Male host: Welcome to the REI diamonds Show with Dan Breslin, your source for real estate investment jewels of wisdom.

Dan: Welcome to the REI Diamond show. I am your host Dan Breslin and this is episode one hundred eighty on how buying mortgage notes generates fifteen percent returns and more with Brian Lauchner. If you are into building wealth through real estate investing you are in the right place. My goal is to identify high caliber real estate investors and other industry service providers, invite them on the show, and then draw all out the jewels of wisdom. Those tactics mindsets and methods used to create millions of dollars or more in the business of real estate. Today's episode with Brian is a long-form gold episode. The long-form gold episode runs more than sixty minutes because the content provided simply could not fit into a standard forty-five-minute episode. These are my own favorite episodes to record as we are not so limited by the clock. You can review all long-form gold episodes by going to REIdiamonds.com/podcast and clicking on the long-form gold link under the categories tab. You might also find other episodes about your favorite topics under those categories. So today's guest, Brian, is a full-time note investor. Although I mentioned fifteen percent returns in the episode title, the reality is that you can run a note business and generate a full-time six-figure income while at the same time building a portfolio of long-term cash flow. Brian's story includes a transition from wholesaler and flipper to strictly operating one hundred percent in the note business. One characteristic worth noting would be the flexibility of location that he now enjoys after that transition. So creative financing is a hot topic with real estate investors, but what does that actually mean? Essentially, creative financing is structuring deals with sellers where there are payments over time instead of a simple all-cash transaction like most of us are used to doing. Brian and I discussed this in detail today as well as how creative financing can allow you to make deals at higher prices while still cashing out upfront. The best part is that these deals often pay out more than the average wholesale deal and come with additional payments on the back end, so it gets even better. The key to creative financing is case studies. You review a large number of actual deals that were closed with sellers. By reviewing the details of creative finance deals, you get an idea of the different levers that you can pull during a creative finance deal. Brian and I used the time on this long-form gold episode to display several of these example deals, but we fell a bit short. Now Brian's mentor is Eddie Speed. Eddie is one of the highest-volume real estate note traders I know of. He has closed something like fifty thousand deals over his decades-long career. And Brian actually hosts a full day master class at the NoteSchool on originating and trading notes. This full class at the NoteSchool was designed by none other than Eddie Speed. Later in the episode, I will share exactly how you can attend this class absolutely free just because you're an REI Diamond show listener. And since the class is a full day. You will have plenty of time to review plenty of case studies and supercharge your creative financing ability. I am talking about jewels of wisdom. Ready to get started? All right, welcome to the REI Diamond show, Mr. Brian Lauchner. How are you doing today?

Brian: I am doing good. How about yourself?

Dan: Also good. So we are at the end of winter in early 2021 as we record here. We had a lot of timely information on the show over the past few months even the past year now with Covid, kind of upending the world. But just to frame it up, where is home for you? Where are you recording from today Brian?

Brian: I am from the Dallas, Texas area.

Dan: Nice. I heard that as a good market recently, but we will digress for a moment. I am recording in Chicago. The weather is always nice and cold out here and I'm just loving life.

Brian: Yes.

Dan: Dallas has about a handful of days a year that are nice. And then, it is either really hot or Texas cold, which I cannot talk to somebody in Chicago about cold, but to Texas boy 40 degrees is cold. Yes, at 40 degrees, we can smell barbecues out on the balcony. People are almost celebrating.

Brian: It's so cool.

Dan: It is cool, Brian. What is your back story before real estate? How did you become successful? And how did you come to end up teaching for the NoteSchool?

Brian: I was actually working for a financial software company and I went into work one day. And I really liked my job. It was beneficial for me. I will say that. But, I walked in one day, they said, "We don't really need you anymore." "We are going to let you go." And so I found myself in that spot of losing my job. I came home to my wife and my son. My wife was also pregnant at the time. I had a mortgage and bills and I was the only income earner in my family. My wife stayed home and so I had this conversation to myself, "What's next?" "I lost my job, what now?" And honestly, I think a little bit more open-minded than maybe some because I had this realization that I didn't have control over my finances like I thought I did because, at any point in time, they could always let you go. And for me, I think that opened the door to what is entrepreneurship look like, what does you know working for yourself look like, and I saw the pros and the cons of that. Ultimately, I decided maybe I will look into real estate. The old saying, "There is money to be made in real estate", "People always make their money in real estate," but that is such a vague statement. And so I started looking into it and I got introduced to a friend who said, "You should look into wholesaling. I think that is kind of right up your alley." So I went and got some education and sure enough at the end of 2014, I became a full-time wholesaler and started buying houses, not really knowing what to expect. How many houses do I really need to do? I'm trying to just make a living and grow my company. I wasn't really at the spot yet where I was thinking about I could grow my wealth and all this. I was thinking, my kids, are gonna want to eat tomorrow. So let's make sure we have some deals in the pipeline. I really started wholesaling houses and it went pretty good my first year. I think like a lot of people who start out in real estate, they start one way and then they start to see the shiny objects. I was wholesaling houses to people who are fixed and flipping. They are talking about how much money they made and I think, maybe I want to flip house. Then, I started buying houses to flip or keeping them. That is just personally not my skills that I tried to put about ten houses at a time try to have ten in the pipeline. It was not my thing. I am just not cut out for that. And so I started trying everything else. I got into land banking, owned rental properties, I was a lender for a little bit. I actually even owned a property management company for about six months before I realized, those are also not for me. I had a good friend who I literally said, "You can have it all."

I just want to be done. About 2016. I had only been in business about a year-and-a-half. I had all these other strategies, trying here and there. Then, I was at a REIA - a real estate meet up and there was this speaker and he was talking about building your wealth and you can make all this money and using mortgage notes. I am so confused. It just seems that his guy is talking about this is something if you are ready to retire and it is for rich people. To be honest, I did not pay too much attention, but it was one of those types of meet-up groups where it's very social. There is food, bar, and there are your friends and people that you have built relationships with. I don't know that I was truly plugged in, but I afterward ran into them. I am a nice Southern gentleman and so I am just like, "Hey, great job on the presentation, that sounds interesting." and he goes, "What do you do?" I told him, "I am a wholesaler." He said, "If you are wholesaling you should really consider adding creative financing to your acquisitions model. It will change your business." And again at that point, I think to myself, it is 2016 Dallas Texas. The markets are super hot right now. I do not really need to change and I did not think anything of it. Well, it turns out that guy was Eddie Speed, the owner of NoteSchool. He's done. He has been in business for over forty years. He has done over fifty thousand deals now. I didn't really take that in, but two years later the market started to shift here in Dallas. That's what reintroduce me to Eddie and I said, "Maybe that guy was right. Maybe he's onto something." And so I went back and had it handed. I said, "I want to better understand. What do you mean by that? Where's the opportunity?" And as he started explaining it and I listened. Then I thought this is huge. How did I not know this already? And that was the beginning of my journey with NoteSchool. And then, in 2020, he said, "Hey, listen, would you like to join our teaching team and start to teach some classes, teach other people what your journey was like, how they can get involved, whether they are brand-new doing their first deal or whether they are, what we call the ninjas. They are doing a hundred houses a year, but they have not quite figured out this creative financing piece." And I said, "Hey man, I would love to. However I can help, I would love to provide value the best I can." And that is how I got to where I am today.

Dan: Nice. Now, we are going to get into Eddie Speed and NoteSchool. Obviously, people are going to be expecting us to talk about mortgage notes and create financing if they read the description or listening to the podcast right now. Before we do that though, Brian, I want to go back to your job at the software. You got laid off and you came home that day and then you had to tell your wife that you lost your job. What was that conversation like?

Brian: I think I got very lucky in that. I was way more upset about it than she was. I was panicking. What do I do? There's this weight of the world, this pressure on my shoulders. Probably a lot of your listeners, when you're in that situation, you're just thinking I got to figure this out. I'm going to make this happen. Whatever I got to do, I'm going to make it happen. Meanwhile, my wife did a very gracious thing. She was very much optimistic. She said, "You are going to be fine. We are going to be fine. We are going to figure this out." Based on our faith, things like this, work out. And I was like, "Okay, well good. You don't have to go figure it out. I guess I will go panic in my office." It was more traumatic for me than it was for her. She had enough on her plate. She had a toddler, she was pregnant, and she was keeping up with everything else running the house.

Dan: And then, we go forward. How long was it when you find real estate and thought you are going to make some money here? We did some research and there is probably a [inaudible] period, I am guessing there for you. Maybe two months, three months, six months, a certain amount of time from you lost a job until you figured out you are going to do a real estate major decision. And then it is your first deal. If we could fast forward and talk about how long that period of time that you are learning how to do the business. And then, how did you feel? Do you remember what it was like to close that first deal? I mean, what did your wife say when you came home after the closing?

Brian: Yes, so I lost my job and it was about four months before I got the training to know what I am doing. And then, I closed my first wholesale deal thirty-three days after finishing up some of those classes. I started three days when I locked up the contract. I remember leaving the house standing at the front door and I turned back and looked at my wife and I said, "I'm going to go live my dream." And she is like "Go, get it." I'll never forget saying those words. I walked out the door and I go talk to the seller. I did not realize this was going to be a very uncommon thing, but I go out. I did my whole presentation. I talked to the seller. I negotiate on price.
It did not work out and so we thought, what is a better solution. Then, I finally got to a price and I got a yes while I was in the house. One call, one appointment. I got it done and I shocked that it worked. And then, once I had it, then I had to sell it. And so, I came home and I said to her, "You are not going to believe it, I got a contract. I am ready to go. This is so great." And from there, I only had a few buyers and so I called and I gave him the sob story, to be honest. I said, "Hey listen, this is my first deal. I need you to buy it. I need you to buy it, please. Tell me that you can do this." And if I am looking back at it, I think I made like three thousand dollars on that first deal, but I would have taken a penny. It would not have mattered to me because I just needed to get one done. There's so much power in just getting that first deal done. And then once I got that check in my hand, it was like oh my gosh, it works. It works. I would not want to go do this as many times as I possibly can and so I was very motivated. I was very excited. Let's get back to work.

Dan: Nice, that was transformational and I remember mine too, Brian. I had gotten in a car accident. It was a DUI. I was drinking. It was not my car. There was some trouble with that and I had no license. I remember I was settling down, getting out of all that legal trouble that I got myself in. I was getting myself clean. I have been sober now for like eight years or something. This is fifteen years ago and still some more trouble back when I did my first deal. But it was January or February and I could not get a job because I was a car salesman. You cannot sell cars without a license. Who in their right mind is going to hire that guy? Then, I end up going to the school figuring out how to hold - not figuring out how to wholesale but it was real estate investing. They give you broad scope of flipping and holding rentals and all that sort of stuff. Wholesaling happened to be like a small piece they talked about. Six months later in July, I remember that was the same kind of thing. I go on this appointment, my dad drove me there. I had my five or six-year-old daughter with me at the time in the worst neighborhood, drug-wise, crime-wise, shooting-wise that you can possibly think of. I signed a contract for five thousand five hundred bucks. I do not know how to fill the contract out. I am sitting in front of the seller trying to figure out where is the names. I did not even think to practice that before I got to the living room. And then same as you, I call the three or four people I knew for the meetups, there was no meet up back then. I got on these lists and you had to figure out where they were. I called two or three guys, "Hey, I got this deal. You know, I got it for five thousand five hundred bucks. I saw you bought the one for six thousand dollars on Remington Street. I will give you this one for six thousand and I am thinking I am going to make five hundred bucks. The guys said, "Oh no. The reason they named it Remington streets because of all the Remington shell cases from the murders up and down the block. I will sell you mine for five thousand five hundred bucks." I'm like, "Oh God." My only mistake was not signing the contract with him for five thousand five hundred bucks because I put an ad on Craigslist, and sold mine for eleven thousand five hundred dollars, six grand on the first deal. And then, a year later, that same guy sold his for eleven thousand to my buyer. That would have been two deals in one but and had the sense to sign it up, looking back. What a journey it has been.

Brian: Yes. It is amazing how you talked to enough investors and everybody has got a story like that to some extent, right? Maybe not their first deal, but it seems to be a common lesson that we learn. Whether it is about areas or about buyers or a missed opportunities. It is interesting how we all go through that journey.

Dan: Yes, and it is cool. So before we start the recorder here, we are talking, the transition that you had gone through and you start out wholesaling. And then, I am just going to fill in the blanks because I know we talked to some of it on the episode here. Some of it offline, but twenty to thirty deals a year. You have some rentals, you are doing some notes, and you are kind of like more into this creative thing as opposed to having to kind of chase down every wholesale deal that is out there. I think there is something to be said for that. Finding the right amount of deal flow and situating in your life so that you have a certain amount of lifestyle and it is not this like endless growth factor. I am not that. My motivation is I want to create a bigger opportunity for my partners, the people on my team at Diamond Equity Investments. I am trying to transform a larger number of neighborhoods through the process and so it is not about a certain number of deals per year, a certain amount of income per year. It is very difficult to ever reach the finish line because there is not a defined finish line where I am okay with that and we did two hundred and eighty-three houses in 2020. It is a lot of work. I am busy doing that but you were able to find and settle into this balance. I would ask, what is your motivation now? You have gotten into this comfortable cadence with the right amount of deals and you are doing some notes and you are having this passive type of business that set up for yourself and having just the right lifestyle you want. What motivates you to get up out of bed and to do what you are doing now at this point in your career, Brian?

Brian: In 2016, the same year that I met Eddie, I remember I said that my wife was pregnant with my daughter. When she was born, she happened to be born with this rare autoimmune disease. We spent years really struggling trying to figure out what was wrong with her. We went to countless doctors and hospitals and spend a fortune trying to save my daughter's life. It was during that time that I really said, I have got to create a vision that is going to be sustainable. I do not want to be a firecracker and burnout. I want to do this for a long time and I want it to be sustainable. And so, I started to write out this vision of what do I want my life to look like. If I had ten million dollars in the bank and I had a full week completely open, I have nothing on my calendar, what would I want my life to look like? And I started to write it out. And I say, what is most important to me right now is family, my kids. I have got a five-year-old and an eight-year-old now. My daughter's fine, by the way, we are really grateful for that. I started to map that out and then say, all right. Well if I want to do that, I have this many hours in a week left to work. If I want to be able to do this with my family and this was my kids and take these trips, what kind of business do I need to design that could fit within those hours? Let's say it was thirty hours or forty hours. Whatever it is that you come up with. And then, I started designing a dollar amount. What do I need to be able to afford this? Based on that number, I reversed engineered it and said, alright my average deals about this. So let's be a little conservative. Let us round up and do this many deals. And so I have done consistently twenty to thirty deals a year to be able to create the lifestyle that I wanted. The motivation is consistently has been about time. I had incredible parents, Dan. I really did. My dad was awesome. But my dad lost his father at eleven years old. He had to get a full-time job at thirteen. He just had a tougher life than I can relate to and because of that, hard work is who he is. Growing up around that, I respected it. I got a lot of value out of it, but as I became a man, I said I want to find a way to make the money without having to give up all my time. And so, that really started to drive towards, this idea. There has got to be a way. I start writing out that vision, reverse engineered it, and it keeps me focused on how many deals I really need to do a year. And if I get thirty deals early in the year, I could say, "Let us just do more deals" or I could say, "Let us take another trip." It allows me to have those options and strategies that I used to provide that flexibility.

Dan: I think that is pretty cool. So like my daughter was five or six in 2006 when I was getting in the business there and I was completely broken dejected. There was like no software skills. There was no getting the job. I had nothing to fall back on it. There are people who will say, "Get laid off or you have no other options and you have no choice but to make it forward like what we did." Yes, you could go choose to get another job or another career, but you have to do something. Your back is against the wall. I look at some people who have this conscious decision of, I am going to walk away from this great prosperous career and make it in real estate. and I am going to be honest when I hear that, Brian. Sometimes I am like, "I do not know if I would have wanted to do that. I see a lot of people do it successfully and I love my life and the lifestyle. But I am kind of glad I did not have to make the choice to let go of some valuable thing to then move on to the new thing. But anyway, in your story I want to put one more piece of context here. So in 2019 or even 2020, you made some mention about the deals you do or are doing are more passive. Would you mind describing a little bit of the or a few of the examples of the recent deals that you have done? As opposed to the whole sales that got you started?

Brian: Yes. In 2018, I started focusing more on buying on terms. It means, instead of going in and offering a lower wholesale price. Let's say it is a hundred thousand dollar value house and I need to buy it at seventy cents on the dollar to be able to wholesale it to somebody, I got to get that seller to take a discount. Instead, I started shifting things to say, "I do no care about what price you want. I will give you whatever price you want." It is about when I am going to pay that price. I will give you the price, but I'm going to give it to you over time. I will have the seller finance the property. This solved my banking needs as well as my inventory needs because now every other wholesaler I was competing against was saying seventy cents and I am saying, "I will give you eighty-five thousand, I will give you ninety-two thousand for it." A lot more money. Specifically, the people I was trying to target or people who had not sold it to a wholesaler for a reason. It became a little bit easier to say, "If you will not sell it to them you need this price. I can give you that price." And it allowed me to acquire a property. And then when I turned around and I resold it using seller financing to somebody, Eddie Speed has the perfect name for it, he calls it a penalty box buyer. Which is somebody who missed the conventional mortgage type box. They are not quite bankable yet. Well, they are bankable enough for me and especially if they have got a reasonable down payment. And that allowed me to make my money today by getting it down payment. Most of the time, I was making more on the down payment than I was going to make even if I wholesaled it. That was kind of a bonus. I was making more money today, but also out of that same deal now, I get payments from that person for years and years and years making it passive. Now that I have resold it and I am getting these payments, these payments are that the penalty box buyer has promised to pay me those payments. Well, now I have a note. That is what a note is. It is simply a promise to pay. Once I got introduced to the note business, it became this realization of like, "Oh my gosh, this is how the banks work." They will loan money out and they expect the payment in return. The difference is I am warning the sellers. I do not want somebody else's money out and I am making all the difference. That was in 2018. And then in 2020, I transitioned to, "I am just going to go and buy discounted notes." This is what Eddie is known for. This is how he has done over fifty thousand deals. He helped take my business to buy a note from a note seller. And if the house is worth a hundred thousand dollars and the mortgage is sixty thousand dollars, you can buy that note at fifty thousand dollars. Now you are at a fifty percent investment to value. Your risk is lower, you are getting cash flow. If they do not pay, you are always protected by the asset. There are just even more and more strategies that you can take that one deal. You can break it down and even sell parts of that note to get capital or you can borrow against that note to get capital. It slowly started transitioned into, "I found a way to make the income that I am wanting", just by playing the role of the bank and also I get the benefit of I can grow my wealth on the side because I am stacking up all these payments on the side that are bringing in cash flow.

Dan: Did you need to have a certain amount of capital between 2014 and 2019 or so when you transition to strictly buying notes? Does it become a game of, I have got three hundred thousand dollars in cash, let me select the right notes to get the payments that come in. Is there still this transactional nature to the way that you personally are running your portfolio where it is maybe by a discounted note at fifty and sell it at fifty-five. Then, buy another one at forty-five and keep it for some reason. Can you tell me about the mix of how your portfolio is turning currently?

Brian: Yes. Basically, what I can do is I can go buy, for example, I bought a note in Ohio here recently and I bought it for twenty-four thousand and some change. And I think there are twenty-three or twenty-four years left on that notes pretty long note from what I remember. What I am going to do is I am going to go and I am going to talk and find other people who want a passive investment. They want to use their money and they want to get a safer or lower risk-return on investment, but they want to be able to tie it to real estate. My target audience is the landlords who only owned a rental property in the last five to ten years. And typically they have only one to five rentals. And the reason that is because, within one to five years, that is the most painful part of owning a rental property. Your cash flow has not increased because there has not been enough time, the property has not appreciated enough to refinance to pull all your money out. Anything you forgot to fix when you rinse it is now breaking. You are putting more capital into this thing, but you are getting the same cash flow, which means you have the exact same return on investment that is going down. I am going to these people and I say, "You like the fact that you get cash flow. You like when the tenant pays. You like the fact that it is attached to real estate. So if somebody gets hit by a bus, the money is going to be locked up in that asset, you could always sell your money back. But, you hate the tenants, the toilets, the turnover, the putting more money into an asset that is supposed to be paying you. So what if I could offer you an opportunity to keep all of the good and I will take away all the bad? What that means is you are going to play the role of the bank." And these types of people are the same people that would say, "Yes, I am interested in getting the cash flow. I am interested in getting something investing my money in something that is going to be protected by real estate, but I never really wanted to sign up for tenants, toilets, and putting more money into an asset that is going to drive my returns down." Now, I am not knocking rental properties. I am just saying, this is a different way to do it and everyone has preferences. And what I found is there is a lot of people who have preferences of the only reason they are in rural properties is because that is kind of the option that was presented to them. They did know that they can play the role of the bank. And so, I can go to that person. If I go buy a note, this twenty-four thousand dollar note, I will go to this person and I could sell them the first ten years of that note. If I bought a note that has a twelve percent return on investment to me, I could sell ten years of that note to this investor over here at a six percent return on investment and recoup all of my twenty-four thousand dollars, if not, a little bit more. That means, I get all my money back, maybe a little bit of a fee, a little bit more, plus I also get another ten or fifteen years of payments that are going to be paid to me in the future, which is going to build my wealth. That is kind of hard to explain just over the phone, but I have got a great way of showing it and teaching this same way Eddie taught me. I teach my investors and I could show your audience, but that is how I do it. I could put up some money if I want to, but then I am going to recoup that. I will buy through another investor who wants to get a solid rate of return. And a lot of these investors too. This is fascinating to learn. I start the conversation by asking, "What do you make on your rental property?" They will say, "I am making eight percent, nine percent, or ten percent." I will answer, "It is interesting, but you really think you are getting that, or that is what the paper says? Let's take a look at that. Let us see how much have you actually put into this? Did you take out any sort of capital expenditure type of budget? Do you pay a property manager?" Well, it turns out that eight to ten percent is their gross number and last year they took a loss because they had to replace the air conditioning unit. We average it out and it is like, "You are only getting six or seven percent anyway. What if we could take all that risk away or at least mitigate the risk substantially and you actually get a payment more consistently than your tenant is paying?" It opens their eyes that there might be another way to do this and still get what you want. And that is why I always say, you can keep all of the good, and then I will find a way to take away all the bad.

Dan: I got you. It is less of me saying, "All right, Brian. I got three hundred thousand. Let me figure out how to get a little capital or get a little portfolio of notes and then just sit back and never lift another finger." Maybe I could do it that way and more the way that you are doing it personally, I would say it has that entrepreneurial transactional real estate investment feel to it just like flipping houses or wholesaling or any of these other things. In both ways that you described, we either have houses that were buying on terms and then immediately reselling on terms which brings us this chunk of cash upfront which may or may not be recouping what we had to give it that original seller. The same kind of thing is going if it is strictly a note purchase and then you are selling a part of it. I guess the basic big idea here is, any cash is going into the deal is immediately extracted by Brian Lauchner at some point in the first three to six months, if not, twelve months. Does that about hit the nail on the head?

Brian: Yes. Except it is way faster than that. You could take it even one step farther. The general rule of thumb is you won't need any of your money to do any of these strategies. My philosophy in business is, I should never have to use any of my money to do any deals. Why is that? Because I am bringing the knowledge and the deal to the table. And being the knowledgeable one protects the investor's money. If I am bringing good deals, money is never the problem. Eddie has helped me a lot with raising capital. But even if I wanted to borrow money, let's say, somebody wants hard money rates for whatever reason. I am going to borrow your money at ten percent or twelve percent. I am going to buy a note with it, but that is going to be short term money. Then I can go to another investor if I wanted to and I have just built up relationships. I am converting a lot of my hard money lenders, I am converting a lot of my landlords, I have also got several real estate agents who like the lower risk factor. It is like I have had coffee and lunch with these people over the years, and all I am doing is calling up and asking, "Hey, do you want to hear about how you can get involved in this note?" And so, I go from one hard money lender, so to speak, to a private investor and we are doing it in thirty to forty-five days. As soon as I can get the documents filed with whatever county in the country that I am buying the note in, because this becomes truly virtual and truly national and I do not have to worry about it being in my area, I can just go where the right deal or a good deal is. It allows me to turn them over really quickly. I can use somebody else's money and then get a long term note and long-term investor to come in and pay that off. I am always thinking how do I use someone else's money? And that way I just recoup on all of the money that I borrowed at the hard money plus extra for me to make a profit today. And then I am also going to have cash flow in the future on the backside.

Dan: What about the admin on this stuff? I mean to me, part of why I cringe, I love a wholesale deal. I love a fix and flip deal. I do own rental properties for my audience who already knows, but I treat my rental properties as my savings. But, I am not the landlord who is running out to acquire a non-stop humongous portfolio for the same reasons you just mentioned. It's this endless parade of large expenses roofs, new kitchen, pipe leak, it's never-ending. I know that my return is not and sitting still mostly on paper in the form of unrealized gains because I still own the property. Some tax benefits and I chose properties in certain areas where I believe values are going to go up, but I put the brakes on going too crazy with those rentals for other things the admin involved. I have to check my management statements to see who's paying and I have to manage my management company. I have to contact my insurance company, pay that insurance bill, and allocate those expenses accordingly. I have to and sit down and pay all the tax bills. There is a lot of active admin management to make sure that my portfolio is staying run correctly. I guess if you have scale maybe you can bring a person to create a lot of admin work. I hear the note thing. I have a couple of notes. I am in the middle of foreclosing on as we speak so they did not work well for me, but they are on secure assets and if I end up taking the assets back they are going to turn into some of the best deals I have ever done. Assuming these people do not pay off those notes and cash me back out of the deal. Admin wise, how can I do this set it up? You said, record the documents with the county, but what is the process so that I would have hands-off? Having the ACH coming into my account automatically and it is being done a hundred percent correctly every time so I am not having to chase down tax bills.

Brian: Exactly. Since 2014, there has been this shift with pretty much anybody who owns a note you are going to put it with a third party, license to compliant, say fact Dodd-Frank compliance note servicer. And these notes servicers are the ones that are going to make sure taxes and insurance are paid, make sure the mortgage is coming in. They are going to collect all the payments. They're also going to be the one that stays in communication with the borrower and they are going to ACH it in. It is not a property manager that I i's ten percent it is a flat fee. I paid allied eighteen dollars and fifty cents a month per note. I mean, it is a very nominal amount that keeps me compliant. They handle all the statements and on the 10th of every month, all I do is, I sit down and I could pull up all my notes. I can look at it to know who paid on the first. I see if this person paid on the third, this person paid on the fifth, or if we are all paid. If they are not, then I shoot an email saying, "Hey, can you give me a story on why this person has not paid?" And they will walk me through it. When you talk about managing property management companies, I know that feeling so well. This is one of the reasons I struggled when Reynold says, "This is supposed to be passive."I feel like I am spending so much time tracking down, looking at this house. And they are going to do the work and they are going to charge me an extra fee for. And then, I got to approve it. I got to do all these extra little things. When the third party license complains to note services, it takes off my plate. I thought so much about how many notes do I really need to have to outsource this, and to hire an admin person to do this for me. I mean we are just talking about so many notes. I have to have several hundred notes to make it worth it. There is really not too much to look at other than did they pay or did they not pay? That is what this really boils down to and that goes into how we choose our notes. When I am buying, I am looking at the borrower specifically the most. We have got some solid criteria that make a good borrower because if they are paying, they are paying. The number one rule of thumb is going to be their skin in the game. If they have been paying like this Ohio note I mentioned earlier, they have owned the house since 2011. So they are going to own it for ten years this year they have been paying it down.

Dan: What are the chances that they are going to keep paying if they have lived there for eleven years?

Brian: Pretty good, especially when they have got forty, fifty, or sixty percent equity in that asset. And so, that is my starting point. I am not Wells Fargo who says twenty percent down helps to mitigate my risk. I am looking for somebody who is going to pay. And that is part of what keeps the admin low. That is part of what keeps the headaches down and simplifies this process.

Dan: So how many notes do you have right now looking in that same portfolio we were talking about?

Brian: Again, I try to buy twenty to thirty notes every single year for the past several years. I am trying to acquire as much as I can. Things are starting to shift. I have not bought a note in about two months because the market has an opportunity coming up with non-performing loans and that is going to be massive. We are in the middle of this mortgage crisis right now. We have got tons and tons of non-performing loans that can't be foreclosed on. But eventually, these moratoriums are going to be lifted and we are sitting on cash waiting for that opportunity. Because non-performing loans are the lowest barrier to entry into any strategy you could ever come up with. Instead of buying a note that is performing at sixty cents on the dollar and you are owed seventy cents on the dollar, you can buy non-performing notes that say forty cents on the dollar, and you are owed one hundred percent of the value of the asset. We are talking about substantially discounted notes. And you are going to use a third-party note servicer to either modify it, to foreclose on it, or I guess you could do a deed in lieu of foreclosure as well. But, worst-case scenario, you get this thing back and you could sell it to a wholesaler. You can list it on the MLS if you wanted to. You could rehab if that is your thing or rent it out. Even if you are going to own it as a rental property, you still got into it for such a substantially cheaper price than you would have just buying it on the open market. Fortunes are made in market cycles like this because of non-performing notes, the barrier to entry is very low. And how easy is it going to be to raise money? Think about it, if I am borrowing money at sixty cents on the dollar that is pretty low risk. But if I am going to invest and I need to borrow twenty-five cents on the dollar for these assets or I need to borrow thirty-five cents on the dollar, the risk is pretty low. They are protected. They know they are going to get their money back. Two things: It gets me more money and it also lowers my cost of capital because they have a lower risk. It means I do not have to pay as much money in interest.

Dan: Other than looking at the time, the seasoning of that note. Is there anything else criteria wise you are looking for in a borrower?

Brian: Yes. Outside of just the seasoning, I am looking for payment history. I am not buying a note that only has six months to season. Typically, I have got years of payment history and I look at that payment history. I look at it, if they paid for the month, it counts. I do not care if they paid on the first, the fifth, the 10th. I do not care if they put on the 20th. If they paid in that month, it counts. If I see they paid every single month, maybe not on the first, but they have paid every single month and that is what I care about. In previous years, not this current year. For example, the note I bought in Ohio. I looked at 2018 and 2019 and I made sure there are twelve payments and what that means is they might not have paid in March. They might have made two payments in April. I have looked at a lot of pay histories recently that they will pay three months in advance. So again, as long as they are paying that is what is most important to me. Some people preferred to pay on time. And again, that is just one of the things you are going to bet. The other thing is the collateral, the house itself. I do not want someone saying, "This thing looks like it has been a really rough part of town or it is named Gatling gun, or it is named Remington." What am I putting my money into? That is of course something that I have taken into consideration, but those are the main things. Other than that, it gets more into the preference side of it and what you are trying to accomplish with that note. Are you going to flip that note? Are you going to wholesale that note to another investor and just make a fee? Are you going to sell part of that note to another investor? What are you trying to do with it and that exit strategy ultimately is going to help determine what kind of things go into it. Other than that, it boils down to the paperwork. If this note was created by some investor on the hood, is it even subject to Dodd-Frank? Is it compliant? This is not a rocket science business, but some people will write up a note on a napkin and then I will try to sell it and I am not really interested in that. I know some people deal in that space. I have never really - that has a got to check a box. It has got to be a legitimate contract. I need to see a purchase and sale agreement. I need to see if a deed was filed. I need to see some things like that. But that is pretty much it. I mean as far as a high-level goes, as far as what I am looking for.

Dan: So you mentioned Dodd-Frank twice now. Can you describe what Dodd-Frank is? And you talked about, is this note subject to Dodd-Frank? I assume that you mean, originating a certain number of these mortgages and notes myself might land me in a place where I am supposed to be registered or compliant with Dodd-Frank. Can you touch on that regulation piece of the business?

Brian: Yes. In fact, let me simplify it. Dodd-Frank is like thousands of pages. I have not read it. I do not know really anybody who has read it. Everybody reads it, basically the Reader's Digest version. The bullet points of it. The bottom line is there are certain things that you have to do. If you want to be a note holder, you have to do certain things to stay compliant with Dodd-Frank or you can hire a note servicer. If you hire a note servicer, you are basically removed from all of those stipulations because that is the entire job of the note servicer. So tying it back into the admin piece about what you got to do. The answer is do you have to? Yes, but you are never going to do it. That is literally what a note servicer does for you. For example, producing a statement every single month. You think I want to sit here and calculate how much they paid and prorating the interest? I am never going to do any of that. This would be a nightmare business if it required all of those steps. I am paying somebody twenty to thirty bucks a month. Like I said, allied. There is a loan servicer here locally that I used when I do creative financing deals here in the Dallas area. That is thirty bucks a month. It is just twenty to thirty bucks a month. It takes all that work off my plate. I do not have to worry about compliance. I only look at it from a standpoint of if an investor brings me a note and says, "Hey man, you want to buy this note for me?", and it literally looks like it was written on a napkin on the front of a truck. That is not appealing to me.

Dan: Yes, that is a pass. Do you know anything about the origination fees? So you are buying and selling those passively. But two years ago, you were actually originating these notes and I am sure when we touch on the creative financing, that is exactly what is going to be happening. Is Dodd-Frank governing some of that activity also and is there a way that you found where you're compliant in that place?

Brian: I love it. Great question. Again, the general rule of thumb. I am going to try to remove myself from the risk and going to try to remove myself from the work. And so, part of how I was taught this is you are always using a third-party. I am going to use an RML, a mortgage lending officer who is going to vet my buyer. I cannot go to my buyer and say, "I want to do credit check, I want to do this and I want to do this." I cannot ask for all of these things necessarily according to Dodd-Frank. On top of that Dodd-Frank real objective was to get rid of predatory lending. And so, staying compliant with Dodd-Frank is somewhat common sense. For example, if somebody shows you they have five hundred dollars to put into a two hundred thousand dollar house, that is their down payment, five hundred dollars. And they can afford a thousand dollars a month. If you write them a loan, if you originated a note with them, you say, "Sure. I will sell you the house. Give me the five hundred dollars down and one thousand dollars a month." But you do not think about the fact that if you take one thousand dollars a month, they only make one thousand eight hundred dollars a month in total. This is more than fifty percent of their income. That falls into predatory lending. In other words, you know, they are going to fail, you know that you are going to end up taking this house back foreclosing, keeping their five hundred dollars or their twenty thousand dollars whatever they put into. It does not matter. A lot of this is common sense. Just like you would not rent to a renter who cannot afford your rent because you are going to have to evict them. I am not going to sell a house or an originated note to a buyer who is not going to be a consistent payer. I am looking for less brain-damaged. I am looking for less headache. I am not interested in trying to work some scheme on somebody to be able to take their down payment, tell them to get lost and then find another buyer. I am not in the foreclosure business or at least I do not want to be in the foreclosure business. If I am, I am going to go more the route of I am just going to go find somebody a hedge fund or an inventory source to sell me non-performing loans and I will just buy those at a deep discount. And then, even then I am going to try to work with the homeowners to give them a second chance because when you approach it from that way, you are back into the re-performing loan. It just gets a little bit prettier.

Dan: How do you avoid the foreclosure process on those non-performing loans that you buy?

Brian: Our main objective is to modify the notes. If I can buy a note for twenty thousand dollars and let's say it is worth eighty-five thousand dollars. Let's say the borrower owes seventy-five thousand dollars. They only have ten thousand dollars in equity. If they owe me seventy-five grand and I buy the note at twenty grand, I could say, let's modify this loan to a payment that you can afford. I would much rather see you re-paying. why? Because there are fifty-five thousand dollars in equity sitting in there. That is mine. I just got to get them re-performing. And if they do not want to re-perform if they are like- if I have a note service for go knock on the door. They literally go knock on the door and get the whole story. They are like, "Screw you man, I am never going to modify this. I am never going to pay." Well then, I will exercise my legal right to foreclose. But, I will probably go a step before that and say, "Why don't we do a cash for keys," I will give you two grand, or three grand, just leave the house nice. They do not want to do that then I am going to go ahead and foreclose. But even if I got a foreclosed, which I mean- when you look at 2008 you look at somebody like Eddie's portfolio. And even in the worst of times, he only had thirty percent of his non-performing loans he ends up taking back. I mean the majority of these, you are going to be able to work out. And that is a cool part of this industry too. You can help so many people get a second chance. A lot of these people and I think Covid is the perfect example, they are not bad borrowers. They are good people, they just had a hiccup. They lost their job. There was a pandemic. They had no control over it. They just need to be reset. They need to be given a second chance. They got their job back. They got their income. They have lived in the house for years and years. They raise their kids there. They have family events. This is important to them and you get to step in and say, "I will give you a second chance." I can do something that the bank of America's of the world are not really set up to do. And that gives you a little bit more of a personalized approach which is two-fold. One, they get more value out of it. Two, I get to dictate the terms that I want for me and I can help a lot of people that way. And then, the thirty percent of the people who do not have a job and tells you, "I cannot really modify it." It is one or the other. Let's try to do a deed-in-lieu so you can move on to this next chapter of your life without having a foreclosure follow you around. I will sell the house or do whatever I am going to do with it.

Dan: Got it. Can you give me- Let's play with one of the examples. You have done some non-performing notes yourself?

Brian: Right.

Dan: I remember, ten years ago. It was a really big year for seconds mostly or when it started to become, it was probably a five or six-year period from 2007 to 2013 or 2014. And then, the second note inventory really started to dry up because of the eviction moratoriums and things of that nature that were occurring during the last real estate crash. All that stuff started to cycle through the system. So I noticed that on a secondary market for mortgages there was no or certainly a lot less second notice. And it ended up getting bit up pretty high. It will be interesting to see how many people are actually buying notes with it being a much more vibrant market now than it was ten years ago of this demand. Perhaps pricing up the deal. Do you have any examples of some solid, and if it is not a non-performing note, but where I am going with it, Brian?

Brian: I like big returns. And so does my audience. I pay two points in ten percent interest to my private money lenders. So they are spoiled and used to getting really decent returns.

Dan: So, I am going to go out on a limb and say a fifteen percent return would be sort of the threshold that would get some of my audience excited. I know some of them are on hold out and say, "Oh no, I need twenty, twenty-five, or thirty percent on my money, but let's be realistic. I want a fifteen percent return on my money to go ahead out there and look at this note that is in Ohio. My audience is not going to be the one buying ten years worth of notes. They are going to want to be in your shoes and they are going to be wanting to evaluate that and find that. Do you have any deals that worked out where it was maybe fifteen percent or maybe it was even more? And that is from your perspective. Not the partial note buyer's perspective with the investor.

Brian: It is a great question. I have got unlimited deals. Do you want me to tell you on the performing side or on the non-performing side?

Dan: I do not care whether it gets re-performing for four months or six months ago, if that was your best deal, I want to hear about that. However, if you happen to buy one that was performing or even set the note up from the beginning, I want to know what is the best one? What is the one you would tell it a cocktail party if you were trying to show off?

Brian: I probably say that the non-performing side. That note I gave as an example a minute ago is a non-performing in Missouri. You got about twenty-one thousand dollars and some change. You are all-in at twenty-one thousand dollars. The note that is owed, the debt that is owed on the property was eighty-seven thousand dollars. And this is what is really cool about this non-performing space is that we owed eighty-seven thousand dollars, were all in with the modification and everything. We are all in for twenty-one thousand dollars and some change. Eddie Speed always says, "It's your chalk. And it is your chalkboard. You can chalk it up however you want." It means you have full control to make this deal whatever you want it to be. And all we did is we turn around and said "You owe us eighty-seven thousand dollars, but we are actually going to forgive twenty-two thousand dollars in debt. Now, why would we do that? Well, there are reasons why, but the bottom line is now I am owed a sixty-five thousand dollars debt. And the house is worth eighty-seven thousand dollars. So now they have some pride of equity, some pride of homeownership back in their deal. Payment is about five hundred forty-four a month and we did it on a twenty-year note. So to keep the math easy, that is about a hundred and thirty thousand dollars coming back to me for my twenty one thousand dollar investment. So we are netting six figures easily on that 21,000. Here is what is crazy. Because it was modified within a couple of months, right? I can sell a partial, just a front part of that loan for about thirty thousand dollars. In other words, I can go ahead and take all my money back plus

I make nine thousand dollars today because I sold part of the note. But, I also get all of the back of the note which is another ninety-five thousand dollars coming my way. So I have no money in the deal. I got all my money back. I make nine grand today and I make another ninety-five thousand dollars in the future. How many times can I do that? Over and over and over and it will take me about three or four months to be able to do each one of those deals. It is silly when someone says, "Oh I want to make eight percent, twelve percent, or fifteen percent". What you need to do is you need to learn how to do it because there is more value than you can acquire by learning the skill set than you can by actually doing the deal. In other words, I tell people all the time, "How do you make your money doing that in the mortgage business?" And I tell them that I make all my money between my ears, and what I mean by that is I learned how to do it. And because I learned how to do it. Now, the return on the investment fees is typically going to be infant. I am never going to use any of my own money and even if I do, I am going to get it back substantially. Because what is your return on investment if you put up twenty-one grand, you turn it into twenty-nine grand in four months. And then they are also going to give you another ninety-five thousand dollars. What is your return on investment?

Dan: It is a high number.

Brian: We say, if you don't need a calculator to figure it out, it is good enough.

Dan: So I used my calculator and I said, "If I did 21k investment and I'm getting five hundred forty-four a month, I am happy with that. Because I do the math on the calculator and I get a thirty-one point one percent return in the first year. But, that return is going to continue to compound and pay off the principal. This would be one where you did the math on the napkin, you know on the other side of that note the guy tried to write on his truck and it is turning out to be a good deal.

Brian: Yes, exactly. It is no different on the front, if it is performing alone, it is all the same thing. As far as the potential is absolutely ridiculous. You just got to take some time to learn it. And actually, I teach a one-day class for Eddie about all these strategies. I spent a whole day going through them using case studies and that allows me to better show people case studies on a screen. And that helps people understand a lot better and they better understand, they see it in their own business. They are like, "Oh my gosh. I know how I could do this." Now, I see this. I want to stop wholesaling houses. I want to stop flipping houses. I want to stop owning rentals because I can have less headache and I can create substantially higher returns and build my wealth as well as not have to give up all my money that I'm supposed to be making today. That was the biggest misunderstanding I had when I first heard Eddie speaking in 2016. I thought this was all about long-term retirement money. And he is like, no man, it is your chalk and it is your chalkboard. In the long run, that is what I finally heard. I heard that and I figured out that I do not have to give up my money today in order to focus on building my wealth. I can actually have both and it is using these strategies that allowed me to do that. And that was the easiest barrier of entry to accomplishing the vision that I had set out for myself.

Dan: I love it. And I think that it is probably worth noting that there is going to be in my eyes. I mean, obviously, there are multiple categories, but to me, there are two categories of investing for the sake of our conversation. We have truly passive. Fully passive. That is nothing. You called in a wire, you weighed it, the wire came back with your interest. That person is not planning on making a phone call. They are not going to engage a service, none of that stuff. And then, you have the entrepreneurial investor. That is going to be most of the people listening to the show. I know for a fact, we have passive investors who have no interest in going to do deals out there themselves. They just want to find guys like me or guys like you and they are happy with six, eight, or ten percent. But then the entrepreneurial investor is usually the kind of person who finds themselves buying and selling houses, wholesaling. Buying rental properties, doing cash-out refinance, and take all their cashback. Because they're looking for an infinite return. Just like what you described. I put twenty-one thousand in, I saw a chunk of the note for thirty thousand and what is left is an infinite return because I have zero cash in that deal. So all the rest of it is profit and I took some profits today. The entrepreneurial investor must be willing to trade off their time and that time may be something that passive investor does not have additional time. They do not have time to come listen to the audios or sit on the class and learn the details and run marketing campaigns. They do not have the time to do that, but they are probably doing something else with their time and getting a large return on that time too. So yes, there are much more substantial returns for the entrepreneurial investor, but the entrepreneur investor like you and I have to also remember that we bring time and knowledge to the table in order to create these circumstances. Did that make sense?

Brian: Yes. Absolutely. I am right there with you and I always say passive but the way you described it is really great. I love that. I consider myself more the entrepreneurial passive investor and part of it because of my personality type. I like to go and have coffee with people. I like to go and take people to lunch, but it is passive to me because I am not running from appointment to appointment or talking from seller to seller anymore. That was enjoyable. I like doing it. But, it is not necessary anymore because I have transitioned. There is more money out here than I could ever invest. I just need to focus on the right type of investors and invest that money and not have to use any of mine and start to grow my wealth. In the class that I teach, some people who are brand new hear some of the stuff that I heard in 2016. And I say, "Even if you are brand-new, you need to make some money today. I can show you that, but there is no reason you cannot start building your wealth." In fact, the next day in class, I teach the strategy, "If you have one hundred dollars, I can show you how to turn it into one hundred thousand dollars absolutely tax-free. So even if you are like, "I cannot start investing in my future wealth and get ahead because I need that money today." Well, sell something on Facebook marketplace over the weekend. Come up with a hundred bucks and let me show you how you can turn that into a hundred grand. And then you can do that over and over again. So there are so many ways that you can do it. You just have to sit down take the time to learn it, get introduced to it, and then figure out which one of these lines up with my preferences? And my passion is helping investors to see that there are so many ways to do it. So let us look at a couple that I know will work and just pick one and go for it. Get engaged, get involved, and go out and make it happen. If that means you are going to be talking to sellers running appointments, great. If it means talking to private investors, great. If it means just buying a note from Eddie Speed, there are just so many different ways to get involved. I think as people kind of hear about them, they start to easily get to that place. They will say, "I get it. I know how I can get plugged in here and do this or take this next step on my journey in my business."

Dan: Yes. I think the past diversity entrepreneurial is when I had to wear both of those hats and I am investing my time with my team because we have a good solid thing going and it is making money. But now it is like, do I have the time to go into the note business at this entrepreneurial level. Dan Breslin does not because I am running the main company and that observation comes from my own investing. I need this as more passive as I could possibly get. I am complaining about the reading of my rental statement. So I am sure some people cannot wait for the statement to come and see how much they made. I am like, "Oh man. I have not checked it in three months. This is so irresponsible." And I find problems on there. I am embarrassed to almost admit.

Brian: I was going to say, I have not told anybody this strategy. But you brought up a point that I think is fascinating because I actually have an investor. He is a friend of mine. He is a buddy in my life. He says, "Brian, do you think I have time to go and pick out a note? You think I got time to go and call the note servicer?" I say, "I get it. You are slaying. You make a lot of money and you are focusing on that. But, what if I could show you a different way? What if I could make this truly passive? Call me once a year and the business runs on its side. What if I could do that?" Basically, the strategy I put together to form is this. I said, "I have got things pretty automated over here. I have got my business and I am not saying this is going to be for everybody. But this will hopefully help your listeners to see how flexible you can make this thing. Because I saw this one opportunity. He had about one hundred forty and change and he want to put it in notes, but he does not want to go do all these things to get the ten and twelve percent. And I said, "Alright, check this out. Would you be interested in this? what if you put that money in account and I will go buy notes with it. And then, you just need to simply say to your friends "I am doing this note thing with Brian Lauchner, you should get in touch with him. He wants to talk to you about an investing opportunity."
And so, he introduced me to his friends and I sell partials out of that account that I have with Dave, my buddy, and I sell partials to his friends who are looking for the five, six, seven, and eight percent investments. Long term, low risk, and that kind of stuff. And what that does for Dave is it gives him no work of the been some introductions here at the front end. It also allows him to make insane returns because I am going to sell partials to get all of Dave's money back, but Dave's going to give up half of everything. But Dave does not mind giving up half of his money. When his money is just going to stay there. It is just going to be turned over and over and over and over again. And so it is just a little bit unique of a way to do it because we are selling let's say I sell ten years of a thirty-year note, right? I am going to recoup all the capital invested, but that means we get twenty years of payments on the back end. So I am building up this huge nest egg for Dave and for me right for future money that's this is truly more of a future money play. That allows Dave to truly be literally passive. Like I have not talked to him in almost two months now actually now I think about it. I mean he just put the money in an account and let me run with it. And I mean, I am out of the spot in my business to where I am already vetting the deals. I know what I am looking for. I could buy notes with it. And then I just sell the partial so it becomes very little work for me. But I literally got half of that hundred forty-something thousand dollars plus all of the wealth in the long run and he is going to make better returns doing in that way. Then he's going to make with literally any other investment. He could possibly put it into right now.

Dan: Nice sounds interesting. I am going to switch gears here a little bit for our topic here. And before I do that, I want a yes or no answer. No elaboration because it will be explained at the end. But I want to know if you know during that one-day free event that you put on for listeners of the show. Do you go into detail about that a hundred dollars into a hundred thousand dollars play that you mentioned?

Brian: Yes, I do.

Dan: Great, so keep listening until the end, and the new topic we are going to touch on which we briefly did already was creative financing. So you and I went back and forth here for the last, you know a little while on the note business itself and the passive aspects, but let's back it up to when you were belly-to-belly in the living room doing deals with sellers because I think a lot of our audience is still doing exactly that and I think that these creative value, creative financing strategies hold value for what people are actually doing today as perhaps they make a similar transition that you did over the last couple of years.

Brian: Yeah. Right now in 2021, we are kicking the year off here. The biggest need in the real estate market that I am seeing is the need for people to master creative financing. That really is the biggest in the market because pretty much every market right now is going up and up and up and you know investors are talking to sellers and they will say, "Hey, I will give you this price", and the seller says well, "I want a million dollars for it", and you are like, what are you- where did you even come up with that number? Like well, you know John's house down the street sold for that much. You know, like that is you are not, it is not even the same type of house, man. The seller's sentiment has shifted so much what sellers believe their house is worth has shifted so much. How are you supposed to compete in a marketplace where the seller wants everything and you have got to buy it at a deep discount in order to to make money, right? Because wholesalers only make money on margin. So I think that is why it is one of the biggest needs in the marketplace right now.

Dan: Yeah, I agree and some of the other things and we briefly touched on it. I do not know if we actually tagged it be the bank, but we are going to tag it for this chunk and section and we are gone for now is being the bank and I learned over the years and I am sure most of the audience does know or may know sort of what happens, right? The mortgage lender. I will give you a story. So, I refinanced my house in January of this year, and I went to PNC because I have a bank account that I figured well PNC's big distributor. Give me a reasonable rate. I am already doing a lot of business with them. I thought they would have just been able to go into my account and see that I have money there and was making a mortgage payment. Anyway, I did all the paperwork, got the loan with PNC, and then we closed on the loan with PNC, and then a month two months later something like that. I get this thing in the mail that the mortgage was sold to another investor. So what PNC did was just like kind of what you were talking about, Brian, of you know, you fund the deal and then a month later. It is sold and you know the cash comes back for PNC to lend out again, but in your case or in someone's case was going to do deals face-to-face with sellers, you know, we are recycling that cash by selling out the note to the other end. So you touch briefly on getting a seller to hold paper and do deals on terms sell the house on the deal with terms and I think that the piece that is really cool that what you are doing is, you know, we kind of also bolt that to the be the bank strategy and getting into paying attention to the note market to be able to cash back out. I feel like that might be the piece that is missing from some of the get a seller to do a terms deals. At least it was for me for a long time. I never could imagine if someone was going to buy the note. I structured my notes incorrectly. So when I turned around to tell him I was the guy with the piece of crap do not that was written on a napkin pretty much it was not serviceable was like a big problem and I am still in a legal battle, which I am going to winning it my money back, but I screwed my business up and was not able to resell the note to get the cashback out of the deal. So I feel like having access to being aware of me and plugged into a network of people who are buying and selling notes and treat them as something that is valuable is a critical component to the creative financing strategy. Would you mind elaborating on that a bit?

Brian: Yeah, I think it is twofold. So being able to sell your notes is crucial and in fact, I will make sure you know during that one-day class that I even go through. You know who some of the bigger buyers are that you could buy they you can sell your notes to. But I think one of the things that are often overlooked is people are so interested in exiting the deal that they miss an opportunity, and that opportunity is to simply hold the note but have somebody else pay for everything. And what I mean by that is my sellers see that oftentimes the seller is willing to pretty much hold and they will leave their equity in that deal. They will say, "Hey, look you you owe me two hundred grand, and we are going to amortize it over a 30-year note but in say fifteen years. I want to be paid off though." They want some kind of balloon on it or something. Maybe that is the case. Well, that means they are going to let you borrow this money basically for 15 years. They are going to play the role of the bank for 15 years. Well, I am going to turn around and I am going to resell. I am going to package it up and I am going to resell that, and I do a good job of explaining this and going through the details on that one-day class. I resell it to a very unique buyer somebody that we call a penalty box buyer. That is Eddie Speed term. And what that means is again, this is somebody who cannot get conventional financing anyway. Instead of what they are going to do is, it could be anything it could literally be a self-employed person, right? I was a penalty box by for two and a half years. Because when I first started, I had lost my job. I did not have a W-2 anymore. I had to have two years of income from my employment to be able to show before someone would write me a mortgage, right? That was my situation. And so it is not that I did not have the money to put down. It is not that I did not have good credit. I was a very lendable character except for the piece that I did not have two years of tax returns for the bank that they liked. Another common example is entrepreneurs who use the laws to write things off and pay less taxes, right? They have money. They are not going to pay taxes, because the laws are written in your favor. So that is just one example, right? There's a bunch of other ones. One of the most common ones in my area is ITIN buyers, people who do not have a social security number. They have an ITIN number. They are the people who legally are here, they illegally work here live here. There are pieces that are missing poor a lot of banks and I turn around and I resell it to these people because, first of all, they typically have good down payments and we have got some good marketing ideas for how we draw those people in so that we are always able to pick the two or three probably best ones and leave us the best options, but it allows me to get a solid down payment and the fact that they are going to continue to pay and what that does is that payment will pay my underlying mortgage. It is no different than having a mortgage and renting it out. Rent payment covers your mortgage payment. Well, in this case, my mortgage payment is a mortgage payment to the seller. The seller has decided to play the role of the bank. I got rid of the bank completely. My seller is going to sell me the house and they're going to assume the role of the bank and that is my underlying mortgage. The difference is what that seller I can get terms that a bank would never get me I could get no payments for six months. I could get zero percent interest or really low-interest right? I could also get no money down to really low money down. You know, it is just about Eddie calls at the talk off. It is about mastering how to say in the right way and using a logical and rational conversation rather than some slick sales each type of an approach to convince the seller that they should play the role of the bank. You are going to show them why it is in their best interest. And then once you have that locked up, you are going to go resell it to a penalty box buyer who is typically going to pay between six and ten percent on average. I would probably say about ninety percent of the time that is where you are going to be right? Yes, there are cases for over that and under that but in general between six and ten percent interest and you are just going to mirror the terms and obviously by having a much higher interest rate that is going to generate a much higher payment which is going to create your cash flow and that allowed that that is really how I am able to make money today by talking to sellers. Then also get the cash flow to keep the note not even sell the note. You could always sell the note if you wanted to but what you are going to find is once you have no money in it, why would you want to go off and sell that cash flow when you know it is going to be coming in right unless again, you just need that money. But if you really need that money, it's probably easier or better to just go do another deal and get some more bonus cash flow.

Dan: Yeah, that makes sense. How important is your ability to understand the nuance of the specific seller situation and do you have any examples of times where you noticed the seller needed this or that thing that was important to them? And then you ask the right question and use a certain type of term to fit that does that make sense?

Brian: It does. I mean a lot of times people think that they are looking for and I have had somebody asked me this before like, okay like walk me through. Write me out the sentence you say what is the magic word that you say? It is not like that, right? That's the slick sales you stuff. I am actually talking about getting away from what I am talking about is you got to approach the deal to where you can get the seller comfortable to be willing to be transparent with you. Because I think we can all agree. If you do not address the seller's real problem, you are never actually going to get that deal done anyway. You have to find a way to get to the seller's actual pain with a real problem is get them to be transparent with you. And by doing that by getting them to say, okay, this is what I really need. Okay. Now you have told the doctor what your symptoms are. Let me tell you what some options are for the prescription so to speak right? So a good example is in that one-day class. I talk about a NoteSchool student who went out and the seller was adamant. I have to have four hundred and fifty thousand. I have to have four hundred and fifty thousand. As he sat down with them he started to understand. This guy really needs this money. What do you need this money for? Sometimes it is really just asking that question. What do you really need this money for? Well, I got this. I got medical bills and we are moving again and I do not want to pay for my college. My granddaughter's college tuition this semester and all this. Okay? Okay. Well, that is good. But is that four hundred fifty thousand dollars worth of stuff? No, it is not. Okay. Well, let's do a little exercise here because I think I have a couple of options for you if we can get the numbers, right. What do you need? Okay you need this money and this money. What you need is fifty thousand dollars. Would you say that is right? If I could give you fifty thousand dollars today that would solve your immediate cash needs. Yeah. Okay. So then you do not need four hundred fifty thousand. You need fifty thousand dollars now, right? Okay. Well, what if I give you fifty thousand dollars today, would you be willing to carry that other balance, the other four hundred thousand dollars in that example, would you be willing to carry that four hundred thousand balance over time and let me give it to you in monthly payments. The seller in this case was in their 70s and so they did not want to wait more than 10 years kind of funny is like, I mean, I do not want to die before this thing is over. All right, so he said all right, that's fine. We will amortize that on a thirty-year loan so I can get a payment lower right? Would you be okay with about one thousand one hundred dollars a month? Pay attention to how I said that. Would you be okay with about one thousand one hundred dollars a month? Yeah, it would be okay great. Now, what has not discussed so far? The interest rate. So what this guy did is he addressed immediate cash needs. You need fifty grand. I am going to give you fifty grand today. Now in this case. He had fifty thousand dollars but I also talked about how you do not even need your own fifty thousand dollars to do this. That blows people's minds. Like wait a minute. How are you going to give him fifty grand if you do not give him fifty grand, right? And so there is that but then eleven hundred dollars a month on a thirty-year amortization is actually zero percent interest. So he got zero percent interest eleven grand. Then it had a ten-year balloon. He had ten years to either refinance the house or pay off the house or sell the house, but he did not even do that because when he packaged all that up and he resold it to a penalty box buyer. He just made the penalty box buyer agreed to the same terms. "Hey, you got to put in this case seventy-five thousand dollars down. Because he wanted to make twenty-five grand today. You have got to pay I think it was like six or seven percent. I will have to go look at the numbers again on a thirty-year amortization and you have ten years to either refinance the house pay it off or sell the house. And so he just made this the in the buyer agree to the same thing and it allowed him to make twenty-five grand today and keep all that cash flow and at a four hundred grand note when you are at zero percent interest and you re-loan it out at whatever the six or seven percent is. It is a huge cash flow. I think on that deal here got my spread collar them coming in at a cash flow plus the twenty-five grand.

Dan: The retail value of that house in real-time when he signed at four hundred fifty are we talking it was worth about four hundred fifty was worth a little more a little less?

Brian: It was worth a little more. So he resold it for four hundred seventy-five thousand to a penalty box buyer.

Dan: And so if I am going to do the math...

Brian: yes if he held it ten years. He'd be looking at one hundred and thirty-two thousand dollars in pay down that his mortgage terms buyer would have actually been making that plus he made the interest spread every month on that payment. Then he has got all that pay downs like money in the bank. He kept it ten years, but he has also got that extra twenty-five thousand dollars on top of the sale price. So like if it went to a ten-year term, he is looking at it really really good deal, really good deal.

Dan: You want the punchline? I just pulled it up punch line is to yeah, eighty-seven thousand is what he made on that deal if it goes to term? If it goes to all ten years? That is phenomenal, so he is looking at thirty Grand, we are grand in interest.

Brian: Yeah all on a deal that you gotta remember this is retail. So it is not like he could have wholesale this anyway, and even if he could wholesale it was he going to make more than ten grand on it. Probably not. Let us be nice and say he was going to make twenty grand somehow on it. No, instead he sold it and made twenty-five thousand more than he was going to make as a wholesale fee all that ideal that I mean other investors were walking away from because this guy quote and quote has to have four hundred fifty thousand dollars in the house

Dan: The particular is that deal does a deed get transferred and recorded or was this like a different type of documentation rather than like a mortgage and a deed? With the original, you know with every seller and buyer. I mean, how does the paperwork look on that deal?

Brian: Yes, the good news is this, I actually have I had actually accomplished, I think three deals before I even understood this because I have never tried to figure this out myself. The attorney here in Dallas who closes my deals, he handles all this stuff and he just has like "this is going to happen. This is going to happen" but it just never really sat in but in this case, yeah, the seller sold the house so he transferred ownership, right? He did it over and now he has a mortgage note. He holds the note. He has the bank now, right and that is how he is protected. So yeah, there is a deed that transfers name and on again this tends to confuse people right out of the gate and this is why you know, I teach a whole one day class on it is because when you actually take the time to break down the details, it becomes a little bit clearer, but the same thing with the penalty box buyers he is going to have what is called a wraparound mortgage, right? So the steps are there. It is just the logistics are not super complicated and I have tried to do my best to illustrate this so that people understand. My biggest desire right out of the gate is for people to understand that you can buy houses at retail and make more money doing it that way than you could if you are going to wholesale it right, even if you bought it for twenty or thirty or forty percent off. It's just a strategy that in today's Marketplace is crucial because so many people want such a high price for their house. And so you can be the first person to walk in and be like, "okay, I will give it to you," but here is how that needs to look because it is not about the price you pay is about when you pay the price.

Dan: Yeah and the only risk to your student in this one is if the borrower goes bad and he has to file a foreclosure and gets the property back in significantly worse condition, in theory, he could just turn around and hand it to the seller. But like I know if that was a deal I was doing and the seller entrusted me with the property. Like I am going to see the deal through and I will take the loss on a deal like that and foreclose for a year, however long it takes and also, go back in and paint the property and resell the property like that is just kind of who I am that I see the deals all the way through but there is that risk of the thing blowing up but with the potential upside of two hundred eighty-seven thousand. If you go in with your eyes open, I think you are well aware of, you know, the risk versus the reward, and the reward should outweigh the risk and I also would probably underline that four hundred fifty thousand deal. These are probably a little more retail than most of our wholesale only, you know, the house is full of mold and no one can live in there like that type of deal is probably not going to fit. I think this
probably fits a little bit better for houses in slightly better condition that quite frankly so it does not deserve to take a discount the properties in great condition. Right? Right, Brian?

Brian: Yeah. Yeah. That is right. I mean the strategy works whether the house needs rehab whether it is a junker whether it's really really nice weather it is HGTV worthy. I mean there is not an example that it does not apply to it is just a matter of how does it how do you make the numbers work right? And to your point earlier about the risk, you have always got to consider that. Well, like I told you earlier you have got to look at the borrower and one of the easiest ways to mitigate that risk. The guy put seventy-five thousand dollars down. Is he motivated to make that payment every single month? I think so, right? That is part of, you are aligning the incentives to make sure things work out. Now obviously, yeah, the guy could get hit by a bus the guy could you know lose his job. He could get really sick sure the and so you are right, but you do not get to control any of that. So you just have to set the deal up the best you can and then align the incentives to make sure he is going to pay or she is going to pay.

Dan: Nice, so as we get to like our wrap up here before we get into our last final questions. Is there anything else that I just did not have the foresight to ask that you think listeners would be interested in Brian?

Brian: Oh man. I do not think so. I mean probably the only thing I can think of would be like some details of some stuff but we just do not have time to cover it today and we have got a solution for that.

Dan: So, let us go with some book recommendations. Do you have one or two books that you find yourself recommending most often to people who may become through the NoteSchool or friends of yours that want to get into the real estate business, maybe?

Brian: Yeah, but what is really funny is neither one of them are real estate books, but the two books that I am thinking from my head were very impactful for me because when you own a business when you work for yourself, your mindset is like, it is just crucial. I always say like as an entrepreneur you do not get to have a bad day, right? You just always have to have good days like mentally, because once you start getting down on yourself, it could just go south, right? And so, one of the books I always tell people about is called the third door. The guy's name is Alex Banayan, I think is how you say his name and I have not read it in a couple of years, but it is a fascinating book about there is always a way to make something happen. In other words, a building has a front door and a back door. You can go to the front door and if you can't get in the front door of that deal, you got to go into the back door of that deal. But sometimes you get stopped at the back door. And so what do you do? You find the third door, meaning that there is a way to accomplish pretty much anything and it is this Alex guy is, he is just telling his story and he accomplishes the craziest stuff because of this mindset shift of like, he does not just take the loss. He does not say "there is not a way" he just says, "there has got to be a way right?" There is a way and it is just bananas. So that's one of them, and then another one that I think that and I do not know how many of your listeners know about Chris Voss, but he wrote a book called Never split the difference. It's all about negotiation. He was like an FBI hostage negotiator and his whole point is it is funny, we learn how to talk to sellers, we learn how to negotiate deals and I am not saying that does not work, but his approach to how to do it is just so eye-opening. He explains a lot more about why people act the way they do, right? It is more the psychology of why your sellers telling you "no", and it is probably something that you did and so his whole point is that most of the time you go in to negotiate something your sellers at a hundred grand you are at ninety grand and you try to convince them that you need to just buy it at ninety-five thousand because that way you can say like "Oh, I still make some money" and his whole point is if they are willing to get close to you. You should never have to split the difference and here is why, you know, and here is how you are going to make sure that you do not have to split the difference moving forward. And so, it was one of those books that it is like man, this could really increase my average profit per deal or whatever it is for years and years and years. And so I just found it really powerful and he is just really fascinating got to listen to, I mean think about a hostage negotiator for the FBI like, he has got some insane stories as you had imagined.

Dan: Nice. I'm excited to check out "Third Door." I did read "Never Split the Difference" and you know, it is the same exact things. I mean, he is bringing a really unique perspective in that he was negotiating for human life. How are you going to split the difference on a human life with a terrorist?

Brian: Yeah. Yeah, exactly.

Dan: Right? And then now we can apply those to our real estate deals where we thought the stakes were really high in our real estate deals. Because certainly, I did. You know, like his is you know highfalutin stuff. We are negotiating real estate deals and it is right. These are people's lives that we have in our hands now are serious to certain extent but it is not quite the gun-to-the-head hostage techniques that Chris Voss develop. So yeah, it would have put a big underline under that one for sure. Cool Brian, the crown jewel of wisdom. I am gonna change up from our normal format here. So will list the long-term listeners will probably notice the tweak here, but let's set the stage, 2021 your bank account gets wiped to zero. You have no deals on the board waiting to close. There is no follow-up. There are no leads from no fires or whole wholesale sellers in your queue, right? You are kind of starting from nothing except, you know, everything that you know now in 2021, how would you get started again?
Brian: I would become what is called the designated hitter. This is going to take a little explanation, but I will try to keep it quick. A designated hitter is somebody who, you have no money. You have no credit. You have no marketing. You have no money for marketing. But what you do is, you know how to do creative financing. And so what I would do is I would go out to pretty much the people who are doing thirty, fifty-a hundred deals a year and I would literally say, "Hey, I have a very unique skill set to where I can close deals that you cannot now I am not saying that you cannot close deals. But what I am saying is this I have criteria of the exact type of house that I want. If you get a lead and you cannot close it, even after your follow-up, you cannot close it. I want you to send it to me and if I close it, I want to split this deal with you. I want to see whether it is I split the down payment with you whether I split the cash flow or both or whatever. I am going to go in and I am going to give this seller exactly what they want. And I am going to structure it on terms and I am going to do it that way. And that is what the designated hitter is. If you have absolutely nothing, but you can you could understand the concept of of structuring a deal on terms then it is awesome. And then at that same time, I would be helping other businesses in my community, right? I would be able to make a solid income but I will be leveraging my knowledge to do it without having to do any marketing and that would allow me to get some deals done like as soon as possible because the leads are already there. They already have leads in their trash can that they did not close, right? So I could just say send me [inaudible] like this and if I do not close it in thirty days, I will give it back to you. I am done with it.

Dan: Nice. I love it. I like it. It is something I kind of suggested myself and in the past but you know, what you are doing is you are identifying a player in your marketplace who has substantial volume. They probably paid a lot for those leads whether it was a lot of time building the database compiling it and then you are bringing something you are bringing the time to the table and your willingness to you know, work on the leads and add value. So I think that is a really really great answer to that piece. I love it, Brian. So we touched on the NoteSchool, you know full day that you put together. Would you mind elaborating on that and tell listeners where they can get started if they would like to check that out?

Brian: Yeah totally and I am super excited about this because for your group specifically, it is free, right? Normally, I am going to charge people like ninety-seven bucks or so to come out and teach for a day because I want to get paid right to do it. But in this case, I mean like it has been a lot of fun if you guys go- If your first of all, if you are thinking what creative financing could really help my business, right? I could see how sellers want more than I could give my need to find a way to just give them what they want or maybe you are trying to figure out this note business whether you are creating your own notes. You want to wholesale notes. You want to flip notes you want to do performing notes you want to do non-performing notes any of the things that we have talked about today in this one-day class that I teach. It is from about nine to four depending on how many questions I have you can register for free to go to reinoteschool.com You can register for the class for free. If you go through a NoteSchool site, if you go to a different website, you will have to pay so if you are wanting to go for free because of this podcast, you have got to go to reinoteschool.com You will be able to attend. It is obviously a live class. So bring your questions, you know, I try to make it as engaging as possible. We take breaks. We take a lunch break, you know what I mean, but it is a day packed full of content and it allows me to take these case studies that I have seen or or even stories of deals that I have done and show you the steps of how I got to making this money on it or or whatever it is. It helps you to better understand that when you see a deal that you think is impossible, there is a third door. See, that is good timing Brian. So reinoteschool.com.

Dan: Yeah. We did no justice whatsoever on our audio today. You did a great job, you know, with the details, but we did know justice to the detail. That is kind of required to keep up. You know, how these things work out with these different percentage spreads and the rate of return and how to sell this chunk of the new so, you know, go check that out for sure. Brian, I had a blast I got pages and pages, and notes here it is on great information. I really appreciate you taking the time today to share with our listeners. Thank you for coming on the show.

Brian: Yeah. I appreciate it as a lot of fun. Thanks for having me.

Dan: So are you interested in doing deals with no money down? You know, creative financing? That sounds like a good idea, right? Then you might consider diving deeper into the mortgage note business. The mortgage note business is the creative financing strategy and real estate first negotiate no money down deals with sellers then find a buyer willing and able to put some money down and continue making payments until the deal is paid off with the profit for you and in between. One of the things with creative financing is that you can sell properties for much higher prices using creative financing. So here is an example. I bought a package deal a few years ago and as part of the package, I think there were five houses that I really wanted because they were in the right area and there was a sixth house for twenty thousand dollars not in the right area that house that I had to buy for twenty thousand dollars as part of the package. It was worth about twenty thousand dollars. I tried selling house on the market for twenty thousand dollars, you know plus or minus leaving the room for the commission but to no avail. The house did not sell. So I removed the listing and I wrote a Craigslist ad offering that same house for forty-five thousand dollars and this time I added creative financing. So the deal sold for a price of forty-five thousand dollars with a five hundred dollars down and four hundred and forty-three dollars per month for ten years. So the deal was off my plate collecting payments. Now if the deal runs all the way through the ten years, I will end up with a total of sixty-one thousand six hundred and sixty dollars on a deal. I could not sell that I had to buy for twenty thousand dollars which amounts to a profit of forty-one thousand six hundred and sixty dollars. Not a bad deal, on a deal that I could not even sell to break even right. So what is the best way to learn about creative financing, no money down deals, and the mortgage note business? Well, you are in luck. My friend Brian Lauchner is hosting a full-day virtual workshop in a few weeks on exactly that topic and normally there is a cost, ninety-seven dollars to attend but as an REI Diamond show listener, you can attend free when you register at reinoteschool.com. This class is a full day of content tons of examples of real deals. And of course, many of these deals are the crowd favorites. No money down and extracting a nice chunk of cash up front followed by years of additional payments. So go check the schedule and sign up at reinoteschool.com.

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Again, that is REIdiamonds.com. So in 2020 my house flipping business Diamond Equity Investments bought and sold two hundred eighty-three houses. Well mostly houses, a few were apartment buildings, and we have done twelve so far this year in 2021, and we currently have another one hundred and sixteen houses in our inventory either under construction or under contract and waiting to close. So here is how we can do business. Number one: Are you interested in having access to the best real estate deals in your market? In other words, access to deals that you can buy at low enough price has to actually profit after renovating and reselling if so, go now to access realestatedeals.com. Number two: Are you an accredited investor who enjoys double-digit returns? if you would like to potentially invest passively in my real estate deals go to fundrehabdeals.com and sign up to receive my private mortgage investment opportunity emails and number three, of course, I am always buying houses that I can flip and I also buy occupied apartment buildings with below-market rents. So if you have a deal that fits that description and either Atlanta, Chicago or the Philadelphia region, please send me an email with the details. We are at the conclusion my friend next up. We have real estate agent, real estate investor, and builder, Joe Bell, joining us with a discussion on running a billion-dollar brokerage business and developing million-dollar homes in the Anchorage Alaska real estate market. Until then signing off.

Male Host: Thank you for listening to this episode of the REI Diamonds Show with Dan Breslin. To receive email notifications of new weekly episodes, sign up at www.reidiamonds.com

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