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1146 – Tax Loophole Deals with Eddie Speed

Hosted by: Joe McCall
Guest: Eddie Speed

Joe: Hey, guys, what's going on? Joe McCall, Real Estate Investing Mastery Podcast. Glad you're here. This episode is going to be really, really important. You guys need to listen and pay attention because we're going to be interviewing one of the nation's premier experts. I might even not just call him more than just one of the I might call him the nation's premier expert on all things creative financing. Eddie Speed is going to be our guest today in this podcast, and he's going to be talking about some really cool IRS loopholes on how you can actually do more deals and do more deals creatively where, you know, instead of doing one out of maybe one out of every 30 offers gets accepted, you could do three or four deals. Out of every 30 offers, you could literally triple your deal flow by just being a little more creative. And this goes beyond anything I've ever taught before. Eddie is one of the most creative guys I know in the space. It's an honor to have him on the show. We're going to bring him on in just a second here. I want to first let you know that this podcast is being brought to you by my brand new PDF updated report called Recession Proof Real Estate Investing. And you can get this. They can get your hands on this thing for free at REI proof dot com REI proof dot com. I was just looking at the Wall Street Journal this morning and this is the headline right here US Inflation hits a new four decade high in May. I'm sure Eddie's going to bring on some of his expertise into this as well. But this is today's Wall Street Journal, 40 year high of us in the United States for inflation. And it's right now currently at 8.6%. Now, I've not been around since you look at this chart, too. It starts kind of in 1982. I don't know what you guys were doing in 82. I was eight years old. I think Ronald Reagan was president. This is, you know, back in the 1900s, back in the last century, that's how long this has been. And what are we doing as investors, Eddie? This is something that's going to be important and what we're talking about in this podcast with Eddie Speed. But here's the thing. You need to be prepared. You need to be prepared because the recession is coming. If it's not already here or what is this going to do to the housing market? I don't know. We're going to talk about that on today's podcast. But if you want to get, from my opinion, ready and the things you need to do to do more deals in a recession you to get this PDF it's absolutely free no strings attached REI proof dot com and this mind map. I'm sorry this pdf comes with a mind map. In the mind map are some videos, more videos, some spreadsheets, some tools, some scripts, calculators, things that you can do. And so we talk about the things you need to focus on to do more deals in this kind of a market. Right. But now having said all that, you guys ready to bring Eddie Speed on from note school? Eddie Speed, how are you, sir?

Eddie: How you doing, Joe?

Joe: I'm doing awesome, man. I'm glad to have you on my podcast. It's an honor to have you on my podcast. You've been doing real estate stuff since when?

Eddie: I started in 1980. Thank you. Ronald Reagan was president in 82, and I. I got to enter this market because creative financing was the solution for inflation.

Joe: Yeah. And let's talk about this chart here for a second. Can you see that on your screen there?

Eddie: I can, as I was, I took a picture of it was a great way to like this all the time. But I didn't have this picture this morning. And so I'm I'm a student like everybody else. Right. You're showing me something here I need to know. And, you know, it's funny, I had a I had a long conversation this week with a couple of people. One of them is an attorney, Dr. Watson, and one of them was Mr. Boatwright. I talked to him an hour this morning on the phone. We had this very conversation about where the market's going and what people are doing, what they're doing now. Jeff writes a lot about the economy, too, and he says that we already officially are in a recession, two quarters of of GDP that says we're already there. And, you know, the conversation leads around what are people going to do the best, right? What are they going to do the best? And and I think these you know, obviously, we'll get off into the landlord story and the landlord story, but it all leads back to these people. People are prone to take action when they they've they're fed up. They've had enough. And we have tolerances in our lives. And I believe that people are really honestly and I know that when you read one side of the story and you see that housing is really still, quote, on fire, but the mortgage industry is like in a bomb. I mean, they're in a bomb. They're at the headline this week on that I'm sure you saw it is that you know every week the headline but applications are down in their decades it's been. Decades since they've been that low. Every week it's on there. Yeah. What are they saying? What they're saying is, is that people at five and a half percent interest. Joe, that's not very high at five and a half percent interest. People that think they can't afford a mortgage.

Joe: Well, they're saying on average it's about $800 more a month for the same house in payments as it was.

Eddie: Increase taxes, increase taxes, increase insurance and increase rates. Yeah. So all of that leads us to the fact that, you know, I think a lot of people, Joe, are looking we're running we're running all these comparisons to 2008. So let me give me 2 seconds on that. That's why you had me on here today. But let's talk about that.

Joe: No, this is good.

Eddie: This is not 2008. And anybody that can look at a comparison can see that our market conditions don't near line up with what happened in 2008. So let me give you two facts that I think are relevant. First fact is, most real estate recessions are a result of an economic recession, not the real estate recession first. 2008 was a different anomaly. 2008 real estate problems caused economic problems otherwise. Okay, so that is not a good comparison, right? You tell me that people can't afford to live and people can't afford to buy gas and people can't afford to buy products and it causes an economic recession. And you tell me that, in effect, real estate, I'm going to go this old 42 year veterans going go, well, that ain't exactly what I've experienced. Correct?

Joe: Yeah.

Eddie: And the second variable to that, the idea of comparing it is to 2008 is long term tenants can't pay double digit increases in rents every year. You know, A, you and I know hundreds of people that manage tens of thousands of residential properties, but you can't send them an increase in rent every year and say we're going up 10%. Right. Although your expenses are going to increase every year. I'll tell you what I just told you and I, a mutual friend of ours, that we know very well what I just told him in the email this morning. I said what you just told me, based on this engagement we've had, what you've just told me is, is we've entered a paper market, not a rental market.

Joe: Explain that.

Eddie: Because when you're in the paper business, I don't have expenses on the bank. When I when I'm in a rental market in the in the market, the rental markets have been really good to us. The reason these frustrated landlords is not because they're complaining about appreciation. That's not the problem. Appreciation has been good to them. It's managing a business that they didn't know they were buying. That's their problem. That's their pain. Correct? Yeah. So when when we become you're you're a world class marketer. I respect you and your knowledge. You're just you're just your mind is just so good at understanding how a consumer thinks or a property seller thinks. Are you just you're just really good at it? Right. I'm a good deal guy. I'm good at structuring deals. Right. I learned from people like you. The mindset and how to adjust, like how the customer thinks. But the truth of the matter is this frustrated landlord that we keep referring to. I mean, he's the most solicited list of all the real estate investors. Do you agree with that?

Joe: Oh, yeah, that's my favorite.

Eddie: They're all chasing burnt out landlords. More than more than homeowners by far. Yeah. Okay. And what happens is, is he's his problem, Joe is he's they're pretty they're generally these owners of these properties are pretty sophisticated people. So they've either built an Excel spreadsheet or somebody or they scrape one off the Internet or somebody gave them a spreadsheet and they got this Excel spreadsheet. Now, they're usually people that are somehow involved in running businesses, right? So they know how an Excel spreadsheet works that like predicts the cash flow model and it predicts, you know, you run it, you run your business off a spreadsheet, right? And then they got this thing called a checking account. And apparently the spreadsheet and the checking account are talking to each other.

Joe: Now, I know where you're going with this is you can you can get a spreadsheet to tell you anything you want it to tell you.

Eddie: It's just it just, you know, that is theory and then there's experience.

Joe: Okay.

Eddie: Right. What we all have in life. Right. In business and raising kids and all the things that we've done, there's theory and there's experience. Yeah. And so what we're now trying to do is take their experience and solve a problem for them. And that's huge.

Joe: Yeah. And that's what we're talking about here in this podcast. And this works regardless of whether we are in a recession or not. I think, Eddie, you could make the case that understanding creative financing is becomes even more important in a recession. We. You agree with that?

Eddie: Well, the reason I entered the business, Joe, is I was so I was, you know, I guess a lot like any real estate entrepreneur, you know, I didn't enter this business with a masters in finance degree. I'm a cowboy, you know that, right. And so I grew up the cattle auction barn and thought my life was going to be in the cattle business and ranching. And I woke up and the interest rates were 20% and that wasn't really a good thing. And so I stumbled and met this guy that later became my father in law. And he was a landlord guy. He was a fireman, and he had retired from the fire department and he owned a lot of rental properties and he started finding himself needing to seller finance them because conventional lending wasn't affordable. And then all of a sudden he started looking around and he started seeing all these other people that were forced to carry sell are things that, you know, Joe, that the average seller finance note went up a hundred thousand bucks last year. The average long size nationwide, wow. About 100,000 loans. It went from 180000 to 280000.

Joe: Wow. I did not know that.

Eddie: Do you know what that tells you? Seller financing fills the gap that conventional lending doesn't filll. And you might say, well, there wasn't a gap last year. All wrong, kemosabe. 35% of the people that could get a mortgage before the virus underwriting wise can't qualify for a mortgage today. That tells you there's a giant gap to offer seller financing. And now we've seen a double in interest rates.

Joe: Yeah. So that what does that mean to you? It means that we're coming into a time of what.

Eddie: I would say. Joe, you've known me a long time. I don't make these statements lightly. I would say with I have the strongest feeling that you cannot survive in real estate investing without any knowledge of creating financing in the next five years. I just don't believe I think it's that important. You know, I look back in my 42 year history that as long as the mortgage industry is solving every problem in the business, you don't need creative financing. It may be smart. You might could do things with it. I certainly would. You would. But most people aren't forced to figure this out. You let rates you let rates double in six months, which is what's happened. And you look at the mortgage credit availability as what mortgage bankers calls it, and this index and that index dropped like a rock and has never recovered. And what that means.

Joe: When did it drop?.

Eddie: Basically in in April of 20.

Joe: OK.

Eddie: When the virus happened. Right. And so it dropped immediately. And if you can just look at that graph, it's just never recovered. Now, people see this as a negative and I see it as what do what does any entrepreneur do?

Joe: They look for problems.

Eddie: They solve and they make they solve a problem that the market is solving without them solving it. That's what makes the opportunity. Let's just be fair about it, Joe. If we weren't good at solving problems, real estate investors, we wouldn't have an existence because realtors could solve every problem known to man. They would need us. You get what I'm saying? Yeah. So I believe that creative financing is going to be the most essential ingredient because of where the market's going. Right. Do you think rates are going to drop back down in the threes in three months? No. I don't know anybody that thinks that. Do you think rates have a tendency to continue to go up?

Joe: Yeah, I think they will. Who knows how high?

Eddie: If we believe the Fed, we know they're going to continue to go up. Right. This isn't like brain surgery. We're just you're just scraping data. You scrape data this morning. It says here is the inflation. The Fed looks at the inflation and goes, we got to go take control of this. So let's look at the customer, their problem and what they're worried about. Because a genius marketer like you knows, if I'm focused on my customer and in understanding his pain and how I can solve a problem there, it gives me an incredible entrepreneurial opportunity, right?

Joe: Yeah. Yeah.

Eddie: So these landlords got real fired up. It started after the 2008 stock market debacle. They started buying rentals. And then about 2015. And I may not have the dates perfect, but call it close enough. They there this there is this network TV called, you know, I'm about buying houses and it became flipping shows and fixing up houses, shows and stuff, you know, HGTV and not just them, but the whole idea of it was, honey, we could do this if this on the couples were cute. We know they are. They're very appealing. And in some couples sitting there watching, they're like, Oh, honey, we could do this. Yeah. And so the next thing you know that we saw this massive amount of people, the highest in many decades, percentage of people that own rental properties. Right. And Joe, it's a gigantic number. Urban Institute probably has the best data on this. You may have a better source, but we've used them a lot. And Urban Institute says that 72% of all residential rental properties are owned by people that own 1 to 5 houses.

Joe: Yeah, mom and Pops.

Eddie: Mom and Pop. What I call hobbyist landlords. Three quarters of them self manage. Well, okay, so let's do some math. Oh, interestingly, of that, 17 million houses, over 50% of them don't have a mortgage.

Joe: So what percent is that?

Eddie: I mean, it's like they say 60% are free and clear. And I'm fudging. And I've got a lot of people that are like data geeks in different ways. I call it 50% because there are some ways that they could measure that could be slightly off and there's no need to overstate it. We're talking about an excessive amount of properties. Yeah. Joe, we're talking about somewhere around a number of prospects in the 10 million house range. Wow. That's a big number.

Joe: These are mom and pop landlords. We have free and clear properties.

Eddie: So you and I been in these masterminds, biggest house buyers in the country, right? Well, guess what? Joe and Eddie aren't don't own this secret on their own. Right. We all and everybody that buys houses knows that that customer who's now owned a rental for three years or more is more likely to sell than any other customer that you could buy houses from. And so everybody that you and I are buddies with that drop millions and millions and millions of pieces of mail and text and cold call and all the methods that they use, everybody knows to chase that frustrated landlord list. Right. I mean, that's not like some. So from that and I've been teaching creative buying that property on creative terms forever. But from that, what I started figuring out was something a little different. The advantage that we had, Joe, you and I had is we feel like among the trainers that train the acquisition teams for the top 500 house buyers in the business, there's really a couple of guys that probably fit in that bucket. Steve Trang. Jerry Gray. All right. Both of which you and I know very well. We think they're really, really, really just they just understand the science of the kitchen table and how to move people past it and stuff. So I start, I start visiting with them. This is probably like late summer last year.

Joe: Yeah.

Eddie: And I said, What number do you think you got to remember? These guys are training the guys. They're coaching the guys that are sitting at the kitchen table buying the biggest volume of houses in the country at a discount. I said, What percentage of these landlords pull the trigger and sale that fit this 10 million house category? Both of them said 20 ish percent.

Joe: So they're saying 20% are own.

Eddie: From the landlords that have. Of these 10 million houses that fit this demographic that we describe, they're saying 20% of them sell. 80% of them won't sell.

Joe: Okay.

Eddie: So I start. I become curious. And I said, Tell me about the 80%.

Joe: Why won't the 80% sell.

Eddie: You got it. Right now let me let me say this. This is it. Some giant market research. These are just guys that train the biggest in the best in the business. And to me, that's the best research out there, because I've found that sometimes in surveys people aren't real and truthful and stuff like that. They are training guys how to convert the seller. Number one, pain that they experience was the people don't need the money. So, so telling them you're going to pay cash, which means discount. Telling them you're going to pay cash in close quick is not exciting for them. And what they're really worried about is taxes.

Joe: Taxes. The IRS.

Eddie: And instantly you got to understand, 42 years in a specialist business, my mind instantly goes quickly somewhere, right? I said, Well, that's the easiest problem in the world solved. So now here's the two badass cats I'm now okay at that teaching people how to buy houses they're they're rock stars but understand they haven't spent 42 years knowing what I've been focused on. So when when the audience is listening to me now and they're saying, what does he mean as easy as problem solved? So I can easily show you if you have rental properties, how to defer pay in taxes for 20 or 30 years.

Joe: Yeah.

Eddie: In fact, let me do a giant disclaimer here. Okay. I'm not an accountant. I don't play one on TV. I'm just a business guy. But I know there are certain things I could ask my accountant about to get the right specific answer right. Did you know, Joe, that not only cannot deferred taxes, but if I limit the capital gains to like $40,000 in one year, that capital gains under $40,000 in most tax. Big disclaimer here. Okay, it's not taxable. So if I cap how much capital gains I have, I can move it to where it becomes not taxable in any given year period. Now, how many people that own those five rental houses would know this?

Joe: They know they have a tax problem. They don't know how to fix it.

Eddie: And they wouldn't they would have no idea that this could be this was a tax loophole that even existed. Yeah, right. So understand that while most real estate investors are looking for the broke landlord, I'm looking for the broken hearted landlord.

Joe: Yeah, well, that's really good, because you can show them. What, like, listen, I'm actually going to buy your house, but I'm going to help you get more money and not pay as much in taxes on your property.

Eddie: Here's the punch line, Joe. You are very skilled at the kitchen table, right? You are top 50 at the kitchen table, guys in the business. I want to sit down, talk to a customer, know how to say the right things as to my emotional questions. You're definitely a pro, but even Joe, even you could not convert an incredibly high number of people in today's market if you said your price. My terms. Correct. People just don't feel that motivated. Yeah, right. But if I said to you, Joe, the IRS will allow you to defer payments, what would you say?

Joe: Tell me more. Exactly how does that work?

Eddie: Exactly. So now all of a sudden we've reposition a psychological selling cycle because now you're just you're truly informing them in every legitimate way in things that they wouldn't have thought up. You're suggesting things to them is like, oh, my gosh, I didn't know I could do that. And from that then leads to not that you have to sell or finance, Joe, but you get to seller finance interest.

Joe: Right? So can you give us an example deal of how this would work? Typical landlord, a typical investor, how does that work?

Eddie: So one of the things that the market is so big, one of the things that I had to do in guiding people to do this in the strategies that we do in our shop is I don't just chase every rental. So Saint Louis might be different than Atlanta a little bit on the bottom end, but I'm dealing in a better grade of property than, look, it's not the sub 100,000 properties, right? So I'm dealing in a better grade of property. I want somebody to own the property at least three years. I want somebody that probably is free and clear because the pool is so big, a free and clear, or at least they have a lot of equity. Right. And then I know how I know how the conversation is going to go, right, that I'm going to lead with this tax strategy. I'm not going to lead with your price. My terms.

Joe: Interesting. Right?

Eddie: So I'm going to use everything about it. I'm not going to look like the regular house buyer because I think if you if you're marketing, looks like everybody else is right now. And let's agree, Joe, it's a very crowded market. If your market just looks like everybody else is marketing, you're just a call it another tomato. Yeah, right. And how do you become different? You become different when you're when you're asking them a thought provoking question. My marketing guys tell me and Joe, you're a pro at this. My marketing guys tell me that the unspoken pain is wait. Addressing the unspoken pain is way more powerful than addressing the spoken.

Joe: Okay.

Eddie: Is that. You think that's true?

Joe: Yeah, probably.

Eddie: So their unspoken pain is they hate the rental because let's be fair about it. They're not set up to go run that business and no matter how smart they are at doing whatever it is they do every day. Running a rental property business is a very systematic, very structured environment and the people that we know are really good at it are deep operational people with deep operational processes and managing rentals. The average guy that owns 3 to 5 rentals, we don't experience that, has that in place very often.

Joe: I know this first firsthand. My mother owned two very good rental properties and she bought them really well. She put she she fixed them up really nice, had good tenants in them and they appreciated she paid down the principle pretty quickly, but after three years she was done and like I was managing them for her for free. But I was taking care of the problems. Right. But still for her, it was just she did not enjoy it at all.

Eddie: They're not very good. They're not suited for that. People start out thinking it's an investment. Yes. They start realizing soon enough they really bought a part time job. Yeah. And and so, listen, I don't personally I'm not really good with rental property. I mean, it's just kind of it doesn't suit my personality. But I know like you, Joe, I know a lot of people that are really good at it. And I think there's people in this on in your audience that are listening to us that are really good at it. Just because you're good at it doesn't mean that other people are good at it. And we're just identifying a big demographic that is because they've owned them now for long enough. Their aggravation has become high enough. Now, all of a sudden, the one thing that's weird, though, is they got they got two things that have happened to them. The market has been good to them. Their property has gone up in value. The the managing the rental emotionally stress wise, all that stuff has not been good for them. And we had figured out through some of these top guys in the business who had the biggest numbers that if you could answer a tax problem, that's some that's the solution that other people just haven't offered them.

Joe: Yeah. All right. That's really good. Give an example, then, you know, and let me ask you before we get to the example, is your marketing that you're sending out to these tired landlords with a lot of equity? Is your marketing different and how is it different? Are you just are you saying, hey, are you tired, landlord? Do you want to sell your house?

Eddie: If it's a did you know, did you know you could sell your house, get top dollar and defer paying taxes over a long period of time?

Joe: Wow. I've never seen that in any kind of marketing for houses.

Eddie: Well, I mean, we but it goes back to the formula that I gave you, right. I believe that if you're going to look different than anybody else, you've got to go. You know, it's the markets just to compare, to just go throw your stuff out there just like everybody else. Yeah. Let's just agree with this, Joe. If you're a smaller operator, which many people in your audience are, they're not the top 500. You and I know the top 100, but they don't necessarily watch our podcast every week. Right. It's hard to compete with these guys because they're throwing out huge dollars in marketing. They they've really got their marketing dialed in. And if you're a smaller guy, you're trying to compete with that. And I say, want to compete? Just go stack a list, chase to a slightly different customer to who has these these demographics. So so give them give you an example. Oklahoma City. Right. The guy has a rental for 200 grand. He's owned it for five years. He paid cash. He's 68 years old. His wife is wanting to go to Europe for a month. And he says, not sure I can. Yeah, because I've got these three rentals and something is going to go wrong with one of these three rentals. And now all of a sudden you have now invaded what they worked so hard to preserve.

Joe: Well, they're also looking at they're looking at it like, man, this has been a pain in my butt for the last three or four years. They're also looking at, man, the market's gone up. Maybe this is now the best time to sell and what a better time to sell than now. So this is a perfect storm.

Eddie: The other thing is, is they are 100% sure their expenses have gone up. Most people that have had tenants that have lived in a property, they haven't been. Unless you've rolled tenants over, you have an increased your rents by 20% the last two years. So when you read these stats and they say rents have gone up by seven. And so the only way you can do that is you've had to reload your rentals. Right. Because existing tenants, let's just be honest about it, not year after year after year. I'm not saying you can't have an increase, but year on year if you're telling them their rents going up by 10%. So what happens is, is what you think is you are in a market that you are if it's float, the income is floating up like inflation. Well, the income is not floating up at the same rate. The expenses are floating up. Does that make sense?

Joe: Oh, yeah. Yeah.

Eddie: And these are all real things. I mean, we're not making this up, and so they're living it. You know, that checking account Excel spreadsheet and sat there living that. Yeah. So all of a sudden, these are all the reasons that they want to sell freedom, you know, security, predictable income, all of these things. So we're positioning them as like just suggesting to them, let's talk to you and see if it's a possibility, if you'd like to defer your taxes. And that's kind of a joke. Which person wouldn't want to defer their taxes or not avoid paying some taxes? Right. So we all know that that would be a point of interest. So that's our customer. And, you know, they could be an ex. They could be 55 years old. They could be 72 years old. I hear students every week with customers. Usually they're not in their thirties. Most of the rental properties are owned by people that are a little bit younger. You're probably on the south side of people that are among rentals. Yeah. You know, but most people that are among renters, because why did they buy rentals? They were looking for long term wealth. Right. And so this was their strategy. And now all of a sudden, it's it's it's not work out the way they thought. And here's how I like to do it. You might do it a little differently, and I'd be perfectly okay with that. You might buy a property and get the landlord to carry financing for me. Right. Let's call it soft terms. I got a lot to say about that. But you might do a lease option, right?

Joe: Maybe. Maybe, maybe not.

Eddie: I like seller financing because you now I'm looking at a mortgage industry that is definitely not solving the problems of America. And I'm going seller financing would be an excellent candidate, so I would not own seller financing and resell it on seller financing. I'm paying low interest and I'm collecting a much higher interest. I'm essentially running my own bank.

Joe: Yeah. You're being the bank instead of a landlord. Yeah. All right, so give an example. Maybe it's numbers, if you could. Let's say a house is worth 200. Yeah. 200 grand and cash buyer comes in, offers 120. And, you know.

Eddie: I don't. I don't need to buy the house at a discount, Joe.

Joe: You don't need to buy the house at a discount. Now, explain that.

Eddie: The higher the price, the better the terms I want. Sure. Okay. I can. In most cases, this is not going to be true in every market. So this is sort of a generalized statement, right. It's difficult for me to use a Saint Louis example or a Kansas City example and say this exactly in Arizona. There's going to be some differences. But for the most part, I can pay them. I can buy that property for a minimal down payment in most cases, call it not very much. Once again, you're not trying to treat your taxes. Right. And there's some strategy that of how we go about this. But I would say let's just conversation. I'm going to pay 10% now. So 200 grand, I'm pay 20,000 down. I probably can get a private mortgage for 20,000 and not ever have to put any of my own money up. And there are some ways that that easily can be done to accomplish that. They're going to keep it at 2% interest. And believe it or not, in most financial models, 2% interest is more net income than they're netting from rent right now.

Joe: Okay. So explain that a little bit. Then again.

Eddie: They're going to carry the financing for me and be the bank. They're going to owner finance me. But you're putting.

Joe: You're putting 20% down.

Eddie: I'm gonna put 10% down.

Joe: 10% down, which is 20 grand. And where do you get that money?

Eddie: Just 2% interest, it nets them. We've run this model enough that we know it's true. If they run real numbers, like like, okay, you had to put a 3500 air conditioner in. Okay, well, if you load that real expense in the deal, right. And all of those numbers, they can carry that thing at about 2% interest. And it's truly going to give them close to the same income they get right now. And there are some terrific tax advantages in carrying it over time. There is no question about it. Okay. We're going to point all those things out to them. And then how am I going to get rid of it? Right. I'm going to sell it for 200. I'm going to sell it 4 to 10. Not going to oversell it. I'm not going to do anything that's like not in the ethical manner that I should be operating on. Right. I'm going to the average conventional mortgage today. The average conventional mortgage pays right at 20% down. People don't believe that. But that's what the stats say, right? Mortgage stats say you can sell the property so easily, Joe. Let me just back up a little bit. I'm only going to get 15% down, so I'm going to make some money at the closing. Then I'm going to lend the money at probably between six and 7% interest. And their payment, including taxes and insurance, is about 110% of what it costs for them to rent. But my cash flow is 500 bucks a month. Call it forever.

Joe: As the bank, not as the landlord. Because, again, just so you guys understand, you're selling this with owner finance, which the banks do. They take calls from from tenants. They take calls to fix things. They use property management companies. This is totally different, isn't it?

Eddie: Now, let's let's be fair about it. Somebody in this audience and say, that sounds pretty cool. I can make 10,000 bucks today and I can make 500 bucks a month for 30 years, $6,000 a year for a long time in the future. Somebody says, that sounds pretty good. By the way, I'm converting a customer that that a cash offer is not going to convert. I'm not I'm not giving up that lead. I'm converting a lead that wouldn't convert. Right. So that makes your real estate business a lot more fluid. But somebody's going, you know, how would I find the buyer and how would I underwrite it and how would I do all those things? And that's where I go back and say, I helped real estate investors with how to create notes. And that's the reason I bought 50,000 notes, is because I became the blueprint of how to make seller financing correctly and safely so that the people were paying. Good. So we're not creating junk seller financing. This is these are. And in the mortgage industry. Joe do you realize what this what the numbers are? Last year, the residential mortgage industry loan origination industry did four and a half trillion dollars in mortgages. This year, they're going to do about 2.7 is projected to do 2.1 next year.

Joe: Wow.

Eddie: That's I don't know what you call a big dent, the market, but that sounds like one to me. Yes. So it's half. It's half. And so what's happened is, is that we are then checking, yes. In the most important way, which is entrepreneurs solve problems that otherwise people aren't solving. So we're just using creative financing in an end and a way. It's been I've been I've been doing this for decades right now. Now I readjust what I teach and how opposition things, depending on what the market conditions are. People are worried right now about inflation. If you own a rental property, while your rent may not be going up at the rate you hope, it is like you read these charts and you think your rents are always going up, your rents not going up, but your expenses are.

Joe: Yeah.

Eddie: So this is, this is a reality that fairly easily we can communicate with somebody in the right tone and a caring tone and say there is a, there is a way for you to get where you want to get to have peace in your life and have income and get what you really thought you were getting when you buy your rental. It's to be my bank. Yeah.

Joe: This is where I'm clear through the steps. When you make the offer to the seller, you're going to offer them close to current market value for that home if they accept your terms for finance. Right.

Eddie: But I use the tax strategy as the bad news. Okay. That solves the good news.

Joe: Since you're not an accountant. So can you show them what they would potentially pay in taxes if they sold this today?

Eddie: I can. Some of the things that I do for students is, is I have some videos with me and accountants and they kind of they lay it out. So I don't have to be the industry expert. I just bring in an industry expert. And I have it in such a way that you can you can see that. And it's not it's not brain surgery, right? It's like you can see you can see exactly how it works in, to tell you the truth, Joe. Whenever I've had a capital gain, it's never been 30,000 bucks. Whenever I've sold something, had a capital gain, it's usually been a lot more money than that. Right. So I did not know that there was discount on that. Capital gains tax didn't kick in until a certain amount in this account. Guy that is really an expert in this field pointed that out to me. And I was kind of I noticed you're really leaning in and listening. When I was saying that, I caught myself the first time he was saying that to me in that very way. Like what? And I'm like, I didn't know that was a fact. So always be careful. We're never teaching people to go give legal or tax advice and all that good stuff. I hope everybody knows that. Sure.

Joe: Sure.

Eddie: Let me ask you a question, Joe. If I were a car salesman and a guy came up and said, I have a painting business and I want to buy a new van for my painting business. Do I have to be a tax expert to know that if he leased it, he could write up 100% of the lease payment?

Joe: No.

Eddie: Exactly. There's a difference between some things that are common knowledge that you can further investigate and that will turn out to be true. And you're, as a sales person, just pointing out a benefit to them that they may not have ever thought of unless you pointed it out.

Joe: Okay. Nice. I'm thinking of what some people may question have questions on about this. You know, the landlord, the seller, the owner of this property, they're going to want some money down. Right. They're going to want who's going to say yes to 2%? They're going to say, so how do I, number one, convince them to accept a little bit of money down and not too much? And then where do I get that money from? Well, that's question number one.

Eddie: What's the old saying? Dispel your disbelief for a minute. My experience outweighs. I've coached hundreds of people to buy a lot of deals do in this in the last 12 months. My experience outweighs what people in theory think is true. I know what the math is, and I know that while you may think nobody's going to carry these terms, what I can say to you is that we've experienced some ways to position it to do. They don't want a lot of money down. I'm not saying you can't ever say always or never. Like there's an outlier of ten or 15% of people that have unrealistic expectations and you'll never make a deal with them. Most of these landlords don't deal hard. Most of them are looking for what they thought they were going to get when they started, which was peace, a check every month and not aggravation. That's what they're looking for. You're taking them to that path. So in cases where somebody wants an inordinate big down payment, there are some other ways to model it. And that's what notes schools about. I'm going to just do a disclaimer here. If I try to get into you could do it six different ways and do or whatever. And Joe, you know, I can, but this isn't the right format to do. This is to say, are you missing business and can you go be different than your competition? I believe that our slogan note school slogan probably should be close more deals, because this is not a customer that is converting right now according to the biggest guys in the business, this customer is not converting right now. And that is because I believe they've been pitched with the wrong with the wrong solution. They don't want cash because they've got to pay taxes on them.

Joe: Okay. The other question I'm hearing people say is, let's say I offer 10% down. Where am I going to come up with that money? Is there a way I can borrow that money from another private investor?

Eddie: Yeah. I, down payment does not bother me because because what I'm going to use is private money, so much money in self-directed retirement accounts and other ones, which I have, which we have a lot of it that you and I had a conversation about this this week. Right. So we we know there's a lot of private money out there and there is a way to structure it in such a way that the private lender is totally good with doing it and will lend you the money. So, so always just think in terms of there there's a great say. In fact, I want your audience to write this down. Most people with limited experience say I couldn't do that deal because I couldn't find the money. Dealmakers say money finds a deal. Find a deal that's good enough and there's always money to solve the problem. What I'm trying to do is to focus people on a good deal. This is a nice property. It isn't a piece of junk. It's a in a good neighborhood. Some some family needs to live in that house and call that house their home. And we are just we're the cat. List to make all that happen. Right. We're connecting the dots.

Joe: Excellent. Very, very good. The other question I was thinking about was Dodd-Frank. Somebody's going to say, I heard you can't do owner financing or you can only do one or two deals. How do you get around the Dodd-Frank restrictions?

Eddie: Yeah. So if you do multiple transactions in a year, some states say it's three. Some states say it's five. It's you know, I'm one of the founders of the Seller Finance Coalition. So this is I'm not an attorney, but I think I spoke to a couple of hundred congressmen and 100 senators about this. So I have some sense of how it works. Right. First of all, Joe, I can hire out somebody to do something that I don't have a license to do. Typically in most states, they're called a little different names in some different states, but residential mortgage loan originator. So it's our email. Right. And I can hire out an email that has the license to do the underwriting that I don't have a license to do. So, yes, I become legally a lender by definition, and that says I have to have an RMLO. That's the interface that does the underwriting for the loan. So the answer is just like I hire an accountant to do my taxes, to hire an RMLO? To make me compliant with Dodd-Frank.

Joe: Yep. And there's RMLOs that can do this for creative investors nationwide. Right. That's great. Nice. Cool. I don't. I'm trying to think of more questions. Oh, I got one. I got one here. And you will not hurt my feelings. I know you don't care about hurting my feelings anyway. I'm just kidding. That wasn't nice to say. Eddie and I give each other. Give each other a hard time all the time.

Eddie: We're old friends.

Joe: We're old, old friends. All right. I was going to say, you won't hurt my feeling. Talk about why you think owner financing is better than lease options. And I think this is an important question to answer, especially as we're coming into the recession. I'm becoming a bigger and bigger fan of owner financing and notes, and I've been becoming a better fan, a bigger fan of those because I'm starting to do more make more vacant land deals. And in a second, we're going to talk about some some of these classes that you do that I am coming to one of your next ones, Eddie. You've been bugging me and bugging me to come. I am coming. I've been thinking about this a lot lately, but. So we're guys, we're going to give you an opportunity in a little bit here to watch a webinar that Eddie and I are going to be doing in the next week or two about this. But talk about the advantages or benefits of owner financing or release options, because a lot of my audience, I've been teaching and doing lease options for years and years. Why would you think owner financing is better?

Eddie: I think you I think if we took a thousand deals, a thousand deals says that we now have a model. Ten deals might be an anomaly, but let's just take a thousand deals, a thousand lease options, 1000 seller finance notes. I can find a better grade of person that's going to occupy the House if they can own than have a lease option.

Joe: I agree with that.

Eddie: Okay. So so first of all, if I want a bank, the first thing I want to do is a guy is going to pay me back. I want a predictable pay history from somebody that is not going to cause me grief. And so that becomes my number one. Secondly, Joe, I'm collecting on payment. So notes that I've been collecting for years and years and years and and so I become addicted to mailbox money. And mailbox money means that, you know, at least option, you know, you got to have an expiration date, right? So with seller financing, you're creating a three year deal, right? And I'm creating a 30 year deal and they're not going to all pay for 30 years. Some of these bonds are going to pay off early. More likely than not. But the average life of these loans might run ten years. And and then even if it pays off, by the way, mathematically, trust me that when I pay off my underlying mortgage that the seller carried for me and I get paid off, I'm going to earn a significant spread in those payoff numbers. So there's future income, even if it pays off early. So people think it's bad, it's not going to be bad. But I just like the fact that at the end of the day, you know, that that I'm not held to a property owner standard because in a lease option, let's be fair about it. You are.

Joe: You're a landlord.

Eddie: You are. And if something goes wrong, you are under legal obligation to provide them a house to live in under habitable standards. You know, the sewer blows up or something crazy happens. Like those are those are elements out there that are just in all things being equal. I'd rather be relieved from worrying about that.

Joe: That's good. Excellent. Okay. So Eddie and I, we're going to be doing a webinar, and this page is not up yet. It's kind of working, but it's kind of not. It redirects to the wrong page right now as we're recording this, but I'll get this fixed within the next hour. But if you go to

Joe McCall dot com slash Eddie Joe McCall dot com slash Eddie Eddie and I have been talking several times over the last months about this because this is really important. I want my audience to understand how to do these deals because it's becoming more and more important as we come into this recession. Maybe we're already in it, but I think we're going to be in it for a while, for several months. And so it's important you guys understand what it is we're talking about and how to structure these deals. Now he's going to be doing a webinar, Joe McCall dot com slash Eddie and if you go to that page, you'll be more information about when we're doing it and how you can watch it. But Eddie, I am looking forward to coming to one of your next classes. You do these classes every quarter or how often do you do them in Texas?

Eddie: I mean, we used to we probably used to do them too much. And we we just had such a demand, you know, we've had to cut back. And so, yeah, probably we only do one do a class like this on the tax loophole, probably about three or four times a year. And so it's not it it kind of makes people organize their structure, their schedule a little bit more. One of the things I think that's fun for me, for the class, Joe, we coach so many people of how to do this and, and our whole class concepts are built on case studies. So you say, give me an example. I could give you 50 examples that are like this story in this situation. And what we do is we usually highlight various things. Sometimes it's the seller story, sometimes it's how we worked around the down payment, sometimes it's how we overcome the objection of I want a higher interest rate, and there are some definite ways to resolve that, right? So we have we have different case studies where we had real people that had these problems and those problems became resolved. And part of this case study. And then all of a sudden, Joe, like everything else in life, we start seeing a way to make it through the through the process.

Joe: And those are those are some of the best things that happen in these classes. I'm sure you see the case studies and you get to meet people that are actually doing these deals and learn from them on how they're doing it. And I know I have a lot I need to learn about this. So I am coming. I'm committing today publicly to come to one of your next classes depending on when it is you don't really do them in Texas. Are you still doing them around the country?

Eddie: We're still doing them virtual.

Joe: Okay, really.

Eddie: You know, we we think we've got we think in the business, we become the best at teaching virtually.

Joe: OK

Eddie: And there's several reasons why that's true. And we'll we'll go back and have half of them laugh. But our students have given us the thumbs up that while I didn't think I could stay hooked and go through a class virtually, you guys, it's such a process of engagement. You kept my interest up and we see we have stats so we know what their own they're you know, they're answering emails and stuff. I mean, we're we're not just ignoring the reality. It's I'm too old Joe to do this unless I can teach people that want to be taught. Sure. Is that fair? Yeah. I mean, I want to I want to have an impact. And so our students are making us feel really good about it. And we'll we'll go back to we'll go back to lab. But to be honest with you, we just feel like I mean, the students kind of like it and they're just like, if you can keep my attention, I definitely love the idea of doing it from home. And we're like, I'll bet you we can keep your attention.

Joe: I know my spouse would prefer that too, my wife. Yeah. All right. So, guys, if you want more information, any now are going to be doing a webinar again, it's free. And if you go to Joe McCall dot com slash Eddie Joe McCall dot com slash Eddie that will give you more information on when and where the webinar will be, give you more information on these classes. And it's going to be really, really incredibly valuable for you guys. I strongly encourage you to to check it out. Hey, Eddie, thank you so much for being on the show. I really appreciate it.

Eddie: Thank you, Joe. I really enjoyed it.

Joe: Any any final words of advice you want to give to folks?

Eddie: You know, I think I think in this market, it's not a matter of there's going to be opportunity. Opportunity are going to be the people that take action and learn to be different. Yeah, right. That's it. I mean, there's where they say never waste a crisis.

Joe: Yeah. That's a good point. All right, good. Thank you, Eddie. Joe McCall, dot com slash Eddie. We'll see you guys later.