# 1218 - A Simple Way To Deals - Reverse Lease Options

Hosted by: Joe McCall
Guest: Jesse Mills

**Joe:** Hey, what's going on, guys? Joe here with the Real Estate Investing Mastery podcast, coming at you live now for over 12 years on the real estate show here. And I'm excited to have you. We got a great episode today. We're going to be talking with a good friend of mine that I've known for years and years and years. His name is Jesse Mills, and he's developed a strategy that I think is amazing and awesome. I've done lease options for a long, long time. I've done a lot of different kinds of creative deals as well. I wonder if financing contract for deeds subject to and stuff like that. Jesse has a unique twist that I've never seen anybody else do before, and this takes away a lot of the headaches and hassles that you normally get when you're trying to do a creative financing deal, like a lease option or a contract for deed. And I want to bring him on, not waste any time because we're going to talk about the strategy that he's using that saves a lot of time, headache, hassle, money. It just makes it easier to do deals. Jesse from Minneapolis, how are you, man?

**Jesse:** I'm doing great, man. Doing great. Thanks for having me. I appreciate it.

**Joe:** Glad you're here. We all know each other. Boy, I don't know. Eight, nine years, Ten.

**Jesse:** I think. At least ten. Yeah, ten or 11 now.

**Joe:** Yeah, I love it.

**Jesse:** I know.

**Joe:** All right, so you are a realtor and a mortgage broker, right?

**Jesse:** So technically, I don't do loans anymore. As an originator, I've got a great team of people that I work with that that don't do them with me. But yeah, I did mortgages for 15 years, so I was kind of in the trenches doing mortgages and then kind of pivoted to being a licensed agent, which I'll talk a little bit more about how it helps me actually do more deals and make more money, too.

**Joe:** But just to be clear, somebody is not licensed doesn't mean they can't do these deals, right?

**Jesse:** Absolutely. Absolutely correct. Yeah. You do not have to be licensed to do these deals. No.

**Joe:** Right. Okay. So I've done and taught lease options for years and years. And the way you do it is completely different. And I love it. It's amazing. It's awesome. It makes sense because one of the biggest problems I have my students have is all this marketing that we have to do to find the sellers, right? I do a lot of direct mail. Got you. A lot of cold calls, a lot of texting. I don't do door knocking, but there's a lot of like marketing you got to do to go find that needle in a haystack. And then when you do find a seller who's willing to talk about it, they're also like, well, why would I? You know, that's it's a hot market right now. So slowing down a little bit. But, you know, they can just call a realtor, put it on the MLS and sell it in. It used to be a couple of days. Now they can maybe they have to wait a really long time, like a couple of weeks Or a couple months to sell it right?

**Jesse:** Exactly, yeah.

**Joe:** But they can sell it for full price. And why would they want to lease it to you a stranger for two or three or four or five years with the maybe that you might buy it in the future. So like a lot of sellers will say like, yeah, I'd rather just sell it. I don't need to lease it with the option to buy later. I can just wait so it's harder and harder to find motivated sellers. There's a lot of competition out there. You've got a different twist on it, and sometimes you call it reverse lease options or something like that. Yeah, you call it sometimes you call it the slow flip. Talk about this strategy because I think it's fascinating. It's really cool. I'm excited to get you on the show to talk about.

**Jesse:** Thank you. Thank you. Thank you. I appreciate it. Well, you know, and I've learned from you more than literally anyone else about trading real estate, Right. So I got to give you a huge props man. Like whenever someone says, how did you get into this goofy world that you're in and what you do, especially kind of people in regular real estate. Right. I always got to bring it back to you and say, Hey, you know what? Much like most folks, I did some poking around on the Internet and I started watching some YouTube videos and listening to pick it up on podcasts and thought, you, boy, I want to say I think it's 2011.

**Joe:** Right about when I started the show.

**Jesse:** Yeah, that's probably one of the, one of the first six months of the episodes maybe or something. And you had you had your course for 1997. And I always tell people that 997 I mean, honestly and this is this is no joke has changed my life. I don't know. I mean, I might be a really disgruntled burnt out loan officer still or doing something totally different. I don't know. But I did my first deal, made $8,000 and I call it crap. It works, right? And I'm the kind of person that says it's $1,000. And, you know, at the time, then it's a lot different spot to me now.

**Joe:** But and Jesse that that was an entirely different market back then, too, right? This is 2011. We still hadn't hit the bottom yet. There was it was really hard to sell properties.

**Jesse:** Yeah, yeah, yeah, exactly. So it was totally different then, right? So but so I have the kind of the unique background of I was doing mortgages, I was a loan officer. And so my whole job then business, you know, survived on helping people get, get a mortgage to get a house or maybe refinance. Right. And get to a better position. And so if I couldn't help those people, I didn't get paid. Right. I wasn't one of those you've got this big fat salary or hourly. I didn't get paid. They're not happy. So I'm like, Well, this really sucks. And I got a little beat up, you know, in oh eight and, you know, happy or not happy to say, Right? Happy to admit. You know, I went through went through bankruptcy and had to short sell my own house in 2008 because I was a mortgage broker. We get these billion dollar banks and they went out of business. Yeah. So the little guys didn't fare too well, so. I'm like, okay, I want to get into investing and I want to be able to help more of my clients. And so discover new discover lease options and was doing a lot of deals on the side as I had my day job and my business is doing on the side, doing it on the side. And I remember very, very specifically there was a friend of mine, good friend of mine. He was also a loan officer. And there was, I think, 2014, 2015. And he said, Jesse, I know you always have these off market properties and these investment deals, right? He said, I'm looking to pick up another rental or two this year. Do you have any properties? And his name's Aaron. I said, Aaron, no, I said, I don't. I said, I actually I don't have any properties right now. I said, I'm looking for some and I've got this really great couple they've got about, I don't know, 20 to $25000 to put down on a house. And they can afford, you know, 2000 to 2200 a month. I just don't have the house they want in the area. So anyways, I'm looking for houses. Right. Blah, blah, blah, blah, blah. And he's like, well, what if I just buy one? Oh, okay. Like, I never thought of it and never thought of it. So what if I just buy one? I said, Okay, well, that could work. Yeah. How about, well, can I still get the fee that I would have made? Right? And he's like, Yeah, yeah, that's fine. So how about you keep your chunk? And I get the biggest chunk because I'm buying it. Okay, let's do that. So then also the doors open, right? And I'm like, Go pick up whatever the heck you want. Don't go to my website of eight houses or four houses or 20 houses. Right? Go get what you want up to this price point that we figured out, reverse engineered the price point and they're like, oh, wow. Okay, great. Their excitement level went to a ten and.

**Joe:** We just started clear on this. Just so I'm clear. Yeah, you've switched it now where it's usually hard to find a seller that's motivated enough to want to do a lease option to begin with, right?

**Jesse:** Yes.

**Joe:** So you accidentally stumbled upon this way to find the buyer first? Well, you found somebody who had the buyer, right?

**Jesse:** Well, I got the buyer. Yeah, the buyer. You get by buyer to me. I got to find a buyer.

**Joe:** A tenant buyer who had 20 grand to put down on the house. Is that right?

**Jesse:** Yep. Now they 20 or 25.

**Joe:** Yeah. Yeah. And so I like call them penalty box buyers. Like a lot of these guys, they're like they have a good reason for bad credit. Okay. They, they might have had a failed business, a divorce, something happened that wasn't stupidity necessarily. Might have been.

**Jesse:** I mean, sometimes, but not all always.

**Joe:** Might have been a stupid divorce. Okay. But like, it wasn't that they weren't paying their bills or even though they could, but they did something good. Good things, bad things happen to good people, so they have a good reason for bad credit is what I'm trying to say. Yeah. And so they just need time. They need six months, 12 months, maybe two years to distance themselves from that bankruptcy or from that foreclosure or something that happened in the past. And then they will be in a position to get a good mortgage. They've got good income, they have good job history. And you're mortgage brokers. You were able to look at it and say, I only need to do these little things here. All right. So then you've got a penalty box buyer who just needs a little bit of time before they can buy a house and you know what they can afford. So when their credit is better or some things have been removed, then they can get a mortgage at about this price point. Then you found an investor who wanted who had good credit, who wanted to buy an investment property, and then that investor bought the house.

**Jesse:** That investor bought the house.

**Joe:** And then you lease option debt to that buyer you'd already found.

**Jesse:** Yes. Except for the but here's the really cool thing is my investor didn't buy that house until we knew what the terms were first.

**Joe:** Okay, all right.

**Jesse:** Right. So sometimes they make the Starbucks analogy, you know, versus a houseboat. Let's say we walk into Starbucks show and you say, hey, shoot, I don't I don't have my wallet on me. I left it in the car. I've got $2 on me. But I really want to say, well, I've got money. I got your job, you know, hey, we're buddies, but I'm a capitalist. I got a I got to get a little bit of money on this. All right? So you pick out whatever you want in the menu. I don't care if it's if it's a mocha latte, this or that, whatever it is, it's $5 and you're going to give me $8 for it. And you going to give me two of those $8 right now. And then you give me the rest later, okay? I don't care what you get because I know that I'm going to spend five and you're going to spend eight and I get some of it upfront. So the beautiful thing is all of the terms are agreed upon before we even offer to get the house. So if I do this. Mr.. Mrs. tenant buyer, will you put X amount of down? We put paid as much per month and this is your purchase price when you go to buy it. Now, again, we've done the whole work to figure out why they can't buy what needs to change, how long that might take. Right. And that's a lot of my background and expertise. But, you know, you definitely don't need to be a mortgage broker of 15 years to do this. And the way I teach a lot of folks is I show you how to go find those people. Use me and I can help. We have a team that does it for show you the people to do it. But it was awesome job because here's the thing. I'm not trying to convince somebody to be a landlord. I'm talking to a guy who's already a landlord and he knows if it works out. This is how much I make in a couple of years and every month I get cash flow consistently and I don't have to fix things, repair things. But if it doesn't work out or if they need more time, it's okay. I get it. This is something I have to do. So I said, okay. So him and I ended up doing four or five deals that year. Four or five. Here's the other thing.

**Joe:** Before we get there, I want to talk about the more deals you did. So you made the ten a buyer. Then just go look for a house on the MLS that was within these parameters, right?

**Jesse:** Yes. Yep.

**Joe:** You don't have to do you have to do a bunch of direct mail. You didn't have to cold call a bunch of sellers and you gave the sellers. They already had their listed their houses listed close to their asking price, right?

**Jesse:** Yes. So your house is on the market? I'm not trying to get in. Go find, you know, the one off in the neighborhood. It's anything that's on the market because we're creating the deal. We're making the deal, right. And so we're selling it at a future sales price.

**Joe:** Okay, good. So this and how did this deal end up going then? The investor bought the house lease, optioned it, or did a contract for deed maybe to that tenant buyer?

**Jesse:** Yep.

**Joe:** And then did that tenant buyer eventually buy the home?

**Jesse:** They did. They bought it. I think they bought it. They need an extra little time. So they bought about six months later than what they're supposed to. Okay. They're self-employed as part of one of their issues, and so they needed to go do their taxes. It took a while, but a perfect thing, right? If it was a seller, that seller would have been ticked off, said, Jessie, you told me you're going to have this done by March of this year, blah, blah, blah. And my investor's like yeah, they need more time. It's fine.

**Joe:** Right. So now how does your I want to ask you, how do you make money and how does your investor make money? So how do you make money on that deal?

**Jesse:** So I'm the deal creator, right? I basically the way I like to say it is I kind of find the puzzle pieces and really it's as simple as two puzzle pieces, right? You've got your penalty box buyers, your tenant buyers, and then you've got your already investors. They already invest or maybe they want to get into investing. This is a beautiful way to get into investing if you haven't started. So I just found my two puzzle pieces and I match them up. And when those two puzzle pieces fit, I keep a chunk of the option fee or the down payment. The bigger the option fee, the down payment, the more I make. Now it's always a fair deal. And again, that's the cool thing is when we talk with our investors, the investors know that that's how we get paid and that's part of the conversation. What they don't, they don't care. They love that we're doing all this work for them. The other way, though, is sometimes I say, Well, I don't need an investor. I'm the investor. Why don't I just buy this myself or me and one of my partners go buy it. So I like to kind of say we look at it today, money. Some of these deals. I mean, I'm looking at one right now. You know, it's about a 20 K fee. I think the smallest deals we do in our area leases eight to 8 to 12 hours. It on average is a small size, sometimes 20 to 25K on the bigger size. And those are regular, those are not here and there's a regular deals.

**Joe:** So you're not sitting in the middle of the deal.

**Jesse:** No, not at all.

**Joe:** You're just making some as I like an assignment fee. All right. Yeah, you're making like an assignment fee. The investor buyer is buying on the property. They're closing on it through title company, and then maybe they're paying cash. Maybe they get in financing or whatever.

**Jesse:** Usually getting financing, Joe. Usually getting financing. Yeah, right.

**Joe:** All right. So then this tenant buyer or a contract for deed. I mean, you can do it either way. Depends on kind of where you live. What's the advantage to that investor renting it or doing a rent to own or lease option to this tenant buyer? Why not just to rent to do a regular tenant?

**Jesse:** Well, there's a lot, right? There's a lot of benefits there. But one of the biggest ones, if I'm going to go buy a rental property, I'm going to go put down, let's just call it a $300,000 rental property. I'm going to buy a $300,000 rental property and I don't have cash, which is, you know, most folks, I'm going to finance it. I'm putting down 20%, right? Minimum 20, maybe 25, 20%. So that's 60 grand. Then I'm either inheriting someone else's tenant, which can work out and cannot work out, or I'm going to go find one after it sits for two or three months and have to make a payment, then I hope that the market rent that Zillow tells me I'm going to get and rent a meter says is accurate. I hope it's all right and I hope I actually get what it says. And then now I have a tenant finally and I'm fixing repairing things. And welcome to being a landlord this way. I don't go by that thing until I know exactly what my cash flow is. I know exactly I'm going to pay it every month. I know they're going to fix and repair either most of the things in the home. If it's at least own right, we've got to kind of a blend or all of it like literally 100% on them if that's you contract for land contract.

**Joe:** So like you make the tenant buyer or the contract for deed buyer responsible for the maintenance and repairs.

**Jesse:** Absolutely. Yeah. And on a contract for, you know, land contract agreement for deed, whatever you call it in your state, your area, it's 100% right. So my investors or me, if I am the investor of that deal, we are truly the bank. So they are fixing repairing everything, which they love, by the way. Right? They love it because how many tenants want to go and prove their place they live in and they walk into every day for two, three, five, ten years. They want to make it nicer. We let them. And so our investors are great. If I get this property back, well, my kitchen's redone, my bathrooms redone. It looks better now than it did when I sold it to them to let them do that. But the big thing is that 60 grand you put down to get the $300,000. Pretty, right? That's six degrees out. So now you get to go work more to save up again to go get another property, which maybe is about a year later, the two years later, maybe. Is it still this year? But if I've got somebody who says, I want that home, I love that home. I just can't get that home. Can you help me get that home? And we say, absolutely, we'll go get you that home right now. And we get them that home. And they are putting down a minimum of 10%. They're coming in with $30,000. So the same day I put down $60,000, they're going to give that little say. I'm the investor in this deal. I'm going to keep this deal. I would have put down 60 grand, but I'm gonna get $30,000 back an hour later. Well, holy cow. I can go get you another deal now. I can go do two deals. Right. And 10% down is our minimum. So a lot of folks will say, Jesse, where do you find these tenant buyers that have 10% down? Right. Most of my guys have ten grand. 15,000. We do it a whole different way, too. Whole different way of finding them.

**Joe:** Yeah, we can talk about that later. So, yeah, somebody's saying, well, why? Why? We rent it to somebody with bad credit. Right. They. There's a reason they have bad credit. Only a small percentage of them will ever be able to buy the house anyway. So talk about like, is that true, number one? And what if they don't buy the house? What happens then?

**Jesse:** Yeah, I love that question. Actually, it's one of the things I'm passionate about, kind of shedding the light on, really, on anyone who can't get financing that group of people because bad credit is one of those things people talk about all the time. Honestly, half of our deals only have bad credit. I can't tell you the amount of people that it's something else. They have average credit, good credit. I did a couple of deals in the last few months. They're better credit than I did. I credit. It's not bad, but it's not perfect because I'm an investor. I got debt. I got cards going up and down. I got mortgages here and there. Right? I'm doing stuff. So I had people have better scores than me. So if you can't check every single box that the bank wants you to tick, you're not getting qualified. That's just that's just the world.

**Joe:** Firsthand experience right here. The house I live in now, which is a very nice house I could not get a mortgage for because I was self-employed. I could have had the cash in the bank to buy the house with cash, and the bank would still not have lent me the money because I didn't have enough reported income from the previous few years. Right. I had too much debt from other investments and things that I had. I do a lot of I pay for a lot of my overhead with my American Express card for the points. So I'm constantly paying it off like every week. But when they pulled the credit, it was near the max because I hadn't paid it off yet. So like all these little things, it makes it really, really hard for people who are self-employed, who own businesses to get a mortgage, a good mortgage. Right. And I had to give all kinds of additional down payment money, more reserves, and it was a hassle. So I lease option to this house for a few years. And then I turned it into owner financing and then I bought it finally with a traditional mortgage. But firsthand experience. Yeah. The house we are in, it's our dream forever home. But thank God I was able to do a lease option on this one. But anyway, and then we never, ever called the owner to fix anything. Once, in fact, we put like 40, 30 or 40 grand into landscaping deal right before we actually owned it. That's how much we cared about this property. That's how much we wanted to be in it forever. And I knew we were going to buy this home.

**Jesse:** Yeah. And you're still in the same place, right? Because I got here. I saw it like five or six years ago. Beautiful place.

**Joe:** That's right. You were over here.

**Jesse:** Yeah, yeah, yeah. We jammed out in the in the garage, I think, for a little while and some stuff. Yeah, it's gorgeous. See, I mean, that's the thing. Like, if someone's listen to this, would you buy Joe McCall a house or Jesse Mills a house? You're going to be fine, right? You're going to be okay. We're going to be good. But that's just it. So credit is half of it. Okay. Now, the other thing again, this is just my weird, wonky background, which you don't have to have this. You just need to have someone on your team that has kind of the skill set. Okay. But having done loans and mortgages for 15 years, I can look at a situation and you could just go just rattle off bullet points, you know, boom, boom, boom, boom, boom. And I can say, hey, you're going to need a year to two years, and this is why you're going to need two years to three years. And this is why you need at least three years. This is why And here's what the game plan is to fix it so credit can get fixed in 2 to 3 years. No problem. It's income stuff. It's employment stuff. It's we have someone as we're as we're speaking that we're working with has four part time jobs, makes great money, but four part time jobs. So like that, we've got somebody that is teaching as a professor in another part of the country, but moving here and the things just aren't in sync yet, not working right. So there's a lot of different folks. It's not always credit, but I'm pretty excited in our ratio of closings, a success ratio, I say since 2011 is about an 80 to 85% success rate.

**Joe:** That's phenomenal. 80 to 85% when the industry averages maybe 10 to 20% of tenant buyers who buy oh, because listen, this is the way most people do it. They'll just take anybody who can fog a mirror. If you've got 2 to 3% to put down 5% to put down, don't care about your credit, then you rent to own it and then you don't work with a mortgage broker to see if they have a realistic chance of getting a mortgage in six or 12 months. And, yeah, that's why it fails. But the way you're doing it, Jesse, I love this because you're setting them up for success. You're only taking in people who have a realistic chance of getting a good mortgage in 6 to 12 months, maybe two years. Right. So I want to go back a little bit. That investor who's buying this house and maybe you can pull up your spreadsheet here, because I forgot to ask you this in advance. You showed it to me earlier. Let's look at the spreadsheet. How does the investor make any money on this? Where are they making the money from? Yeah, you summarize it real quick and then we'll look at their spreadsheet here.

**Jesse:** Yeah, I think I've got a deal out right now, actually. So the investor is making money. I used to say three ways, I guess they're not making money three ways, they're making money two ways and they're kind of getting money three ways. Okay, So the investor is getting cash flow rental income and cash flow. Again, not the kind where you get the property first and then you go figure out how much cash flow you're going to get, good or bad. Right. They know exactly what they're getting before they buy it, because all the variables are taken up. Right. We know what the variables are. So they get cash flow, but then they also get the cherry on top when the tenant by revises so they get a profit from what they bought it at and to what they sold it at a year or two or three years later. How much profit they make depends on a lot of factors. So it depends on are we doing a one year deal, Are we doing a three year deal, a five year deal? Is our tenant buyer putting down 20%? Yes, it happens. It happens actually more frequently than you think. They got 20%. They got a 700 credit score. They just still can't get financing because of the nasty divorce they just went through or the two missed payments they had or whatever. Right. So all of those variables come in, but they're making money in the back side and they're making money every single month. And kind of the third way, I guess technically they're not making money, but they're getting half or more than half of their down payment the same day that they closed, which is killer. So I have gone in and literally purchased properties. In fact, if you go to my website, HSG dot homes, and that's our tenant buyer facing website, if you go there, there's a property with the big huge house behind me and I bought that property and literally nothing out of pocket, right? Nothing out of pocket as my tenant buyer had enough to do it. They just were in a business position where the timing was not working for them. So it's pretty cool. And the investors Here's the nice thing, Joe Right. If I have if I have an investor who could do two or three of these in a year because they're not using all their money and let's say of three investors, even if they could do two deals per investor and have three investors, I have six deals. So six puzzle pieces over here. Now I just get to buy my other six puzzle pieces. Yeah, that's it. I don't have to go back and resell them. I don't have to go do this or that. They're ready and willing and able to go buy whatever, you know, up to their budget, of course, to help our tenant buyers out. So it's way better, in my opinion, than having to go find sellers and talk to it.

**Joe:** So we'll talk in a second. Why don't you open up that spreadsheet and share your screen here? We'll talk about the steps we'll talk about in a minute how to find the tenant buyers, how to find these investors with money. And some of you right now are watching this on YouTube and Facebook. Hey Asher here from Jerusalem. What's going on, Asher?

**Jesse:** Sweet.

**Joe:** That is awesome. Yeah, Ty. Jesse Mills, this rocks. Come on.

**Jesse:** What's up, Ty?

**Joe:** All right. We'll talk about Facebook user here has a question. What is truly required to start investing using this strategy? That's a great question. We'll answer that in a minute. We're going to share your spreadsheet there. Is it ready?

**Jesse:** It is. Yep. I'm just picking the right monitor here.

**Joe:** And while Jesse's pulling that up here, I want to tell you real quick, if you want to go to Jesse's website and get some information about what he is doing and get more information, how you can do this yourself, go to The Jesse Mills dot com, The Jesse Mills dot com. You see it right there on the screen. The Jesse Mills dot com, get some information about what he's doing here and how you could work with him. You could either be a real estate investor looking to buy these deals. You could be kind of the guy in the middle like Jesse's is, where you're just kind of wholesaling the deals. Even if you're a realtor or your mortgage broker. There's information on his website there and how you can possibly work with him at The Jesse Mills dot com. All right. It looks like we got this in here. Can you zoom in a little bit? Make it bigger?

**Jesse:** Yep. Yeah.

**Joe:** So walk us through what this is. This is a spreadsheet called the Magic Spreadsheet. I like it. Zoom in one more time so we can make it a little bigger, can ya? One more. All right, Purchase price 500 grand.

**Jesse:** Yep. So $500,000 now, right? Everybody gets different, right? We know that's your market. But here's the thing, guys. I'm not the guy. At least personally. I'm not knocking this, but I'm not the guy going in looking for the cheapest houses. I'm not looking for the roughest areas. I'm not looking for things that need a bunch of work. I'm going after pretty houses that are on the MLS. I'm not even going after analysis. I'm letting my tenant buyers just tell me, Here's what I like. Okay, so we're at an average price point for our market. And you know, for us, 350 to 550 is kind of the range. Okay, so I have $500,000 house. We're going to sell it back anywhere from, I don't know, maybe 8 to 15% higher. Now. I know that's. A big range. But again, there's a lot of variables. We're talking a year from now or three years from now, how much money they're putting down. What's their situation right now? How ugly is a story? So we're looking at all that stuff. So if we mark it up 10%, that's a $50,000 spread. So that's part of how the investors make it money. They're making a $50,000 spread. So that's what the buyer buys it at. We're selling a we're buying it today at 500,000. Now, our minimum down payment typically is 10%.

**Joe:** Well walk through that transaction cost, 20 grand. What is that?

**Jesse:** So that 20 grand is based on how much they're putting down. That transaction cost is actually my fee. Okay. So this is what I'm making on this deal.

**Joe:** That's your profit, that's not bad.

**Jesse:** That's my profit.

**Joe:** Better than a punch in the gut.

**Jesse:** Better than a punch in the gut. And not trying to get this person to go get this one place. Right. You got to love this one place. You got to sell this one place. I have Or five places, right? Here's the cool thing. So they're going to put on 55,000. Now, my investor, right. That I already know is ready for a deal. Say, Jesse, I want to do three of these this year. What do you got for me, Jesse? I know that they can come in with 100 grand, right? Because we've already talked about this. They're going to put out 100 grand. They're going to get 55,000. Okay, I'm going to keep 20,000. So my investors coming to the table is 65 grand instead of $100,000. Yeah, pretty darn good.

**Joe:** Yeah.

**Jesse:** Okay.

**Joe:** That's the investors down payment to buy the home.

**Jesse:** Yep, that's all they're investing is 65,000. Now, the investor, we're figuring is going to get an interest rate around, you know, upper sixties to mid sevens. Right. A lot of variables again get on this but again we've already done our homework. We know our investor is preapproved with one of our preferred lenders that we work with. They're going to get a 6.75 on a 30 year fixed. And we know that the tenant buyer can afford 3500 or four grand a month. Why? Because it's part of our initial screening. So they're going to pay a 3376 a month principal and interest tax insurance on top. Our investor is going to make $782 a month in cash flow now. Yeah. And they're only putting in 65 grand and not 100. So they're making almost close to 15% cash on cash, 14.4 cash on cash return.

**Joe:** The thing I love about this too, is, oh yeah, I forgot what it was. But here is we're not talking about Class D or Class C neighborhoods. These are nice homes that are newer, so they don't you're going to it's so much easier to find buyers of nicer, newer homes and that they're not going to have need as much maintenance and repairs or you're going to be really, really nice homes that guess what? Appreciate faster and better. Yes. The homes in the in the rental areas, Right. Okay, good.

**Jesse:** Yeah, exactly.

**Joe:** So CFD you have on there stands for contract for deed. So it's a little different way to do lease options but contract for deed.

**Jesse:** Yeah. So, so the contract for deed if we're going you know this path there's an interest payment they have their own interest payment that the tenant buyer pays and then the investor has that their interest rate that they pay on the mortgage because there's two different interest rates of course there's a spread. Now some of you might say oh wow, 6.75 to 7 a quarter is only half a percent. That is not a big spread. Well, again, there's I always like to say there's an art and a science to this business. And that's what I think. It's super fun. I don't want the cookie cutter to go like 40 houses type of thing, right? This is fine. So we're creating a deal. We're working with their variables, but I know that I can go to any one of my investors on my list and say, Would you want to make almost 800 bucks a month cash flow? Oh, and then in a couple of years make another $30,000 profit on a place that you have to come in only with 65 grand instead of 100? Oh and not have to fix things or repair things. The answer is going to be yes, yes, yes. And all day. Yes. Okay. So the total profit over the two years that we're figuring this is $47,000 based off of their investment. Right? Of 65. So you've got an internal rate of return of 33 and a half percent.

**Joe:** Yeah. And that's so that the profit comes from the difference in the sale price and the purchase price minus just these 20 grand fee. Right. Yeah. But also comes in the principal pay down. You're your tenant buyer or your contract. The deed buyer is paying your mortgage for you for two years. They're paying this mortgage down and that's where the profit comes into escrow back down a little bit. The total profit on this deal for that investor who has 65 to put down into the deal is $47,659. Fantastic.

**Jesse:** Really good. Yeah, not bad. And here's the thing. Our investors guys, they're not necessarily like. Like us. Yeah, right. They're not in the trenches, you know, a bandit signs and, you know, ringlets, boy, smells and scraping. They're not doing that stuff. They're pilots, they're business owners. They run a restaurant. They're. They're an attorney. They're just professionals. And so they say, I want simple, easy and predictable. Right. Which is fantastic. And so these returns, I mean, just a loner. Amazing. You know, most of the deals that we set out, even just the worst deals. Are pretty amazing. But yeah, it's for folks who love this, as I kind of call them lazy landlords. And I say that with respect to lazy landlords because they don't want to go, you know, sit in 30, 40 different houses at the dinner table and the cats on your lap. You know.

**Joe:** Look at Nathan says here, I love this strategy. I've been doing seller financing deals on and off market, and now and I'm now about to change my whole business strategy. I truly love you, genius. Thanks, guys. Awesome.

**Jesse:** Awesome. Love it.

**Joe:** So, you know, I can imagine people are saying to right now just, hey, what happens if the tenant buyer or the buyer that's in the house doesn't get a mortgage and doesn't buy the house, What happens then?

**Jesse:** Yep. So again, that's one of the reasons that just one of the many benefits of going this route are investors that are buying these. They know day one that could happen. They know day one. It's not a seller said, Hey, you promised me. I don't care about whoever you found. You told me that I was going to have this sold by the state. Our investors know this can happen. They know we have a plan B, C, and D, frankly, if it does happen. So our first goal always is to work with them. Right. And, you know, I tell our clients and our partners in our industry, we have an A-rating with the Better Business Bureau, which that is kind of you know, they make you pay it, right. But I don't like that part. But if we are taking people's money and taking people's houses like your family out in a year or two, then you're gone. So we really want to work with everybody to have success. But if it truly happens where we've tried, they can't pay or they abandoned the house. Well, you get the house back. Yeah. And that's what any landlord gets when a tenant leaves, don't you? You get your property back and it's empty and now you got to fix it and fill it. So. But I'd rather have $60,000 than one month's rent or two months rent to go do that.

**Joe:** And you got to remember to again, these buyers who are in these homes are not they're lot less likely to do any damage to the property, less because they put so much money down on the home. And this is a more premium property. You get a better quality tenant buyer, whatever, in that house. Yeah. So the chances of this happening are really, really slim. They're going to take care of that property. They're going to be treating it like it's their own because they're trying to buy it, that maybe they're trying to get a mortgage on it. They have a different mentality. It's not the land, it's not the tenant mentality, it's the home buyer mentality. Makes sense.

**Jesse:** And again, you have a lot of things here because we're not going for the cheapest things on the market. We're not going for cheap things off the market. We're not going for things that need a bunch of repairs. These are nice homes and nice areas and people that can afford pretty sizable monthly payments and good chunks of money down. Like that's a big, huge chunk of money for most folks. And so they don't come into it this way and yeah, they take care of it. I would say, you know, knock on wood at the time of this recording, hundreds of deals that we've done in many different ways. I haven't had one person trash the house, literally not one. Now have we had a replace carpet and some paint and stuff like that? Of course, but we haven't had anybody trash the house. I've had at least a half a dozen that I can think of. I could probably name him who went in and put 30, 40, 50,000 into the house. Right. Made it nicer. And of course, they bought all of them. Right. But hey, the guy who sold it to you, if he took the house back, you'd be like, Thanks, Joe, Appreciate the landscaper. I don't have to do that. I know, right? Yeah. Yeah. So it's rare anyways, but.

**Joe:** Now some of you are thinking, now what on earth? How much did you spend? What kind of landscaping did you do?

**Jesse:** What did you do?

**Joe:** It's a three acre property, and we have this huge island in the middle, like the way our driveway goes around, and we installed this big waterfall. It's probably 30 or 40 feet long. So yeah, it was a big, big waterfall. Anyway, let's talk about the status, first of all, before we go into the steps. I wanted to summarize this at the end. Here are the steps. One, two, three, four, five to do one of these deals. But how do you find these investors with the money to buy this house? How do you find them?

**Jesse:** Yeah, so what I do is a little bit more high touch old school. It's networking, right? So the folks that I work with locally and mainly across the country and other markets, if you like to go have coffee with somebody and sit and talk, have a conversation. If you want to go golfing and have some cocktails, you want to go on someone's boat and talk about stuff.

That's how I like to do business. And so a lot of this is your network. It's can be as easy as sitting in your underwear and going on LinkedIn and looking for landlords, looking for investors. It could be as easy as going on Facebook and digging through Facebook groups of people. But I like to build relationships because this business is very different. We don't have a whole bunch of leads. I like that. I don't want a bunch of leads. I'd rather talk to five or eight people out of ten that are going to just say, I love this. Let's work together in somebody cool. I want to I want to hang out with. And so that's our referral partners. We do a lot of business with realtors and loan officers, right? Because it kind of is one of those things where I think, I don't know, 20 1314 after a while I'm like, you know, just kind of the thing. This is friction, right? US investors versus realtors and real estate agents. It's like us versus them. But I've always been, you know, collaboration is better than competition, right? And I. Think we can help each other. We all want the same thing. So I want other people's junk. Their junk is my goal. And so the cool thing is I have leads come in weekly from agents, from lenders, from CPAs, from insurance agents who just know, here's how we help people. And they don't always know what we do. They say, hey, I don't exactly understand your program or this or that, but I was told to talk to you. And so it's a lot of it's a lot of referrals. So the cool thing is rough spending, Joe, a lot of money and marketing it all.

**Joe:** And finding the tenant buyers with the 10% down, actually 10% down, those are very easy to find. I did this strategy a little bit way back when I was first getting started in '07, and I was blown away by the responses I was getting from tenant buyers with money. And I would let them go find a house. And then I actually was using it where I would get the mortgage and buy it for them. But this is fantastic. Let's review the steps. Kind of in summary real quick from the top to bottom. And I want to just share with you guys again, if you want to get in touch with Jesse and talk to him, find out what he's doing. You may be the investor who wants to be in the middle and just wholesale these deals like Jesse's doing. You may want to be that investor that can get that has the money, that wants to get the home for these kinds of tenant buyers. You go to The Jesse Mills dot com, maybe your realtor or mortgage broker, and you want to also find a way to participate in these deals. I would say you don't have to have your license, but it helps. And if you do have your license, it's actually easier for you to do these kinds of deals. But go to The Jesse Mills dot com, The Jesse Mills dot com and talk to Jesse. So what are the steps Jesse from A to B and use this from your standpoint, you're the guy in the middle. You're the guy, the deal maker here. What are the steps?

**Jesse:** So the steps are really, they can get overly complicated. It's not so simple as finding the tenant buyers that need us, right? The people who want to get financing and want to be homeowners, they're renting and now they're trying to buy. Or they already have a home.

Maybe they're selling a home, Right. But they can't get financing. Find those people who are in that situation. Then if you're the deal creator, you're signing an investor who's already an investor. They're already a landlord. They already have properties or somebody who you maybe you've talked to and like, Hey, I've always thought about getting a real estate best thing, but I don't have a lot of time and I don't want to go fix up stuff. Yeah, perfect. Great. You're my guy. Let's chat. Right. So find that investor. Then you create the deal and creating the deals, the finance yard and the science. Right. How much can the buyer pay? What's the price of the house? Is a monthly payments. Makes sense. How much can they put down? You know, you have to know why they can't get financing. And there's stories, right? Everyone's got a story. There's good stories. There's bad stories. And, you know, we turn people down. If it doesn't work, if it doesn't make sense. And, you know, unfortunately, we hate to do that. We never want to do that ever. But if you're blaming that you're 90 days late on your truck that you haven't paid in three months on something that happened to you in 2012 and you have no money in the bank, this is just not it's not the right timing, It's not the right fit. But there's going through the story and seeing what's going to. What's it going to take for them to qualify to get financing? Right. So it's working with a good mortgage pro one, who really cares about people and understands the rules and guidelines really well and is a good problem solver. Right? Again, something I do for my team all the time. And we have people but and then it's just match. It's mixing and matching. So now I'll say there's some secrets into doing this that make it a lot easier where you get better leads and there's, you know, things like so for example, we are advertising some properties just, you know, with the timing of the year, the market, right? Because we want to have things coming from different directions. But it's crazy. Joe, The lack of trust and, you know, tough response you get when you go and advertise a property to get people to come to you. And then the ones where it'll be from an agent who has worked with me, you know, five times before, right? Maybe I came in and saved this realtor's deal five different times and they made money on a deal that would have imploded, right? So they like, Oh, my gosh, just this guy saved my commission check. So they say, Hey, just talk to Jesse. Well, the tenant buyer is pick up the phone. They're meet with me the next day. They're bringing me documents because it's on a silver platter. Right? It's like when your doctor if your doctor refers you to a specialist, you're not really going to double check their background and where they went to school. Right. Your doctor is telling you, talk to this guy. So you go talk to that guy.

**Joe:** Yeah, yeah, yeah, it's good. Okay, so somebody says, Jesse, this isn't going to work on my mark, right? Holds you too expensive here. Do I? Can I do them these kinds of deals here? Do I need to do them in other markets? What do you say to that?

**Jesse:** Yes, great question. I personally and in the last year I actually have done a deal on $150,000 condo and on a $1.1 million house in my market. So that's my market. This works for everybody. It's not it's not even so much that's the cool thing is that it's so much about the property or the market or the timing. It's about the person. It's about the. Person or the couple or the family. They're in a spot. They just can't get what they want. That person might make a half a million dollars a year. I know it sounds crazy, but it's out there like Joe, you mentioned your story, right? It's not a money thing. It's a bank thing. It's a rule thing. It's a timing thing sometimes. Right. So they're out there, you know. Does it hurt when rates go up? Yeah, a little bit. But you know what? People always need homes. And frankly, we got really teased and lucky for a number of years with rates way down low. But people have been buying homes for decades and decades and decades. Right. With rates way higher than they are now.

**Joe:** So this could work in California.

**Jesse:** It can work in California. Trickier. In California, it is all trickier. You're going to have tenant buyers that probably need more money down or they have to have definitely a higher, you know, monthly and annual income to afford that. We have actually a lot of investors in California that want to do deals in other markets. So California's tricky. You know, New York, little tricky. But the cool thing is, as an investor, you can do these anywhere.

**Joe:** Yeah, you can still make it work in California with median price homes and below. You had imagined, right? Yeah. You know, they're still markets in, you know, the Inland Empire, Riverside, the kind of maybe the cheaper areas. Yeah. You can still make this work, right?

**Jesse:** Yeah. Yeah.

**Joe:** Now, you brought up interest rates. You know, interest rates are going up. They've doubled in the last year or whatever. So I like that. I'm glad you showed that spreadsheet because you showed it at the higher interest rates as they are right now as we're recording this. But you know, what's interesting people forget is when interest rates go up, so do rents. So it kind of doesn't matter, right?

**Jesse:** It doesn't. At the end of the day, it's about affordability. So, you know, are there some people who can't afford the new payments? Yes, I did. Some people who want a half a million dollar house, but now they have to get a $300,000 house. Yes, but think of your market, though. Think of how many more people you can help and you can attract when again, it's not. Which one of these eight houses do you want? It's get what you want. We'll take care of you. And you do this math first, because here's the thing. As we just did our pipeline call before our zoom here, Joe, and so we do a pipeline call with our team four days a week, and we go through all of our deals, all of our new leads. And part of that is say, okay, what can they afford? What are they paying? What do they want to pay? You know, I never we always make the joke. Everybody wants to pay nothing. But, you know, I can pay this and I'm willing to pay this. Right. And then, of course, then we do our due diligence and reverse engineer. We do like a taxes, paystubs, W-2s, credit reports to see do they have a very realistic chance of qualifying.

**Joe:** You don't have to know all those things. You can get a mortgage broker to work with you. You can do this for you, right?

**Jesse:** You totally correct. Yeah. Yeah.

**Joe:** The question I have is what if the house doesn't appraise two years later? You're selling the house for 550 and it it's only worth 525 or it's still worth 500 in two years. Then what do you do?

**Jesse:** Yeah, great question. Great question. I get that all the time. So with that, number one, remember they're putting down 10% down. How much do you need to get a mortgage? I is 3.5%. VA is zero. USDA, right? Rural development out in the country is zero 5% with conventional. So you know, now if it stayed at the exact same level, it didn't go anywhere. And we have a 10% markup. Yeah, we might have a bit of an issue, but that provides them with 2 to 3 years to save more money. They should be saving. Also, as an investor, if I said, well, gosh, this couple has paid me on time every month for two years, three years, they've, you know, fixed up the property, they've made a nice they put in a fountain and $60,000 are the landscaping. Why would I screw these guys over Right. I extend it.

**Joe:** Yeah. Just give it more time.

**Jesse:** What am I going to do as an investor? I'm going to go take that money and say thank you and go buy another deal. Well, I'll just keep making $700 a month cash flow.

**Joe:** And it's more than 700 month cash flow because you're that tenant buyer that buyers in the house is paying down your principal every month. You're growing, building more and more equity in that house.

**Jesse:** Absolutely. Now, now another technicality of is and has this happened? Of course this has happened, but not too many times. But it's happened once the deal ends. That's there's a deadline and that's the deadline. Now, what do we do from there? My very first deal I did like this. They didn't buy it in time. And I said, look, guys, I could increase your purchase price, I could increase your rent, I could do both. I could make you put more money down. But they were really nice there. You know, they had a rent a daycare out of their house. I knew they didn't have a whole lot more budget. Right. And so I said, Look, I'm not going to do any of that. Just give me $2,000 bill. Extend it. That's the extension fee and that's it. I could have done any of those variables. Yeah, but I just said, Hey, give me two grand and we'll push it out another year because I was it $575 a month every month with no phone calls or headaches. Yeah, I'm good.

**Joe:** Yeah. I did a lease option on the house and the it was originally for two years. The tenant buyer couldn't buy it and I just kept on giving them more and more time. They lived in that house for eight years and they were they never missed a payment. They were late a couple of times and it was really just because they forgot, never missed a payment and never called me once to fix anything. While there was an issue where the eight years, do something with the driveway. And that was that was a. Bigger because we had to like pump foam under the driveway to lift it up. Oh, I think I paid for half of that. I agreed to them with them to pay for half. And they eventually just moved out. And guess what? Seven or eight years later, I got the house back in better shape than it was when I had it before.

**Jesse:** That's the thing. So the quality of clientele that we see and we get is so much better. When we started doing it this way, because of the higher price points, because of the more money down and the source thinking the lead source. Right. When a realtor calls me, says, Oh my God, I see this deal or it's supposed to close next week. I just heard from the lender. Their pre-approval fell apart. Can you can you help? Like. Well, tell me the details. Right. And I feel like a doctor. Like, tell me all your symptoms. Boom, boom, boom, boom, boom, boom, boom. And say, okay, yeah, you know, yes, we can or no, we can't. But if it fits great, we can come in. And so we've had it. We've had a lot of agents who have made in other 50, 60, $80,000 a year working with us. And it's just so much easier to than, you know, Craigslist and calling them a 90 times.

**Joe:** Yeah. Way easier. You got some questions here. We're going to wrap it up. Is there a way for us to get access to that to help us calculate, get offers? Yeah. Go to The Jesse Mills dot com. Gets more information about how to work with Jesse. Carlos has a good question here, is a CFD or a contract for deed and a lease option the same? What's the difference between contract for deed Jesse?

**Jesse:** Ooh, we could do an hour to two hour course on that.

**Joe:** Alright, brief summary.

**Jesse:** Yeah. A lease option. The tenant buyer doesn't own the property. They have a lease, they are a renter, and they have an option to purchase the property. The landlord or the investor still owns it. They haven't sold it, right? They get depreciation, they get long term capital gains. So good things as the investor contract for deed is that installment sale. So they have purchased it, but they purchased it on an installment typically in contract for deed. They pay all the taxes, all the insurance, and they fix 100% of the property because it's like they bought it. They just don't fully own it until they pay the last penny to the seller.

**Joe:** Yeah, and you have a title company or an attorney handle all the paperwork and.

**Jesse:** Correct. Yeah.

**Joe:** I love this. This is a great, simple, easy way for an investor like you and me to make a quick 10, 20 grand. Yeah, I'm just. You're not doing any stellar marketing. You're not making a bunch of lowball offers and offending 500 sellers a day. You're not. You're just. You're giving sellers whatever price they want. You're contacting sellers. You already have their houses listed for sale. You just got to find the tenant buyer, the penalty box buyer that has 10% to put down. A good reason for bad credit have a realistic chance of getting a mortgage in a couple of years. You're finding the investor that's looking for a great investment property with no tenants maintenance or hassles or anything like that. They're getting a solid ten, 14, 15% return on their money, cash on cash the first year, and they're getting a great tenant in their house that's going to take care of all the maintenance and repairs. It's has a homeowners mentality mindset and you can be that guy in the middle that makes money on those deals. That's great. Fantastic strategy. Good job, Jesse.

**Jesse:** Thank you, Joe. Thank you.

**Joe:** Thank you. I love how you took what I kind of did and taught you get introduced you to so long ago and just made it so much better. So, guys, if you want to work with Jesse, go to The Jesse Mills dot com. When you go there, probably see a little video of Jesse and he's going to ask you some questions and cool. Anything you want to wrap this up with, Jesse?

**Jesse:** No, you know, I guess I would I would just say this is the system that has created this big thing, right? You just started out just a couple of guys that I couldn't help. And then my buddy came in and it's a whole thing. But if you're an investor, like you said, this is a great way to do deals. If you're looking to make more money today, as you know someone who's in real estate, right? That's your business. Or you want to get in real estate, maybe you want to get rid of your job or, you know, do this on the side. Like you said, you can make some very good checks and help people at the same time. And I, I used to think it was one of the other. All right. And now we've talked about this before. I think we've talked about this maybe at like a blues game. It's, you know, Yeah. So, so many things in life where, like, I make money, but I don't really sleep great at night. I don't feel great about what I'm doing or is not contributing to the world and other things. You're doing something very good, but oh my gosh, the pay is just not there. So we are literally helping people. It's a win on every deal we do. And it's cool to be able to say, Hey, you know what, This month I think I'm going to make some money and help some of my investors with their future. And then other might say, hey, you know what? They had a good couple of months. I think I would scoop up some houses this month. You kind of pick and choose. So this allows you to do that, which is kind of fun.

**Joe:** Very good, guys. Good. Check out Jesse's website, the Jesse Mills dot com, and get on the phone, talk to them. And he's got a great program that can teach you how to do this step by step can help you even find the investors and the tenant buyers and the mortgage brokers and the realtors and the lenders that will work with you on this kind of stuff, on these kinds of deals. So go to The Jesse Mills dot com. Thank you, Jesse, again for your time and I really appreciate it.

**Jesse:** Thanks, man, for having me, dude. I appreciate it very much.