclose on me. And now this golden goose lays in your lap. But it's OK, Joe, if you want to sit this one out and just watch how it goes and plays out for the next private lender, I'd be happy to to go ahead and keep you informed. Is that how it works?

Joe: Take it away.

Matt: Totally. I don't need them. They need me. Right. And if you're approaching it as you need them, then that's exactly how they're going to feel and that's got to negotiate. Well, wait a minute. I want a personal guarantee or no, I want 12 percent or I want half of the cash flow to me. Like, I'm sorry. That's not how this deal works. Right? If you just want to stand by and watch on the sidelines and I'll go ahead and share it with the next person. I just want to extend this opportunity to you, because I know we just met in Miami and, you know, I don't want you to forget about me. And we had a really good time, so I had to present it to you first. That's cool. It's perfect. OK, with me. Move on.

Joe: We don't want to know what you did in Miami.

Matt: Yeah, well, we bonded.

Joe: Hey, I thought it'd be cool if I showed you guys something.

Matt: Can we answer some of these questions first?

Joe: Please.

Matt: Before we change the subject. Yeah. Yeah. So how do you do this?

Joe: We do this first one. How about this one, Maria? Matt, do you have a chart of steps on how to go with this strategy? Oh, I know you do.

Matt: Yeah, probably not all in one spot.

Joe: Yeah. Yeah.

Matt: But really there's just kind of really two steps with it. Right. One is you're always digging in well before you're thirsty and you're so you're just always having that conversation and you can keep a mental Rolodex or you just come home and say, oh, I talked to Joe at the pool today. Joe says he's open to an eight percent return and he has fifty thousand dollars sitting on the side looking to put it somewhere. And I could just set that somewhere and be done with it. And I can start slowly building on just a little spreadsheet on my browser. Right. So that's one thing I'm always doing. Second thing is mainly just finding deals. You just have to figure out. How much do deals pay you? That's it, right? So once you know how much your deals pay you, now you know how. Now you go back to your list. OK, so I need one hundred thousand. And so who offered a hundred thousand? And they were open to the lowest rate for that hundred thousand dollars. And I just called that person, hey remember we talked and you said it makes sense to call you. Something came up. Does it still make sense to get together. That's it. So that's really the whole process.

Joe: Well how can you how can people get your program at 2:00? Because you did teach this in your one of your classes.

Matt: Yeah, I guess epic breakthrough.com is the best way to enter my world right now. We're doing a bunch of restructuring, so hopefully within the next week and a half or so there'll be like a direct access for a lot of these types of things. So thank you, Maria. I want to make a note of that and put that together. And then, of course, there's always the well, look at this. If I go to YouTube playlist here real quick.

Joe: If you also go to Creative Financing Lab, Matt and I did a course together about a year ago and you can get your recordings to that. I've been meaning to update that website to point to this podcast here, but I just haven't done it yet. Matt and I did a course together as a case study called Creative Financing Lab. Was it a year ago, Matt? It's getting closer. Yeah, yeah, yeah. It was fantastic. He taught everything about on a financing subject to raising private money. I taught everything about marketing and lease options. It was great class we did together. But check that out of creative financing lab dotcom. But also, Matt, you have a ton of really good YouTube videos.

Matt: And I just I know I have it on a playlist on how to raise private money.

Joe: I am very jealous of Matt's YouTube channel. It was Pace. How come? Because you have such good content and how you do it without it sounds like you're so professional. It sounds like scripted, like you're reading from a teleprompter or something.

Matt: You know, that's just naturally how I talk. I have this great gift for gab and I remember everything and I internalize everything.

Joe: But I do have something to show that is related to this.

Matt: I'm still looking for this thing.

Joe: While you're looking at I want to show you guys something cool and I do get an affiliate link from this. This is a program called Deal Check. If you go to Joe McCall, dot com slash deal check. It's like nothing. It's only like seven or twelve bucks a month for the software. But I'm gonna show it to you because I have fallen in love with this thing and it's simply amazing. It's called Deal Check and we share my screen right here. Turn this banner off again if you go to JoeMcCall.com/dealcheck. And so this was the property right here that I was making an offer on. I was talking to the realtor yesterday and it's in Detroit. I found this deal. Let me just show you how I found this deal. I went into one hundred to two hundred grand. I didn't want super cheap. I didn't want real expensive houses only. And then for sale, I get more than 60 days. So it's been on the market over sixty days. And I sorted this by price and this was the cheapest house that came on there. And then if you look at it, you can tell there's not many interior photos. Right. But it looks like a nice house and it's in a great area. Actually, there is only one little tiny interior photo of a bathroom that looks like it's green tile, maybe outdated and an outdated kitchen.

Joe: Come to find out, the reason why there's no pictures is because there's a tenant in there. I called the realtor. The market. Let me just show you the street view of this neighborhood so you can kind of see where for some reason it's great out. By the way, if you're driving four dollars, does this look like a good driving, four dollars deal? All right. Anyway, this is a great neighborhood. Look at the street. OK, so some of these homes that have been fixed up are selling for two hundred grand, two hundred or three hundred grand if they've been fixed up. But if they're in bad shape, they're only worth fifty to one hundred because they need so much work. All right. So anyway, there is this program called Deal Check and you can get it for ten to twenty bucks a month if you pay annually, zero dollars if it's free. But you don't get all of these extra things. OK, but let me show you why I like this so much, because it helps you analyze deals, check out these reports. So I'm going to go right here to add property. I'm going to import property data. And I copied that address in here. I'm going to put it right there, search. And what it does is it goes and searches for the property in Zillow pulls it up. It's a four-bedroom, one bath, fifteen hundred square foot built in nineteen twenty-six detached garage, et cetera, et cetera.

Joe: Gives you the Zillow estimate realtor estimate. The rent cast estimate. Their rent estimate is thirteen fifty-six. Let's just go to Zillow, estimate for rent and I can adjust it and change it later. Tax assessed value. I don't know. It doesn't sound right but cool. All right then there's some pictures in here that it bringing over from Zillow. I'm going to click import and customize. It imports the property in. So I'm going to say the repair value is one hundred grand. We're going to we're going to use financing. Yes or no. And this is where you can put in there, like let's say you are financing it. OK, so let's say it's 20 percent down. You're getting five percent interest for thirty years. We can adjust this later. PMI finance, rehab cost. If you wanted to do that, purchase costs any rehab costs. We'll just do it tomorrow. You can itemize that if you want. You can do overruns if you want gross rents. I think we did eight fifty. Is that right? You can figure vacancies here. Let's do ten percent other operating expenses. Since we already have ten percent here for vacancies. Let's make this. I don't know, let's make it forty percent just to be safe under promise over deliver appreciation three percent income increase to expense to selling costs when to. If you will sell it, six percent depreciation period, twenty-seven and a half years.

Joe: All right. So now we're going to scroll up and we're going to do buy and hold projections here. And this is just a table that gives you all of the numbers. And I'll walk through that next. But let's go back here to property analysis. And if we finance like we showed before, our cash flow is going to be negative. Cash on cash return is going to be negative because the payments are pretty high. We're going to need thirty-three grand in cash. And if we scroll down, the gross rent is that we take out vacancies and operating expenses. We're at about 50 percent, which might be a little expensive. I mean, maybe we can lower this down a little bit. So we just go up here to edit property. I'm going to scroll down to operating expenses. Let's do 30 percent because again, we're doing already 10 percent for vacancies. Exactly. And I was go back up property analysis and now we've got eighty one cash flow, six point one percent cap rate, two point nine percent cash on cash return. Not that great, but it is cash flow. But the cost of money here for borrowing it at five percent may not make that this that great of a deal. But you can see here we're net cash flow about eighty dollars a month approximately. But a return on equity, return on investment, not that great cap rate, not that great. Cash on cash. Pretty bad. I mean, I like to see personally eight to 10 percent cash on cash return. And here you can have your purchase criteria. You can have different criteria. So this passes the 50 percent rule fails the one percent rule. The cash flow is less than one hundred bucks and the cash on cash returns less than eight percent. So you can change this criteria if you want to. Different things cap cash on cash returns. At least you can change that number.

Joe: The cool thing about this is you can set this up where it actually will tell you what to offer on the property based on whatever your criteria is. And I'll show that to you later. Let's go back here. Here's a buy and hold projections and we're going to adjust the financing here for principal only payments. Just a second. All right. So you can see our cash flow kind of grows over time. Here's our tax benefits and deductions, operating expenses, depreciation, loan interest. These are our deductions. This is our equity accumulation sale analysis. If we sell it, we're going to break even on year five, total profit maybe. Here's our investment returns. All right. Now, what if we own there's well, there's so many things I could show you. This is so cool. If I scroll down here, you can see they have a sales comps up a thing here where you can look at comps and include which comps to put into the report so you could choose not to do that. Twenty-eight grand not to do this one. Keep that one. Not this one. Keep that one. Take that one out. Take that one out. Keep that one. So there are some cheaper properties here, but there are some nicer ones too in 09. Let's take them out. All right.

Matt: Can you adjust the parameters for your comps?

Joe: I don't know. You can sort it by distance and then just choose the ones you want. OK, so we're going to keep those. Then you can also look at rental comps. You click that and it gives you I don't know where it gets these, but it pulls them probably from rentals on Zillow in the past and currently. And so we'll take out the real nice expensive ones and the really cheap ones. This is something that goes into the report that we're going to give to our investor or our private lenders and we'll remove the sixty-two hundred a month. OK, cool. Then records and listings. I want to look up let's look at the offer calculator here. And this is where you can figure out, well, if I'm going to make if I'm limited, but if I'm limiting my offer based on my cash-on-cash return, then the most I can offer. Seventy-six for this property. And this is where you can adjust what your offers are based on your cash-on-cash return or your cash flow, your 50 percent rule. And then if you wanted to, you could click save the new price and it'll change the purchase price to seventy-six grand. In your report, this just tells you based on my limited cash on cash return, it's if I removed that now my highest offers eighty-nine thousand based on the one percent rule. That makes sense. All right.

Joe: So if I wanted to I could click save new price and just that. Let me show you a couple of other things here. Let's go back to let me show you reports here. You can change, you can do reports and you can share this. So I can actually copy this URL and give it to you and you can view it. So if I open this up, it's going to look like this. This is a URL link that you can send to people and you can adjust and change the pictures. That's just Google Street View. But it shows all of the information here about the property, the map, property analysis. You get an itemized breakdown of the rehab costs, that this will help you guys sell your turnkey deals.

Matt: It's what I teach anyway, but it's all.

Joe: Yeah. So here's the cash flow analysis. If you had expenses and income, you're going to break those down here, your returns, projections, all of this fancy stuff. All right, then. Here are the sales comps and here the shows, only the ones you wanted it to show. And here are the rental comps based on a map, which is super cool. You can show that you guys, your private investors are going to love to see this. And your buyers, if you're selling these deals and you can edit additional information here, you can edit your logo and your property here. You can also download this as a PDF. Let me let me show you what that looks like so you can. A one-page report or a complete report, and I'll just show you what it looks like here, you can even hide the address on the PDF report. Again, you can change the photo. That's just I didn't do that yet, but it gives a summary of your company information, property description maps. Here's your purchase analysis. Supercool all of the information, cashflow statement, financial projections. So these are the numbers. I don't know if you can see that very well, but it's all the numbers are there. And the cool thing about this is it takes into a factor the tax benefits and deductions, which is huge.

Joe: It shows you the operating expenses, the loan interest and the depreciation. These are deductibles. You can deduct 11 grand from your taxes on this, from your taxable income for just this one property. You can see how it accumulates your equity. And then the comps are listed on one page like that and your rental comps are listed on one page and it looks like it did a decent job doing. I didn't spend any time looking at the square footage, but they're all kind of similar and recent. Recent sold. OK, and then your analysis, it shows you whether it fails or passes these rules that you've set up, which is pretty cool, and then it has all of the photos. So this is a 14 page PDF that you can send to your buyers and you can add your notes. All right. So let's I wanted to show something here just real quickly.

Matt: I mean, just kind of touch on a couple of things that I really like. This is it actually is very much in congruence with what I teach. The second thing, though, is I would anyone that is looking, oh, my gosh, this is going to make it so easy. I just got to do this ad and ask you to kind of restrain from trying to lean on the technology and the fun little reports and stuff like that and really understand what you're offering and get somewhat of an agreement before you even share anything like this. Yeah, right. So if you can say this is the deal I got and this is this is how much I need this, how much you're going to get back, this is when you'll get it back. And then if all things go south is how you're protected. Does this sound like something you want to move forward with, like go for a close or a subtle soft close, some sort of agreement before you even start going down this rabbit hole? Otherwise, you're going to find yourself an hour-long meetings explaining every single little number to someone that has no intention of getting involved with this in the first place.

Joe: That's really good.

Matt: It happens all the time. All of a sudden, you just wasted a whole hour at Starbucks presenting to somebody that was just interested and said thanks but no thanks or I'll think about it. And just like you could have got that answer so much sooner upfront. Second question over here, because I know we're running out of time and people are starting to sign off. So I want to answer this question here really quickly. So it's an important one there. When is asking for private money illegal? I heard it can be illegal to ask. Wow. And I think that's important for us to cover, at least before we sign off. There's two ways that that you can get in trouble asking for private money. One is if you're out advertising a return on investment, you can't advertise a return on investment, not without an actual compliance and having a fund in place. And even then, that goes down a deep rabbit hole. But then the second one is asking for money on the very first time you met somebody, there has to be a relationship in place.

Matt: So the reason I'm bringing this up now is because that's what inspired me to do it the way that I'm doing it for all the different psychological reasons that we went over as well. You want to look like you're going to pounce on them and you only want money from them. But when you ask, would it make sense for them to give you a call back when a deal like this comes up now and that's your second meeting, a lot of people got in trouble. I know there's a there's one company got in trouble. They would do seminars, just they would know how to raise private money or some other very similar like that. But so they bring all these people through a meet up dotcom website and they'd have twenty five, fifty people in for a dinner presentation and they'd ask for money right there. And you can get a lot of trouble doing that. So you can go ahead and do all those types of events. But if anyone wants to discuss it, said, you know what, this is probably not the best time to do that, if you will. If it makes sense for us to get together later, I'd be happy to have that point with you then. That way, it's technically for the law is a second meeting and you can so that's the area that you get to play in. OK, all right. So I don't have anything lined up so I can keep on going. I just want to.

Joe: Yeah, I should get going too. I was just trying to play with this to see if I did principal only payments. And so I set this up where we're doing twenty percent down zero percent interest over sixteen years. So I figured if we're paying for twenty five a month I need to tell you these numbers because it doesn't sound right. I'm not doing something right. That would be principal only payments. Right. Then I figured my operating expenses, I itemize it. There's taxes per year, insurance, property management, maintenance, capital expenditures. Maybe those are a little high. We could do eight percent, eight percent, eight percent landscaping zero. I figured I added a new one for private investor payments. So if we borrowed thirty five grand times point zero eight divided by twelve, that's about two hundred thirty three dollars a month in interest only payments to that private investor. So my total expenses would be five forty seven per month. That's going to make me negative cash flow here if I'm. So what do you do. Maybe you make principal only payments over twenty-five years, but it's negative cash flow. But again, look at the analysis here of your equity buildup. Look at this equity accumulation, boom. This is where this is where it's at. Your loan to value ratio a year or two is 70 percent. And then by year 10, it's thirty five percent. So your return on equity should drop. Yeah, I maybe I'm doing this wrong now.

Matt: It does drop. You good.

Joe: Am I good? Yeah.

Matt: Because your equity gets bigger and if the rent isn't building as fast then I would get smaller. This is what would now build the case for refinancing to keep at that return on equity higher, pull the money out and go buy another piece of real estate. Yeah.

Joe: So but see this equity building up. That's where the real power of this is. So you may be negative cash flow for a few months, but look at it in terms of like you're just investing that whatever it was, that negative cash flow of eighty for fifty bucks a month, that's like putting that money into a four one K or a investment account. I use acorns to invest money in the stock market, you know, and I put a lot more than fifty dollars a month into acorns, into the stock market. Right. And but the returns that I'm getting from acorns is not anywhere near what I'm getting with the real estate deals. So something to play with. Check it out if you're interested. It's Joe McCall dot com slash deal check if you're interested in that software, 10 to 20 bucks a month, depending on the level that you get. It's pretty cool. So, anyway, glad you guys did we get enough questions. We want to add anymore?

Matt: There's two more that I want to go ahead and get.

Joe: Yeah, this one. OK, some of these owners have realtors to sell their property. How does one talk to the owners?

Matt: Well, essentially, you're probably not going to know. And if you happen to and the agent discovers it, they're probably going to throw salt on your game there and dissuade them. So what you do is if properties are represented by realtors, you need to coach your realtor up and maybe even role play on how they're supposed to talk to the other realtor to present these. So really, summer finance deals are the ones that the typical scenario that we will we go for here in Vegas are properties that have been on the market that are owned free and clear and have been on the market longer than 60 days. Because having been a realtor, I know a realtor's pain is having a listing that just won't sell, particularly in a market like this that's so hot. Obviously, there's something wrong with the property or they're doing something wrong and they're probably getting beat up by the seller and they're watching all of their associates sell their properties left and right with multiple offers. So they're getting annoyed and frustrated in this type of environment for sure. But typically they're always annoyed if that takes too long.

Matt: So once you understand that pain, you have to coach your real estate agent to talk to their real estate agent. Hey, I know you've got this property sitting on it for sixty days and wow, what a crazy market we're in. So I have an offer for you from a buyer. It's a real buyer and it will close and it's full price, but it's probably not what you're hoping for, but it's real and it will close. So if I sent this over, would your seller be open to some money now and some money later and I'll give them full price. And so you have to kind of let the market beat them up a little bit before a lot of your public properties are going to be open to these types of offers. So it's really has the agent has to talk to the agent, Tiran. That's how it has to work.

Joe: Well, it's important to get the owner, get the agent on your team totally. And it's so easy to do that. Just my call yesterday on my end, you can see it on my YouTube channel. I called this realtor yesterday. I told her, I said, listen, by the way, I don't have anybody representing me right now. And I was honest with you, too. I said, I'm in St. Louis. I'm looking to buy some more deals in Detroit. I didn't pretend to be like I knew anything about the neighborhood. Like sometimes more ignorance. You can show them the better because then they're going to be more helpful. But anyway, I said I don't know anything about this area. It looks like a nice neighborhood, but I don't have anybody representing me. If you represent me and make my offer for me, you can get both sides of the commission and all of a sudden she went from this like kind of defensive all. You're the fifth realtor to call me today to like, oh, really nice. OK, she was much more open to tell me about the situation, what was going on, and she was more open to bring me other deals, which is why I love contacting the realtor strategy.

Matt: Yeah, you always got to focus on what's in it for the other person. And when a property is listed by a real estate agent, you have to focus on what's in it for them just as much as you're focusing on what's in it for the seller

Joe: Bank statements to I don't know if this is. Can you see this? There you go. Sorry. Do you get bank statements before signing a sub to. Yeah, yeah. You want to just make sure the loan is current.

Matt: I want to do it. You want to make sure that you're having the authorization to release information signed by the seller so you can speak to the bank directly and you want to get those bank statements directly from the bank. You don't want the seller to pass those on to you and you just take their word for it. You want to get it straight from the bank before you take on that obligation.

Joe: And Matt has a really good video on how to raise private money to this is an important topic. I understand you want to make sure you do it the right way and you stay out of trouble because you can get in trouble with the S.E.C. if you are soliciting. But there's a right way to do it and you make them come to you. Right. You need to have a relationship with them. Watch Mat's videos. He. Talks a lot about that, does a really good job. OK, so I think that was fun, Matt.

Matt: Yeah, totally. Never know where it's going to go. It's always an adventure. It's always fun doing it with you, Joe.

Joe: So who needs Pace anyway, right? He's filming his dumb A&E show.

Matt: He's gone Hollywood on everybody.

Joe: And nobody watches A&E anyway.

Matt: But I'm sure this will be a great show.

Joe: Matt, come to St. Louis soon. Let's play some golf.

Matt: I think that's a good idea. I see you're ready to hit the links right about now.

Joe: Man, I'm leaving here in a few minutes, so I got to go. I'm on my way to closing to close a deal or making a big fat check on this thing. I'm excited about it. So, yeah, there's a lot of good things. It's a great time to be in this market. Guys, if you're on the fence thinking, oh, man, today, is it too competitive or is it too hard to do deals right now? I've heard it's white hot and I can't find enough leads. It's a great time to be in this market right now. There are still lots of deals out there, especially when you understand creative financing. So go get watch Mat's YouTube channel, check out mine and we'll see you guys on the other side. Thanks again, Matt. Bye everybody.