



J.P. Vaughan Presents...

"The 37 Most Important Real Estate Investing Questions"

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Get Cash Back at Closing

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This ebook was edited and designed by Debra Augur, www.MyWebGal.com

"The 37 Most Important Real Estate Investing Questions".....	5
1. What is the best way for a beginner to get started in real estate investing?.....	7
2. Can you really do no money down real estate deals?	10
3. How can you make money in real estate if you don't have any money?	15
4. What if you have bad credit? Does that ruin your chance of doing real estate deals?	17
5. What makes a deal a good deal?	22
6. How do I find good real estate deals?.....	24
7. How do we find motivated sellers?	28
8. How does someone overcome this fear of doing the first deal?	32
9. How do you determine what a property is really worth before you buy it?	35
10. How do I make an offer? Does it need to be in writing and where can I get these contracts?	37
11. What's the best way to get comparable sales data?	47
12. How do you develop a successful marketing program to generate leads and what methods do you use?.....	52
13. What are some creative financing options?	56
14. How do I find and get financing for my deals?.....	65
15. How do I find private investors to fund my deals?.....	67
16. Please explain hard money loans. A lot of people don't really understand what hard money is, and including the lending criteria and the cost and the terms.....	72
17. How can I find hard moneylenders?	76
18. What's the best method to use, flipping, rehabs, buying subject-to, lease options, buying in whole. There's so many different ways to buy and deal with real estate. What's the single best method?	79
19. What is a quick flip deal? How does it work?	80
20. How do you find quick flip deals?.....	88
21. What are the risks in a quick flip? How do you reduce those risks?	88
22. What are the basic steps in a lease option? What are the risks and how do I protect myself?	90
23. What is the best way to find good tenants?.....	97

CREonline.com Teleseminar, "The 37 Most Important Real Estate Investing Questions"

24. What is a subject-to transaction? Include how to explain it to the seller and the risks involved for both parties.	105
25. How do I find pre-foreclosure deals?	112
26. What's the best way to negotiate a short sale with the bank?.....	115
27. What are the risks and benefits of doing rehabs? Including how to get funding and insurance.....	118
28. How do you get cash back at closing?	122
29. What's the best way to find buyers for your deals?	127
30. How do I reduce my risks?	131
31. I'm in a very competitive market with lots of other real estate investors. How can I make money?.....	132
32. How do you make money in a hot, fast moving seller's market with high priced houses?	135
33. What are the pros and cons of getting a real estate license, if you're a real estate investor?.....	138
34. Is it possible to make money in real estate part-time and how would you do it?	141
35. How do you decide when it's time to quit your job and start investing full-time?.....	143
36. What's all this talk about the real estate bubble? Is there a coming real estate bust and what should we do about it? Is it too late to start investing now?	146
37. If you lost absolutely everything, all your assets, all your money, all your credit, how would you start over investing in real estate today?.....	149
Resources.....	154

CRE ONLINE TELESEMINAR

"The 37 Most Important Real Estate Investing Questions"

J.P. VAUGHAN: I want to welcome everyone to our very first teleseminar, **The 37 Most Important Real Estate Investing Questions** .

Before we start, let me tell you a little bit about how this whole event took place and how we ended up doing a teleseminar in the first place.

About, five weeks ago, I emailed all of our newsletter subscribers and asked the question, "**What is your most important real estate investing question?**" Please send it to us.

We received almost 1100 answers!

So, I got my staff together and we went through all 1100 questions. We put them in piles by frequency. We ended up picking what we think are "**the 37 most important real estate investing questions** ."

So tonight we're so fortunate to have two super real estate investing experts with us, Joe Kaiser and David Finkel.

Joe Kaiser is my dear friend who I have known for, oh, I think 7 years now.

JOE KAISER: Something like that.

J.P. VAUGHAN: Seven years?

JOE KAISER: Yes.

J.P. VAUGHAN: He is a super successful real estate investor and he really, really, really does deal, day in and day out. He's been investing full-time since the mid 1980's. His special niche is in foreclosures and finding the truly motivated seller. He's just the super master at tracking down motivated sellers.

David Finkel is an ex-Olympic-level athlete turned real estate millionaire. He is one of the leading real estate investing experts in the country. He and his partner, Peter Conti, teach people all across the country how to create multiple streams of income buying homes in nice areas with nothing down and small risks.

Welcome, David. Welcome, Joe.

DAVID FINKEL: Howdy.

JOE KAISER: Thank you.

J.P. VAUGHAN: Let's get started with question number 1.

We're going to take turns on some of these questions and then on others I'd like to hear both of your opinions. There's not always one single correct answer and it's interesting to see different viewpoints from different experts.

Okay, this is question number 1. Let's start with you, David.

1. What is the best way for a beginner to get started in real estate investing?

DAVID FINKEL: Okay. That's an important question there. I'd like to look at it from two perspectives. One, what's the easiest way to get going and two, what's the smartest way to get going?

For the easiest way to get started investing, obviously, it's going to be using some of the basic ideas like lease option, sandwiched leased options and so forth. These require very little or no money and no credit. These are things that can be structured with just a little bit of knowledge and are much lower risks.

For example: Finding a motivated seller who would lease you a property at a payment and a price that would let you turn and find somebody else to sandwich lease option the property and sell to somebody else.

I think the first 15 or 17 houses I did, my first year of investing, was with sandwiched lease options. I had, gosh, close to (I'm just bringing a number here) about three to four hundred thousand dollars that were locked in profits from those deals.

The second part of that question really is, "*which is the smartest way that investors should get investing?*"

I'm kind of reading that into the question. I'm sure whoever asked meant to ask that part, too.

I think the dumbest and the riskiest thing they can do is to start off by investing their own money. If they have the handicap of having a lot of money, and I'm kind of making a joke of that, they should start off investing using their money as a way to leverage themselves into the properties.

Often times, when people get started that have a lot of money, they use it in place of just a little bit of specialized knowledge. I think having money can often times be a handicap to learning how to buy smart.

When you have no money, you have to use your wits a little bit more. Once you've done three or four nothing down, or low money down deals, I think it makes more sense, if you have access to cash, to use the cash to buy.

The only downside of buying with cash is that there is too much room for mistakes, if you're not careful in terms of estimating costs. Like, if you're going to re-hab it. Making mistakes on the true value of the house or not understanding what it means to do holding costs and closing costs twice, and all the rest of that, is the downside.

I think the simplest and safest way to get started would be a lease option, sandwich lease options.

I would add a second way right after that. It would be buying property subject to the existing financing, meaning the existing loan in place. I'm sure we'll be talking about that later in the call.

J.P. VAUGHAN: Okay. How about you, Joe? What's your opinion?

JOE KAISER: Well, I agree with that. I'd take it out down a notch further.

When I started, I went to all the seminars and did all those kinds of things. I went out there thinking that I knew what I was doing. But now, I know that I didn't know what I was doing.

What I'm saying is, I think it would be important that people actually know what makes a good deal a good deal.

I see so many people trying to take a technique and stick that on to something that just ain't going to fly -- no matter what technique you're throwing at it. I know in the long run, what's not going to work.

Things sound good on paper a lot of times. But in the real world, that stuff just comes back to bite you more often than not.

I suggest we spend a lot of time really learning what makes a deal a deal. What is profit? It's a lot of work to do this, a lot of energy. You might as well make sure you're doing something that's going to pay off in the end.

There are more fun things to do than break-even. I see a lot of guys going out there spending a lot of money on advertising and running around with deals that I know, in the best case scenario, will just break even.

It's really easy to spend five or six or eight hundred bucks a month on classified ads, do all the fliers, and all the things that people do nowadays. The end of the month shows up and you're not a lot further along than when you started.

So, to me, it's just recognizing what is a good deal. It's what I would invest my energies in right now. Until I knew that, until I could recognize what made a good deal, or even more important, what made something a bad deal, I'm not sure I'd get out there slinging for it at this point.

I'd really want to know that I knew what I was doing.

J.P. VAUGHAN: Okay, great. Two different perspectives; I love it. Question number 2, this one's for David.

2. Can you really do no money down real estate deals?

J.P. VAUGHAN: How many times have we heard that?

DAVID FINKEL: I get that at least a couple times a week. And, it seems, about once every time I go back to visit my family at Thanksgiving and during the holidays. They ask the same thing.

So, trust me, I certainly can understand any skepticism that any of you have about really buying properties with little or nothing down.

First of all, understand that buying a property with nothing down doesn't necessarily mean that the seller gets no money. Often times you're able to structure deals where the seller's going to get a significant chunk of money. It's just not going to be your money. You're going to borrow it from somebody else -- whether it is from a lender or using a buyer to fund that deal.

That's the first part of the answer.

The second part of that is, understand that this is not something brand new.

Joe and I have been doing our investing for a while. But neither one of us invented "nothing down" real estate. Robert Allen didn't invent "nothing down" real estate.

People have been buying with little or nothing down for a lot longer than that. It's just they didn't term it that way.

Buying creatively is something that's been around for a long, long time. I think this is interesting. When we issued our original press challenge, which was a repeat of that Bob Allen challenge, you know, send it to any city with a group of three beginning students and we'll help them buy or control \$250,000 of the real estate.

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We picked up 10 houses and our upfront investment was \$37.00 down.

JOE KAISER: Wow.

DAVID FINKEL: To be clear, what that means is, we used \$10.00 on three of the houses as upfront consideration, to lock up the lease options.

On the other seven, we used the rest of the dollars to make it binding consideration, which is just a fancy term that means legal value changing hands to make it a binding contract.

When we resold the properties later on, we sold them to tenant buyers. So we got money coming in from the person we sold it to on a rent-to-own basis.

That's a pretty standard way of doing a little or nothing down transaction.

There are a lot of different ways. I know later we'll share with you a lot of different ideas about how to do that. But the key is to understand that many people have done that before.

I get questions all the time, "Can you do it in high priced areas? Can you do that in small little rural communities?"

Just two quick stories to illustrate.

We sent a mass email to our list about the new book that we're working on which is a follow-up to the "**Making Big Money Investing in Real Estate**"

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book. It's done through Walter Dearborn and it's coming out. It's called, **"Making Big Money Investing in Foreclosures Without Cash or Credit"**. It is scheduled to come out next September.

We're just eliciting stories from different people and of our students that are doing that. And I had two emails, I think, of great interest;

Number one came from our guy who lives up in San Francisco, in the Bay area. People think that there's no way you can buy a property in the bay area. He shared a deal with me that he was able to find and put together.

He's going to make over \$100,000 on a house that he found there. Literally, his girlfriend's next-door neighbor had a vacant property and didn't want it. Basically, he just wanted to buy that property subject to his loan.

Number two; the other guy was a gentleman that was a real estate agent referral lead of a student of ours, out in Texas. It's a smaller community and the guy's going to make, I'm guessing, about thirty thousand or so on this particular property.

It was a divorce situation. The property was in pre-foreclosure, which is good because in Texas foreclosure happens really quick. [laughs]. But he was able to put that together.

So, just understand that having skepticism is healthy. Many people have gone before you and you can copy and model their known formulas and their known success tips. You don't have to reinvent the wheel.

DAVID FINKEL: Hey, what town did you go to with the challenge?

JOE KAISER: Actually, this is before I moved to San Diego. I used to live up in Los Angeles. We used to come down to San Diego on that because the city was so nice. I ended up, about four months later, moving back down here.

DAVID FINKEL: Really. Hey, were they experienced or was it new guys?

JOE KAISER: The three of them. One of them had bought a duplex ten years prior coming on to the challenge. He lived in half and thought the other's name was Jim. He was a postal employee and the other two had never bought a property before in their lives, as an investment property.

DAVID FINKEL: Wow!

JOE KAISER: We wanted to make sure, knowing the pressure, not to stack the deck because they would have cried foul.

DAVID FINKEL: I guess.

J.P. VAUGHAN: Just so the callers know, David was referring to the Bay area. That's the San Francisco Bay area, which is a very, very high priced real estate area.

DAVID FINKEL: Thank you for clarifying that, JP.

J.P. VAUGHAN: So if you can do it there, David, you can do it anywhere, right?

DAVID FINKEL: Exactly right.

J.P. VAUGHAN: Okay, great.

JOE KAISER: Does that include Oakland?

J.P. VAUGHAN: [laughs] It includes everywhere but the place where you live, Joe.

JOE KAISER: I have a partner in Oakland and we just got a deed from a gal in Chicago. It was a foreclosure property. In fact, the deed came today.

The property, we're told, is worth somewhere around two and a quarter or something. It's free and clear and it's going to a tax sale. We bought a half interest in that sale with the back taxes. We expect some money to be made there.

J.P. VAUGHAN: Okay, question number three. This one's for you, Joe.

JOE KAISER: Okay.

3. How can you make money in real estate if you don't have any money?

JOE KAISER: The money is the least important commodity here. It's nice to have and certainly is good to grease the wheels, but it's certainly not going to be the critical component.

It's one of those things where once you understand the game and you understand all the different pieces of that puzzle, who the different parties and players are, you sort of develop a game plan. That pretty much covers all of those different little things, money being one of them.

I have a partner right now with a whole bunch of money. It's really easy for us to do pretty much any deal we want to do. It's just a matter of tapping somebody on the shoulder and saying, "you need to write a check here..." or whatever.

The notion that the money is all-important, I mean, it is an important part, don't get me wrong, but it's so easy to fill that particular need. I know. I didn't believe it when I first heard it. It was really hard for me because the seminar buzz was, you know, if the deal's good enough, the money will always be there. And, I always put these deals together and the money was never there.

What they don't tell you is that you have to develop relationships. It's a people business.

Nobody's going to write you a check tomorrow if they don't know you. But once you spend some time and you have some minor successes, then the money is there.

The money is the least difficult part. Finding the deal is much harder than finding the money.

J.P. VAUGHAN: Okay. Question number 4. David,

4. What if you have bad credit? Does that ruin your chance of doing real estate deals?

DAVID FINKEL: [laughs] First of all, I just wanted to say that I thought that was a pretty accurate down-to-earth answer, Joe. I liked that, what you just said about the money.

In terms of bad credit, here's the interesting thing. I don't think you need to worry about having "good credit" or "bad credit". I mean, if you have good credit, it can be an asset, especially if you plan on finding a couple of the properties conventionally.

But at a certain point, conventional financing is not going to work as an investor. Banks are not going to look at you the same way when you have three or five houses with conventional lending there.

It's interesting. Looking back at all the properties that I have interest in or have bought over the years, there's literally been one seller who's ever asked me to check my credit.

JOE KAISER: Yeah, me, too. One seller.

DAVID FINKEL: And it's interesting ...

J.P. VAUGHAN: After all these years, one seller ...

DAVID FINKEL: ... It is interesting. The house that I'm sitting in right now is worth about \$800,000. It's here in the San Diego area. I found a motivated seller who sold me the house. At the time I bought it, it was worth about 600. He literally carried back half a million dollars, actually over that, of financing. And no personal guarantee on the loan and no credit check.

One thing I would say to people is that when sellers bring up credit checks, it typically means you're moving too fast in the process. They're saying they don't trust you.

Trust is not developed by their checking your credit. Trust is developed by spending time together.

Here's something I'm going to say that might sound pretty much strange to a lot of you on the call here.

The single most important thing in any negotiation on a creative real estate deal is the willingness and the ability to connect emotionally with the other person that you're negotiating with.

If you can develop an emotional connection with them where you can really touch them and you allow them to touch you emotionally, they're going to let you buy the house.

The guy who sold me this house is a wonderful guy. His name is Al. He and his wife, Norma, sold me the property. Al was a fascinating guy. He was in his late 70's.

You might think, "Well, gosh, he just doesn't know about real estate. He sold you the house with no credit check and no personal guarantee!"

Al was somebody who was worth probably about five or six times the net worth that I have and he had done it all through real estate. He owned a lot of commercial real estate and a ton of apartment buildings.

He was just selling off everything that he had. He just didn't want to have to deal with his house anymore. It was more than one story; he was an elderly gentleman who couldn't walk up and down the stairs anymore. He already owned other property free and clear that he wanted to move into.

So, it's a matter of the emotional connection with people. I'm young, I mean, not only am I 32, but I look like I'm 18.

For those of you I don't know, you kind of get teased about that a lot. And I do. I have a baby face and some people would ask me how someone could take me seriously. I ask myself that. How could a seller ever take me seriously? When I started investing, I didn't have bad credit. I just didn't really have any real established credit and so that was a big thing.

Credibility is a state of mind and if someone's asking to check your credit, the best way to handle it is two-fold.

First, address that head on by saying, "Of course, you're going to need to do that. You're going to need to do your due diligence. I'll need to do mine." Then you set it aside for the moment.

The second part is, you need to go back and clearly establish that you are there to make a profit.

What they're really saying by checking your credit is, "*I'm not sure if you could perform your end of the deal*".

The biggest and best assurance you could ever give to a seller that you're going to perform your end of the transaction is to go back to the fact that you're there to make a profit.

I tell the seller all the time, at least two or three times in the first half hour to 45 minutes of my negotiations. I say, "Mr. Seller, I am a nice person but I don't want you to think that I'm here just to be a nice person. If I buy the property, which I'm not sure I'm going to want to buy just yet, but if I do, the only reason I'd want to buy it is because I plan on being able to conservatively turn a healthy profit by buying the property. Are you okay that the reason I'm here to buy the property is because I want to make a profit? Because if you're not, then let's cut the conversation short and I'll be respectful of both of our time and I can just leave."

You'd be amazed at how, that comment, just like that, that exact languaging puts sellers at ease. Because they know that you're there to make a profit. So they just give you the benefit of the doubt.

I've had real estate agents who owned property. I've had other investors who owned property that had other investors on one property.

I've had mortgage lenders and real estate attorneys who've owned property sell it to me, with no credit check. So have thousands of other people who have used our ideas through our books and the rest of it.

J.P. VAUGHAN: Great answer.

JOE KAISER: It makes a lot of sense, the connecting thing. You know, today in consecutive appointments, I had one lady tell me I was the answer to her prayers. And the next lady told me I was better than Santa Claus! [laughs]. I mean, not such a bad day, you know.

DAVID FINKEL: I think it's interesting, Joe, as I listen to you here. I'm sure the listeners are picking up on that. I get a sense that when you're there with them, you're slow and you just take your time with them.

I can imagine how just your personality, by taking your time and going a bit slower, really helps people feel at ease, especially in an emotionally loaded situation like the pre-foreclosure or foreclosures that you specialize in.

JOE KAISER: Yes, that's really true. We need to be as non-threatening as possible. It's not any sort of act or anything like that. It's just a natural way that it's done and should be done. I think people pick up on that and they know when you're sincere and when you're not sincere.

It's when you get to the point where you know what you're doing, and why you're doing it, that is all real. It is all legitimate. And it does come through. People do trust you. They do make that connection. Business is just so much easier that way.

I see a lot of people mailing offers hoping for a response that they want. They're missing that whole part of the puzzle. If they would just sit down and talk with these people, their odds of getting what they need to make a profit goes up tenfold. When somebody likes you and would enjoy doing business with you, that's when a good deal happens.

J.P. VAUGHAN: That's right and it's that problem solver mentality. Wouldn't you say? You're there to solve a problem.

JOE KAISER: Oh, for sure, for sure. They recognize that I'm going to make some money on it and like David said, I make sure they understand that.

There are times when I will show them exactly what I intend to do and how I'll make the money. They know that's for their circumstance, it's beyond what they can do. It's like, "Hey more power to you. If you can pull that off, you know, good for you!"

J.P. VAUGHAN: Great. Okay, question number five. Joe Kaiser.

5. What makes a deal a good deal?

JOE KAISER: Well, at some point really soon I would like to get paid and if I can make that happen, I'm going to call that a good deal.

I know what's not a good deal. I know these zero equity things that you sell to zero credit buyers, I can pretty much guarantee, that's not going to be a good deal. To make something like that happen you have to be much smarter than I, and very clever.

I'm not sure what else it would take, but I know that it's a bigger job for me. I'm not sure that I want to work that hard to make that happen.

So what I'm looking for and what I'm going to decide is a good deal or a bad deal is just the bottom line. It's really, really simple.

We tend to confuse these things by all these techniques. Let's just boil it down to the essence of what this is. What am I going to make on this and how soon am I going to make it? And if it's real number, not some number that I had to fudge or manipulate the figures -- if it's a real number and I'm going to get paid relatively soon -- that's going to be a good deal for me.

I like to see a minimum of \$10,000 just on anything at all. And I like to see it in 30 days. If I can do that, I'll do that deal all day long.

It's got to be something where there are not a lot of things that have to happen to make that come together. I'm not going to be rehabbing a house for that. I'm not going to need the stars and planets to align for that. I'm just going to give pretty straight, pretty simple, solid numbers I can count

on. Numbers I can actually go to the bank with. Not that I would actually go to the bank, though [laughs]. You know what I mean! Yeah.

J.P. VAUGHAN: Okay, David, question number 6.

6. How do I find good real estate deals?

DAVID FINKEL: Which is probably the most important of the questions that I saw on here from my perspective.

I'm awfully curious to hear what Joe has to say on the follow-up question next. I know it's interesting.

I was leaving a message earlier for him today. Letting him know that while I was taking a week's vacation, about a month ago to Hawaii, I brought some fun business reading and I brought his manual of how you can totally dominate the foreclosure market.

JOE KAISER: Oh wow, I didn't know that.

DAVID FINKEL: Yeah, and I got great value out of it.

It's funny, I'm sitting on a beach in Hawaii and Heather, my girlfriend, keeps bugging me about, you know, "it's getting hot out here" and I'm all, "wait, wait, wait, I want to finish this section".

But some of the ideas there I've now added to what I'm doing. Which was interesting.

Let me just share with your listeners here. The bottom line.

Think about a motivated seller and the following acronym. **M** is the word *motivated* and the **S** in the word *seller*. What you're really looking for and what makes a great deal is a motivated seller. Where the **M** stands for motivation, it's two things. That's both a compelling reason to sell and it's a time deadline. "Your time crunch to sell it within..."

Think about a compelling reason to sell something. If you can't put it to work in 30 seconds or less, why the person must sell their property, they're not motivated or you don't understand their motivation well enough.

The second part to that would be the time factor. I typically find that if they've got more than two months, they're not as motivated to really give you a very good deal. They need to perceive themselves as having too much time or less.

Now, I said the word *perceived* on purpose because some people who are going to move in four months and they're people who like to plan their time a year in advance, they're carried. For them, they perceive that their timeline is already up. So that would qualify.

But to find a great deal, motivation, and a compelling reason timeline .

"S" stands for *situation*. Situation typically will mean to what we do as having equity that they could discount the property or even more. It's not just equity. It's being able to not need the cash upfront that they have in the property. They could take some kind of flexible terms of sale. We could make them payments for a period of time and cash them out down the road, or something like that.

So that said, let me share with you what I call my "favorite three". First of all, this is one that's unpopular. I look up on the discussion board and people always say, "Oh, it makes no sense to do it".

I think everyone needs to serve their apprenticeship for the first 90 days of getting started with their investing by calling up all the *for sale by owner* and *for rent by owner* ads in the paper in their farm area for at least two to three months.

It makes good sense because there's no better way to learn how to talk with motivated sellers, or to talk to sellers period, than to actually get on the phone and talk with them.

JOE KAISER: Yeah, true.

DAVID FINKEL: It's not fun, it's not glamorous, but it's something that you put your work in doing.

Then you get comfortable meeting with sellers and finding them on the phone that way. Obviously, your advertising in referral networks, and all the

other ideas that passively get you deals, are much more important for the long term. But for the short haul, you've got to learn that.

I mean, if you're going to spend money in advertising to get sellers to call you and you don't know how to handle those calls, that's a waste of your money. So number 1, making your dials.

Number 2, would be those tacky, ugly, but very effective "I buy houses" corrugated plastic signs. We get tons of deals off of those things. So do our students. You'd have to check the local ordinances in your area. There are probably some rules and regulations about that, so you have to make your own decisions there. The ones we use just simply say "I buy houses cash" or "I buy houses in 7 days or less". They just work quite well.

We have them call a 24-hour recorded message giving them a good benefit laid in message.

One little tip with that – in all of our advertising we have them call toll-free numbers, toll-free voice mail systems. So that even if they hang up, we still capture their phone number.

What I do, and I recommend that you all do this, once a week get a call detail report for your voice mail system and call back the people who did not leave messages.

It's real simple to do. You call them up and say, "Hi, this is David. I've got a message here that someone from this number had given me a call. And boy, it's a little embarrassing but I'm not really sure exactly what it's about."

You know, whenever in doubt make yourself vulnerable. It works really well on the telephone.

"I'm not even sure what it was about. I think it had to do with, you know, I'm an investor that buys houses in the area here. I don't know if that's what it had to do with or not. Boy, you probably don't even have a house you're looking to sell, do you?"

Using a little negative phrasing works real well.

The third quick idea that I'll share with you works very effectively. I think all of you should play around with it once you get going and once you understand how to meet with sellers and how to talk with them on the phone. Classified advertising in the community.

I think those are three no-brainers that need to get going.

J.P. VAUGHAN: Okay. Thank you, David. Question number 7, Joe.

7. How do we find motivated sellers?

JOE KAISER: Well, I think David just mentioned a couple of good points. We used to do a lot of that. I don't know if our area was just slow to discover the real estate, you know, the investors flocking here. We didn't see that for a long time and for at least 10 years it was just me and crazy Dave "I'll buy any house and advertising in the paper."

It was a beautiful thing. It was just the two of us. And, we jockey back and forth and did a lot of business. But then, a few years back we looked up and there were 12 ads in that section. There were banded signs all over town. It became apparent that we needed to do something different.

It was kind of cool because I stopped advertising and all of a sudden I had like \$3,000 a month more than I had before. That was a tough nut to crack every month. That part was really nice but I knew that I couldn't just stop. I knew I had to do something. So I sat down and thought about it a little bit and, you know, motivated sellers out there.

If you really think about it, you can probably figure out where they are. Our business just absolutely transformed when we decided that we would no longer hope that they found us.

When we decided just to hunt them down like the dogs they are [laughs]. Then things really took off for us. So that's what I do. That's my thing, I figure out where they are and it's not hard.

You know, they're in probate files and in divorce files and in foreclosure files. They're right down there. It's not a big secret. It's not anything mysterious or like super refined. It's nothing like that.

If you followed me around all day, you would be totally unimpressed because I don't do anything different than anybody else. The only difference would be that I just do the one thing that matters. All the rest of the stuff, I recognize doesn't matter anymore.

So I'm just zeroed in on targeting those people and that's all I do. As a result, I get a lot of phone calls.

J.P. VAUGHAN: You spend a lot of time at the courthouse.

JOE KAISER: Well, I have somebody who does that for me, which is nice. But I'm down there, too. I mean, I'm down there, pulling through the stuff that once we get a sniff of a deal, you know, you've got to go scope that out. But that's it!

We can't afford to just put an ad in the paper and hope they find us. I want to go right there. I want to be knocking on their door.

There was a time when we were kind of afraid of doing those sorts of things. Even picking up the phone was hard. Now the most enjoyable thing for me to do is sit down with a list of phone numbers and try to hunt this guy down. I know, given enough time, I will find him and I will be the *only* guy who's found him.

I can guarantee some of these people who've moved and don't want to be found. They're hard to track down. If you can get to them, there's equity on the table. Good things can happen. That's what we do.

We used to spend a lot of time driving around looking at houses. We'd go miles and thought of ourselves as investors.

We signed up a couple of houses today and haven't even seen the houses. I don't even want to see the houses.

J.P. VAUGHAN: Right, a lot of new investors really get caught up in looking at houses.

JOE KAISER: Yeah.

DAVID FINKEL: Yep!

J.P. VAUGHAN: They really need to focus on motivated sellers.

JOE KAISER: Right. I'm sure that's correct. But, you know, early on, if you're new that's a good thing. You have to do that because it is a learning process. There's a lot you have to learn early on.

I spent a lot of years driving around looking at houses. I live in an area where you can drive a long ways to go look at houses, if you really wanted to.

Once we recognized that all of that stuff just got in the way, it was just, "Here it is. This is a guy who's got to sell and he's got to sell now. Let's go find him and see what we can do".

When we figured that part out, everything else sort of made sense.

J.P. VAUGHAN: One of the best books I've ever read on finding the motivated seller, the truly motivated seller, is Joe Kaiser's, "**Totally**

Dominate Your Foreclosure Marketplace". He really does layout a lot of different approaches to getting to the seller first.

DAVID FINKEL: I would echo that as well. I mean, one of the things I really enjoyed about that was your idea, Joe, of the trigger document, which, by the way, we'll probably piggyback on in our next book. It was that good. I think everyone out here who doesn't have that in their Library is crazy myself.

JOE KAISER: Right.

J.P. VAUGHAN: Okay, great. Let's do question number 8, David.

8. How does someone overcome this fear of doing the first deal?

DAVID FINKEL: I think it's important to recognize that having fear over your first deal is something that everybody has. As a matter of fact, you're going to have fear in your first and your second and your third deal and even beyond that.

The first fear is probably the fear of just the rejection, if a seller says no to you. Then there's a fear of the success and there's a fear of what you do once you signed up a property and actually closed on it.

The three things I could mention that would help alleviate the fear is first of all, understand that everybody feels it. You are not "new". You are not alone feeling the fear. It's totally natural. It's a terrifying thing.

I can remember that. The first property, I was not so scared before I bought it, but the next week after I closed on it, I was terrified.

My family was giving me all kinds of "encouragement" like... "Are you nuts, what are you thinking?" [laughs]

So understand, number one, that everyone feels the fear. If you didn't feel the fear, I would wonder about you.

Number two, lower your fear by never committing to a deal that you haven't already pre-sold or pre-filled with an end user for the property before you close on it. I don't give money to sellers upfront until I've already pre-sold the property and some one has given me the cash in the back end.

What that means is, early on, if I'm going to buy a property, I'm going to want to make sure that whenever I'm going to close on it, I have already given myself 30 or 60 days to find my buyer or my end user. Whether I'm going to sell it on a rent-to-own basis or sell it to a cash buyer or however I'm going to exit the property. Which, for me, is usually selling it to a tenant buyer on a rent-to-own basis.

I'm going to have already found buyers before I have to make my first payment to the seller, which puts me at great ease.

If I don't find them, I'm having a conversation. Not months later to the seller, I want to be clear about that. But I'll go back a week or two weeks

later and give them a status report and by the end of three or four weeks, I'm going to let them know where it stands in the deal.

I might have to re-negotiate a little bit here. Or I'm going to tell them that, "Yes, I found someone" or "No I'm not going to be able to find someone and we need to give that property back with that."

Once you get going and you're comfortable, you could certainly commit to a deal earlier than that. But for the first couple don't commit to the deal until you've already pre-sold the property to some one else.

I know it seems so obvious when I say it that way, but most investors don't do that. They buy it and then they hope they could find someone for it. I would be scared if I were doing it that way initially.

J.P. VAUGHAN: I think a lot of new investors do that. They want to jump in with both feet and they sign a contract to purchase property and then they go, "Holy Cow! What am I going to do now?"

DAVID FINKEL: Yes.

J.P. VAUGHAN: So what you're saying is that you need your exit strategy set up.

DAVID FINKEL: Yes. The third and final part to that would be when you buy a property the initial time.

Whether it be your first, second or third property, buy it without your own money in there. Your own money is not just money that you're putting in from your bank account but money that you had to personally guarantee on through a bank. Don't do that!

Give yourself a couple that you can learn from. I don't mind putting my time at risk, but I don't want you to put your money at risk upfront. Let yourself get a feel for how the process goes.

Learn where you have time at risk. Not your money and that should go a long way to assuage you in your fears.

J.P. VAUGHAN: Great. Thank you. Okay, Joe, question number 9.

JOE KAISER: Okay.

9. How do you determine what a property is really worth before you buy it?

JOE KAISER: That's a popular question and people seem to think there's a mystery to this and it's really simple.

David sort of hinted about it earlier. There's only one really good way to tell what a property is worth and that's what someone will agree to pay for it.

All the appraisals, the comps, all that stuff is good. Don't get me wrong. I mean it's okay to have all this stuff. But we ignore much of that.

I want to find a buyer who's going to be writing the check for that property. That guy's going to tell me what that property is worth.

So, if I can do much, like David talked about, if we can tie this up and then have some time to find our buyer, we'll quickly know whether the member of that lease purchased that and the number we're trying to sell for. We'll find out really quick if that's the number that's going to work for somebody. And if it is, somebody says, "I'll take it," we've pretty much figured out what that house is worth.

J.P. VAUGHAN: But as a beginner, for new people, they've got to have some number that they work with before they actually commit to a property.

JOE KAISER: Yes. I think that you need to spend a lot of time in your marketplace to get really familiar with it. Certainly, in order to do what I just talked about, you have to have a pretty good feel for what it's worth.

We can have a lot of houses, it's not such a bad thing, people do that. I don't know how you could go wrong doing that. I know that ultimately the only thing that matters is what somebody is willing to pay for it.

The appraiser can tell you what somebody paid for the house next door, but it's not his money on the line if he gets this wrong on yours, you know? He doesn't have a lot of risk here.

So, to me, I want to have that signed contract so that I don't have to commit on my purchase until I've got somebody ready to step in that bank.

J.P. VAUGHAN: Okay. David, question number 10.

10. How do I make an offer? Does it need to be in writing and where can I get these contracts?

DAVID FINKEL: [laughs] I'm going to answer this in two parts here. I'm going to respond to making an offer, first of all.

I'm going to say something that's going to shock some of the listeners.

I don't think anyone should ever make an offer.

The second part I'll more talk about because it's very important. How to get good contracts.

I think one of the biggest mistakes people make negotiating is to go there trying to sell the seller on selling them the property. It's totally the wrong dynamic. You need to be the reluctant party.

I think the dynamic is wrong for making an offer. I don't think anyone should ever make an offer. An offer is your putting something on the table. The seller gets to say "yes" or "no", they get all the power to make the decision. I think that's silly.

JOE KAISER: It's crazy. I don't know why people continue to do that.

DAVID FINKEL: Yeah, isn't it funny? I think about it.

If I were playing baseball and I'm the pitcher, if I'm holding on to that ball and the ball is the offer and the seller is the person at bat, as soon as I release my offer and let go of it, they control what happens next. They either swing or they don't swing. If they swing they can hit it out of the park, or not.

I would much rather be up there on the mound and faking the throw until they guarantee me that they're going to swing on it. Then I'll let go of it.

It's easy to do. This is not complicated.

I'm going to share with you guys two words that let you do that. The words are "*what if.*"

Say Joe is my seller here. I say, "Joe, I don't know if I'd even want to do this just yet, but *what if* we were able to give you the \$140,000 you're looking to do? Is that something that would even be a fit for you, or probably not?" And I'm going to make him say yes to that.

Then, the second part. I'm not going to jump in right away once he says yes. We should talk about that. I'm not going to jump in right away and sell him on the deal, which is what most people's reaction is.

I'm going to follow that up with another statement. I'm going to ask Joe, for example, "Joe, what if we were to... again, I'm not saying we could do this but *what if* we were to make you payments for a period of time and cash

you out down the road? Is that something we should even talk about or probably not?"

Role-playing here.

JOE KAISER: Yeah, let's talk about it.

DAVID FINKEL: I'm going to follow that up with, "Okay. A question for you, Joe, would it even be a fit for you?"

Now he's going to have to sell me on all the reasons why he would spend time talking about. He's the one that's now committing that deal. I never make the offer. I never go over to make an offer.

When sellers say, "Come over here and make me an offer." I say, "Well, hang on, I need to be frank here. I don't even know if I want the property just yet. With all that's going on in the world right now, I'm not even sure if now's the right time to buy another property. May I ask you some questions and see if it's something I'd even be remotely interested in?"

Make them sell you, that's the right dynamic.

JOE KAISER: You know, the flipside of that is, why would you ever make somebody an offer when you have no idea what it is they really want?

DAVID FINKEL: Oh, good point.

JOE KAISER: It's so silly. I would much rather spend 20 minutes and sit there and talk about things, anything, or the property. It doesn't really matter. At some point, the discussion gets around to the property.

By then the conversations flow freely and we like and trust each other. Then we can actually talk about what they're looking for and what they want to do. It's not hard if you've got a couple of tricks in your bag here.

It's not hard to tailor it to what works for them. If they've got any room at all, you'll give them something that they actually want. Not just some number that you throw at them.

If you make an offer that way, you pretty much have to low-ball them to make a deal because that's all you've got. You've got a number.

I get paid because I can negotiate. In my negotiation, I don't know a bunch of tricky closes and that stuff. I'm just a nice guy. I'm going to sit down and I'm going to talk to him and we're going to work something out.

If they're halfway nice people, we'll come up with something. I'm sure they're clever enough and I'm clever enough that between the two of us, we can put our heads together and come up with a solution that solves their problem. And, you know, leave a little room where I can make a few bucks, too. People are happy to do it that way.

If you're just throwing a number at them on a preprinted form that you typed in a dollar figure, you lose that opportunity to do that stuff. And that's how you get paid in this business.

The most important thing here is, you can make eight bucks an hour swinging a hammer or you can make \$10,000 an hour sitting down and talking with people.

DAVID FINKEL: Yes. I agree with everything you say there. It's interesting, I tend to believe that you can script out a lot of this process. A lot of the language patterns happen over and over again. What you can't script out is that sense of just caring about other people.

J.P. VAUGHAN: And really what you're going to do is "*not make an offer*", but together you and the seller are going to put together the deal.

DAVID FINKEL: Yes, and I look at it as only three steps. You've got to cast, you've got to set the hook, and you've got to reel in.

Casting would be putting out some kind of "what if". They nibble on that and you've got to set the hook. Which you say, "Well, what about blank? What about us making payments for a period of time... Would it even be a fit for you?"

Then you reel in by turning it into their idea. You just restate it. You say, "Well, if I'm hearing you right, Mr. Seller, what you're telling me is you want us to... make sure I've got this right here... You said you want us to cover that payment of \$975 a month and at some point over the next five years, cash you out the full \$140,000. Did I get that right?"

I mean there is some pattern to that.

JOE KAISER: Yeah, sure.

DAVID FINKEL: But I think it's so interesting that all three of us recognize that it's about having conversations with people. It's not about throwing stuff against the wall and hoping somebody says yes.

JOE KAISER: Right. I can truthfully say I have not had an offer rejected in 10 years because I don't make those kinds of offers. It's not a yes or a no thing. We sit down and we talk about it. Together we work something up. If that works, great!

If not we're just not going to make an offer. We either sorted this out and figured out a way to make it happen or not. If not, we'll just wish them luck and go on.

DAVID FINKEL: On the contract part of things, I would put this... First of all, I think a lot of people mistakenly think that they go to two sources for their contracts. Both, I think, are trouble.

First, they go to a local stationery supply store and I think that's the biggest trouble of all. Even "No Low Press" has wonderful books; I have probably 20 of them in my own Library. But I don't think that's the place you want to go to for purchase contracts or for lease option contracts. The contracts are way too neutral.

You need to have contracts, when you're buying, that are worded in your favor. When you're selling, they're very much seller favored.

The other place that people go to for contracts and forms, and I think it's a big mistake as well, is they use the local Board of Realtors state approved contracts. I don't think that's a good idea either.

For two reasons -- One, they're way too long and intimidating for sellers. No one understands what's really in there.

J.P. VAUGHAN: Especially in California. What are they now, 12 pages?

DAVID FINKEL: Oh, it's ridiculous. The lease option form five years ago used to be three pages. It's up to seven pages for the California Association of Realtor forms. It's nuts!

I think you should always start off with a one-page agreement when you're buying. When you're selling, you can use a lot longer contract, if buyers are willing to go ahead and sign it.

When you're buying, use a one-page document, maybe both sides if you need to. Then you layer in the other documents as a secondary addendum. This is a secondary document signed a day or two later.

It's interesting, where can you get that stuff? Many of the courses that you have on [Creative Real Estate Online](#) are just easy places to go with that.

Understand the only way to get a good form is when people have basically had opposing attorneys poking holes in them.

I'll share with you a quick example. I know on our lease purchase agreement we use one legal size page. It's interesting, most of what's in there we've had to learn the hard way. There is stuff that you just don't learn in the seminars.

For example, here's one little insider tip that we had to learn. It cost us about \$100,000 of lost profit. We picked up a 10-year lease option on a two-bedroom condominium in a 55+ community in a really nice area of San Diego, called Rancho Bernardo. The seller was a landlord who just wanted out of the property. We picked up a 10-year lease option for \$110,000.

Now, the way we structure our lease options, a lot of people do it as a one year, one 12-month term with 9 optional renewals that happen each and every year, so that you could pop out of the deal if you wanted to. But they're obligated for the automatic renewal.

Well, that all sounded well and good until the gentleman, two years into the deal, backed out when he gave us a very creative excuse his attorney came up with.

I asked my attorney about this. Our attorney said, "Well, you know what, I guess he, yeah, that's actually a pretty valid argument. You could go to court on it, but you have about a 50-50 shot of winning." Which means, you know, you're not going to do anything about that.

And it's interesting because you have this stuff checked out by attorneys. The only way that you really find out if your forms are good is have them

tested out over time. Start off with somebody else's stuff and you just get it better and better over time.

That's why we update our forms every single year because we learn things that year that need to be in there.

So what got this guy out was a bit of something called the Uniform Commercial Code or the UCC. The UCC says that any residential lease that has an automatic renewal must be 10 point or larger type size and it must be in bold print.

Now, I don't believe in hiding in small print on your contracts. So our agreement was actually 11-point type size, but that clause was not in bold print.

J.P. VAUGHAN: Oh.

DAVID FINKEL: And this was actually only two and half, three years ago. If you were to look at the contract today it is in bold print.

JOE KAISER: I'll bet it is!

DAVID FINKEL: The automatic renewal. And here's the thing, two years into it, why did he back out of it? The property's worth 145 to 150 two years later. This means we lost thirty-five to \$40,000 of equity two years into it. We had eight more years of positive cash flow on that property.

This could have been avoided had we used the right type size and boldness. So please don't be cheap on your contracts. It's silly.

The courses on [CRE Online](#) have forms. All of our courses, of \$500 or more, have our Form CD-ROM. You want to start off with that. The cost for you to not do that is going to be huge.

You should also definitely have a local attorney check out your forms as well.

J.P. VAUGHAN: Absolutely.

DAVID FINKEL: But make sure they are some one who knows and works with investors. Don't just go to somebody who normally works with lenders doing foreclosures or some one who normally works doing evictions. Use some one who does a lot of actual work with investors.

Ideally, find an attorney who does investing themselves.

J.P. VAUGHAN: That's a good point, David. And, of course, an agreement, a verbal agreement to purchase or sell real estate is not binding anywhere. So absolutely, that agreement that you come to with the seller, must be in writing.

JOE KAISER: I had one of those, last night, in fact. I talked with a seller out of state and we came to an understanding. I was to overnight the paperwork and it was a done deal. I called the people to let them know the funds would be there to bring the loan current and she called the next day saying somebody had made her a better offer.

J.P. VAUGHAN: [agreeing]

JOE KAISER: I had already opened escrow and I was into it about \$600. She accepted an offer that was \$500 more than my offer.

DAVID FINKEL: Oh, boy.

JOE KAISER: Yeah.

J.P. VAUGHAN: And there's nothing you can do because it wasn't in writing.

JOE KAISER: There's nothing I can do.

J.P. VAUGHAN: That's right.

JOE KAISER: One of those costs of doing business things.

J.P. VAUGHAN: It is. Okay, Joe, question number 11.

JOE KAISER: Shoot.

11. What's the best way to get comparable sales data?

J.P. VAUGHAN: I know, you don't believe in it.

JOE KAISER: [laughs] I don't use them. I'll tell you the best way not to need them. If you buy everything at half price you can be pretty certain you're going to come out okay. [laughs]

J.P. VAUGHAN: Let's say you need comps because you don't know. How would you get them?

JOE KAISER: Well I know a couple of agents so I can pretty much get those sorts of things. And I do get those. I get comps every now and then, especially when we're going to sell property. We need to know what it's worth when we've listed things just like everybody else does. It's nice to get a good idea of what those things are going to be worth, too.

I would say it's always nice to have people. This is very much a people business. Relationships are the key here. Develop a good relationship with an agent or two, somebody who's aggressive and knows what you're all about. Those things are invaluable.

J.P. VAUGHAN: So, get your comps from an agent, if you use them. In some states, I know in California, title companies will give you comps. How do you get yours, David?

DAVID FINKEL: Actually I'm kind of on board with Joe there. Network with a good agent. They're lousy with rental comparables, but they're great with for sale comparables. I find two or three agents that I refer leads to -- considering that I'm going to talk with 100 sellers over the course of several months.

Probably 90 percent of those sellers are going to want all their equity or will not be flexible enough. I can just refer that business over to one of those agents.

So even if each of these agents just picks up one extra listing a year, I'm adding \$10 to \$15,000 net to their bottom line. It's easy for me to call up and I just say, "Boyd, this is David. I'm the one that's been faxing over those leads to you... how's it been going? By the way, I have a property. Could you help me out by just pulling up a CMA?"

For those of you that don't know, CMA stands for Comparable Market Analysis. It's the quick snapshot they do in about two or three minutes from the multiple listing service, CMLS. It gives me a good indication of what some other things have sold for. Then, if I really care about those comps, I will to have to drive them. Some of that might be comparable, some won't be.

JOE KAISER: Right.

DAVID FINKEL: And I'm going to want five houses with similar square footage, within about 200 square feet. Ideally, they've sold within three months, worse case, within six months. Understand that it needs to be in the same school district and it needs to be of comparable construction. The usual types of common sense things.

That's going to give me a good ballpark figure. That's how I get it.

JOE KAISER: Even so, it's just going to be a ballpark for you, right? I mean, you're not going to hang your hat on that number, right?

DAVID FINKEL: You know, something that you said earlier, Joe, and I hope everyone caught it because it was really good. Especially when a seller tells you they had the house appraised, just ignore that. [laughs]

J.P. VAUGHAN: Because normally they're talking about an agent.

DAVID FINKEL: Yeah, because you ...

J.P. VAUGHAN: Sellers for ...

DAVID FINKEL: ... or it was refinance or something. And they refinanced those as high or the appraiser ...

J.P. VAUGHAN: Right, sure.

DAVID FINKEL: ... as high as you need. ... "get that refinanced".

JOE KAISER: I can get a house appraised for \$200,000, for \$400,000 easily. The same appraiser will do both of those appraisals.

DAVID FINKEL: Right.

J.P. VAUGHAN: Right.

DAVID FINKEL: Probably the very same day. [laughter] Well, the market's pretty hot where you're at, Joe.

JOE KAISER: Yeah.

DAVID FINKEL: But JP made a good point.

Title companies, at least on the West Coast, are oriented to the consumer. They're out for your business.

I was on the East Coast and they had no idea what I was talking about. But in my area, they're just ready to go.

J.P. VAUGHAN: Yeah, it's real easy.

DAVID FINKEL: They're cued up and they're waiting for me. I make a phone call and they've got comps on my fax machine 20 minutes later.

J.P. VAUGHAN: Right, right.

JOE KAISER: Yeah.

J.P. VAUGHAN: Right.

DAVID FINKEL: If I need a recorded document or even a blank document form, boy, they're just right on that stuff.

J.P. VAUGHAN: Okay, Dave ...

DAVID FINKEL: They love to do it.

J.P. VAUGHAN: David, question number 12.

12. How do you develop a successful marketing program to generate leads and what methods do you use?

DAVID FINKEL: Okay, so we've already touched a little bit on this one.

J.P. VAUGHAN: Right.

DAVID FINKEL: I think we just need to get clear on what the outcome is first. The outcome, for those of you that are going to be part-time investors, you're looking to have three good consistent independent lead streams generating one good, high quality appointment per week. Meeting with two or three sellers each and every week.

Full-time investors, you really want five independent lead sources that can yield one good lead each week. That's going to get you four, five, or six appointments a week of good quality stuff. That's going to keep you busy and buying properties. No question about that.

So to do that you're going to want to develop, whether it be your classified ads, or your mailing systems that you have going on. I'm a big believer that you need a kind of system attached to what you're doing.

Even more importantly, I want to talk for a moment about tracking. Most people will try something. A couple of things here...

Number one, they don't really measure what's happening. I'm a big believer that you need to quantify the numbers in your business. Not because it's fancy, not because it's fun, but because it's important to know what's working and what's not working. And not just what generates your calls, but what generates deals.

What's the better quality?

I'd rather have one lead source give me two leads per month and I get one deal consistently, than to have another lead source give me 15 calls per week, but I don't get deals from it. I think of things.

One of our coaches from our mentoring program, named Byron, came up with this and I thought it was wonderful. We call it the CADS, C-A-D-S. He tracks each of the different marketing streams he has coming in.

He tracks the number of calls per week it generates; the number of appointments from those calls he sets up; the number of deals he signs up and the number of those deals that close. He calls successes of CADS, **C**alls **A**ppointments **D**eals **S**uccesses. I thought that was an interesting thing.

A simple way of doing it is by using extension numbers on a voice mail system. You know, say your classified ad extension is 1 -1 and your other ad in the local military press paper is 1 -2, just following it that way is pretty simple.

Just make sure you track the outcome from the different advertising that you're doing.

One of the things I thought was interesting, and hopefully Joe will speak here in a little bit, is some of the ways he's able to research for mailing postcards and letter campaigns.

Some of the things that you came up with in terms of the trigger documents like the "*Notice of an Appointment of Successor Trustee*", that was a brilliant idea. One of which I've appropriated and I think people need to be aware of that. It's a very advanced technique, but it's just so obvious and so good when someone puts it down that way.

JOE KAISER: Well, let me tell you how brilliant that was.

We stumbled onto that. People don't know in my state that before a lender forecloses they appoint a successor trustee. On the original paperwork, the trustee is typically the title company. Since, in our area, title companies don't want to foreclose on the past customers they have, the lender will appoint a successor trustee, which is somebody who just does foreclosures.

The first thing they do is record that appointment and resignation of successor trustee. When I figured that out I thought I'd figured it all out, you

know. It turns out they also record that when you go to pay off your mortgage.

So here I'm sending letters to people who just paid off their mortgages, you know, saying, "I understand your property is in foreclosure." I had a moment there where it was looking kind of dicey for me. And, of course, all the people from the County are calling, "What are you doing?"

DAVID FINKEL: You've lost your mind! [laughs].

JOE KAISER: Yeah, so some of these really good ideas didn't quite go according to plan.

DAVID FINKEL: It's interesting. Following up on that here, I've done some more research and found out, here in San Diego, there are basically five or six different law firms or "boiler rooms" basically that churn out most of the foreclosures for the county.

JOE KAISER: Right.

DAVID FINKEL: Also, when I recognize their names, I'm going to be using some of your ideas there. Now I can get a little bit of a jump on people.

JOE KAISER: Yes, and you can confirm that it is a property that's going to foreclosure and not somebody paying off their loan.

J.P. VAUGHAN: Right [laughs].

JOE KAISER: Another thing, often times they'll have a file number and they'll abbreviate it; **T** period, **S** period with a file number. The **TS** is going to stand for Trustee Sale Property.

J.P. VAUGHAN: Okay, question number 13. Joe.

13. What are some creative financing options?

JOE KAISER: I'm not sure what you're looking for here.

J.P. VAUGHAN: Well, I think, we have a lot of questions on what is creative financing. How can you do deals creatively? You know, the name of my website is [Creative Real Estate Online](#).

JOE KAISER: Yeah, I've been meaning to talk to you about that. [laughter] I'm not sure creative is the word. I think it's just that you develop a certain set of skills and you bring those to the table. That's your contribution here.

On the other side of the table is the seller who's got some problems. Somehow you've got to make that mesh. I'm not sure that's creative.

J.P. VAUGHAN: I think it's a lot of the seminar buzz. A lot of times you hear "creative financing". It's really what we're talking about here, structuring a deal that solves the seller's problem.

JOE KAISER: Right.

J.P. VAUGHAN: That allows you to go away with some profit. It can be done in a variety of ways; it can be done by paying the seller all cash right out of your pocket.

JOE KAISER: Sure, sure.

J.P. VAUGHAN: It can be done with, you know...

JOE KAISER: That would be one to avoid.

J.P. VAUGHAN: Yes, that would not be creative. [laughter]

DAVID FINKEL: Unless it was really, really cheap, sure.

J.P. VAUGHAN: And going to the bank and getting in the 75% mortgage and putting 25% cash down would be a traditional deal. That wouldn't be creative, but things like, taking subject-to the existing mortgage and ...

JOE KAISER: And lease options, those kinds of things.

J.P. VAUGHAN: Leased options are more creative.

JOE KAISER: Sure, sure. Again it's going to be one of those things where we bottle it down here to the lowest denominator. If it's me having to write a check, I'm thinking that's not going to be creative.

If I can bring something else to the table, if something else works for them where a deal could happen without me having to put up a lot of my own money or having to go to the bank to get a loan, yes, that's going to be as creative as I get.

Everybody thinks it's about technique. It's not. And you're technique, technique, technique, and courses, all have fancy titles that describe technique, you know.

J.P. VAUGHAN: I remember one back years ago that had like "**101 Nothing Down and Contracts**", or something like that.

JOE KAISER: And this you'd remember. All those when you're there with the seller. Hang on, I think it was 87, no 85, I mean, 84 was the right way to go.

J.P. VAUGHAN: Yeah [laughs].

JOE KAISER: Or B or something. I know with absolute certainty it isn't about that at all. It's not about the number of techniques or all the little tricks.

It's simply taking enough time and investing enough emotional energy to hear the other party out and reflect a little bit about what's taking place, what the real problem is and how we can solve that. If you just get it to there, and you've got some resources and people who do have some money, then a deal can happen there.

J.P. VAUGHAN: What people really need to understand is that they need to know all the variety of different ways of putting the deal together.

JOE KAISER: Sure.

J.P. VAUGHAN: That they can take subject-to the existing mortgage or do re-lease option. Depending upon the seller's circumstances, needs and desires. And willingness.

JOE KAISER: Yes. I'm just enjoying the differences between all three of our personalities. It's just so obvious how it comes across where we're sharing ideas, which is good.

DAVID FINKEL: Right.

JOE KAISER: I think one of us is going to relate to just about everybody who's listening.

The way I look at it is, right here we're talking about buying with terms for the most part. And by terms I mean where you're buying and not having to give a large chunk of your money to the sale of a property. Where the seller's not necessarily getting all cash from you.

I look at it as you don't want to have 100 techniques because that's overwhelming, right?

Everyone needs to eventually get to the point where they can use five main buying strategies.

I'll talk about these five buying strategies real briefly here. I'm going to put them in order of how we learned them because I don't think that you should try to get all five of them at once.

It's kind of like going and playing golf. Today we're going to work on our grip, our swing, or our stance. You know, our eye contact or "follow through", it's just too much. So I think you start off with one and you play the odds.

If you're buying with little or nothing down, the most useful strategy to learn beginning wise, is:

- How to use the lease option
- How to really understand when you find the right seller
- How can you structure a lease option transaction (which is not complicated)?

It's one of the simplest ways of doing it. We find that, right now, about 50 or 60 percent of our student's first several deals are going to start off as lease options. It's just the way that we see that.

Second, I'd layer in there, which is going to account for many people, about 20 to 25 percent of their deals will be buying properties leaving and using the existing financing, basically subject-to the existing financing.

That's the next one that I would layer in there. And I like to think about it as kind of layering a coat of paint. You start off with the foundation coat

then you get your primer coat and then you get your other coats to paint on top of that.

The third one I would layer in would probably be owner financing. This is a useful strategy.

By owner financing whether it be owners carrying that first or second mortgage. But learning to use notes in there a little bit. Not to structure anything so fancy that your reverse amortization with a left twist 90 degree and go ... just a basic understanding of how a seller can accept payments over a period of time, or accept a lump sum payment down the road.

That type of thing. Even, "Hey, I'll buy your property subject to your existing \$100,000 first mortgage. And that \$50,000 of equity that you're waiting for, we'll get it to you as a lump sum payment due in full within 60 months of closing."

Something simple, but it's useful.

The fourth I would say would probably be buying a property using what's called an **equity split**.

This is basically like a lease option with a little bit of steroids in there. [laughs] It's a lease option where some of the profit that you make you split with the seller.

Those would be the very most common four.

The fifth way: Once you understand those ways of buying for cash, you're buying for deep discounts, whether it's your money or private money that you're borrowing. And I don't mean hard moneylenders here. I mean private cash that you've developed and people trust you. They're going to lend you money at 6, 7, 8, 9, 10, 11, 12 percent interest to be using for that stuff. Simple interest, no points and everyone here can develop that.

Once you've done two or three deals successfully, it's not difficult to develop relationships to borrow money at reasonable interest rates. Not paying 10 points and 15% interest on stuff.

J.P. VAUGHAN: Especially with the interest rates as low as they are today.

DAVID FINKEL: Exactly.

J.P. VAUGHAN: I mean there's so many people who have money in CDs at 2-1/2 percent or 1.9 percent or whatever. It's like having no return on your money.

So when you can offer 10 percent or even 9 percent, that's a huge difference from what they're getting in the bank or in some other conservative investment.

JOE KAISER: They do have to see you in action a little bit and, you know, conserve it for themselves that you can actually make this happen for them.

J.P. VAUGHAN: Right, unless it's your Mom.

DAVID FINKEL: I think in one deal I tried to get my sister to put up the money for it because she came to me and said, "David, if you ever need money for a deal come see me".

I wanted to get her involved just because I wanted her to be part of it. I didn't actually need the money at that point.

J.P. VAUGHAN: Right.

DAVID FINKEL: So I said, "You know, great, you'll put in!" I think it was \$30,000 into the deal. "And before I get paid any money, you'll get all of your principal first and then you'll get one-third of the total profits from this particular deal."

She was all for it until she got to the point of having to write a check. Then she got scared and said, "No, I'll just keep it in this nice stock portfolio that I have." [laughs].

J.P. VAUGHAN: Oh, yeah. You know where that stock portfolio probably is right now, right?

DAVID FINKEL: Yeah, 50% less valuable than it was then, yeah.

J.P. VAUGHAN: Right.

JOE KAISER: People should also know everybody is willing to say they'll put up the money until it comes to writing that check.

DAVID FINKEL: Is that interesting?

JOE KAISER: They get scarce in a hurry.

J.P. VAUGHAN: So you need backup and backup and backup number five, right?

JOE KAISER: Well, it's that and you need to have confirmed bankers there. Confirmed dollars.

DAVID FINKEL: Like people who have invested before with you or with somebody else.

JOE KAISER: Yes, because that's where I used to get hung up. I'd make, what I thought were good deals and I had people lined up to finance them and then they'd just disappear on me. And I'm left holding the bag, you know.

J.P. VAUGHAN: Yes.

JOE KAISER: I quickly learned that until you had somebody who was committed and had done this with you in the past, the rest was just hot air at that point.

J.P. VAUGHAN: You know what, David and Joe, we're at about a little past the halfway point and we have a lot of material to cover.

JOE KAISER: Wow.

J.P. VAUGHAN: If we have to stay longer are you willing to stay?

JOE KAISER: No problem.

J.P. VAUGHAN: David?

DAVID FINKEL: Sure.

J.P. VAUGHAN: Oh good. I want to tell everyone that both Joe's and David's courses can be found in the online store at CREonline.com.

You can't go wrong with any of their courses.

The reason I asked Joe Kaiser and David Finkel to be with me on this very first teleseminar is because I just think they're two of the top real estate educators in the country right now.

Okay, guys. Question number 14. Joe, we were just talking about this.

14. How do I find and get financing for my deals?

JOE KAISER: Well, the best way is to sell it to somebody. It's real easy to finance deals that you're just going to turn around and sell.

It's a little bit harder if you're talking about building an empire. In the early days, that was always my thing. I would buy and I wouldn't sell. So if people like financing, those are tough hurdles.

Right now, I'm more inclined to find stuff that I can just turn around and flip. And just by the nature of that business, those deals are funded with the next guy in line.

The easiest way to find that sort of thing is to know what is a good deal and to be out there making good deals you can sell. You can sell those and you could still sell them cheaply. There will be people there to buy it.

I sold a property the other day that we got for somebody in a probate situation. We had it up on my website. There were a couple of offers right off the bat. It was basically a race to my office and the guy who got there first got the property.

Then there was a guy behind him. They passed going out the door. It was that close! They were lined up and ready to go with cash.

So if you can buy them cheap so that you can sell them cheap, and there's still a lot of room in there, those deals will get financed. Somebody will write a check.

J.P. VAUGHAN: Question number 15, David.

15. How do I find private investors to fund my deals?

J.P. VAUGHAN: We've been talking a little bit about that.

DAVID FINKEL: I want to make sure I mention this because most people think they need private money to do deals.

Understand that if you really know what you're doing in terms of learning to negotiate and connect people, and find people who are truly in motivating situations, then that source of private money is the seller's own financing that they have against the property currently.

That really is the best source of financing that you have, with buyers being the second best source.

I like to sell my properties on a rent-to-own basis because I get a nice 3% to 5% option payment and that funds a lot of my deals. I also like them because I find that 1 out of 3 or 4 buy. The rest don't. That lets me kind of hang on to a lot of what I'm buying and still finance my land now.

If I wanted to develop private lenders, understanding that I'm going to have a little bit of a track record usually, that doesn't mean that I've got to have 30 or 40 houses. I need to have two or three successes and then they're going to be much more interested in talking with me.

If I don't have those successes, I can find a mentor to work with and do some deals together with them. And borrow and leverage that experience with somebody.

The key is that I need to have a track record or more that's going to make it easier in terms of finding private parties to do that.

I think going to your local real estate investors' club is a great way to find someone to be a money partner. These are people who are already willing to invest in real estate. They know what a good deal looks like.

Don't look for the hard moneylenders. I suggest that early on. I think that would be too many people getting mistakes because they think the rehab route is the way to go.

Nothing wrong with rehab, but people consistently over estimate or underestimate the cost involved with that.

So I look for the people who recognize what a good deal is in that REA group. Someone who would want to put up the money that I need in exchange for a half interest in the deal. Or even a 60 or 70 percent interest if I had to with the first couple, just to get them going with me.

There's another source of private money that I have seen be very successful. Often times I find people who don't want to sell me their property, but they recognize that what I'm doing is pretty smart. I've had people offer to fund deals for me. They were sellers of properties that I

didn't buy. That's another way that you can do it -- by following up with that.

For example, one of the guys bought his house in Salem, Oregon. We have maybe about 11 or 12 houses in that area. We had a student there that we ended up buying some properties with.

The guy was a UPS driver. He started off there and kind of went up through the ranks. By the time he retired, his stock went through the roof because they went public a couple of years ago.

He basically was saying if you ever come across deals, I'd be willing to consider funding them. It's interesting, you find people that you do business with or don't do business with. If they like the way you operate, they are willing to do business with you.

It's not that difficult. One of the best things you can do to find deals is let people know that you're an investor.

Find the people who come see you. If you're sharing with someone a real "low-key" story about a property you bought and they hear about that, many of these people will find you about putting up money for deals.

J.P. VAUGHAN: That's right.

DAVID FINKEL: People want rates of return.

I went running the other day. In my car I had my ugly, tacky, "I Buy Houses" signs, which I've never bought a house from. But they remind me that I'm an investor. I've had plenty of people like this guy who was out there mountain bike riding.

It was the middle of the day. Typically people who work for a living can't take off in the middle of the day to go biking or running. This guy approached me.

I said, "Well, gosh, you have that sign there. I'd like to buy houses. If you ever find something that you can't fund, I'd be happy to either buy it from you or, maybe if the deal's good enough, be a money partner on it."

He found me. I mean it's not difficult to do that.

You just need to understand the three most important things in the mind of an investor.

- The first and number one criteria for an investor, is security.
- The second most important criteria for an investor, that's kind of a small time investor in properties, is security.
- The third most important criteria is security.

These are not people that are looking for huge rates of return on their money. These are people who are looking for smart, intelligent investments where they're not going to lose principle.

They don't want to lose. They don't mind not winning huge, but they cannot accept losing money. That's what you need to address when you're using their money to buy.

JOE KAISER: I liked your idea about the low-key aspect of it, too. I remember when I was starting out, I was looking for private funding and I was really excited about ... [laughs] investments. That scared a lot of people off because I was painting some pretty good stories there, you know.

DAVID FINKEL: Too good to be true.

JOE KAISER: Too good to be true, yeah.

DAVID FINKEL: I mean, people say, "Well, what do you offer people?"

First of all, I think in today's world if I'm starting off saying things about 6 to maybe 10 percent interest on a first mortgage, it seems too good. I don't offer 12 percent or 15 percent, even if I'm willing to pay it.

JOE KAISER: Right.

DAVID FINKEL: Because people are going to say, "Well no, it must be risky. If you're going to give me that much and the bank's only going to give me 3 percent, the bank's much smarter because it's much more secure, you know?"

So, I like to make sure that I recognize that, start lower and with a much softer approach.

JOE KAISER: I think it's a good point also that for some reason we think we need these people. I'm not sure that you do. It comes in handy and all, but I think you can probably figure it out without having a lot of private money lined up behind you.

Most investors I know never had private money there waiting to write a check, waiting for them to bring a deal to them.

DAVID FINKEL: True. It's amazing really. A month's deal you can get away with no money. If you need some money, your credit cards really could fund your way in there.

JOE KAISER: Sure, sure.

J.P. VAUGHAN: Okay, great. Question number 16. Joe.

16. Please explain hard money loans. A lot of people don't really understand what hard money is, and including the lending criteria and the cost and the terms.

JOE KAISER: I think part of the confusion is that the term changes depending where you're standing. In some parts of the country I hear different stories about what hard money is.

I know where I am here in Washington State, hard money is just simply a loan against a property based solely on the property to build it or repay it. Not so much yours.

J.P. VAUGHAN: That's right.

JOE KAISER: So things like credit don't have any sort of bearing. I hear other parts of the country first thing a hard moneylender wants is your credit report.

J.P. VAUGHAN: But I don't think those are true hard moneylenders. To me, in my opinion, even though I asked you the question, a real hard moneylender is looking to the property for the security.

JOE KAISER: Solely on the property.

J.P. VAUGHAN: And they should never be checking out your credit.

JOE KAISER: Yes.

J.P. VAUGHAN: I see that a lot in the newsgroup. People saying, "Well in my area the hard moneylenders are asking for a credit check."

The answer is, they are not really hard moneylenders.

JOE KAISER: Right.

J.P. VAUGHAN: If they have a 50 percent cushion in the property, why should they care about your credit?

JOE KAISER: Well, that's what you would think.

For me, it works like this: I've got a guy and I just make a phone call. I tell him the property address and what I need. Within a day or two he will drive by and look at the property.

If that works, great! If not, he'll just pass. We won't really talk about it. There's not a lot of back and forth or give and take.

J.P. VAUGHAN: Right.

JOE KAISER: He knows I'm going to tell him what I need and neither of us are playing games. If it works, great! If not, we'll go on to somebody else. That's the way it works. It used to be we would pay 10 percent or 10 points.

J.P. VAUGHAN: Ten points.

JOE KAISER: Even 15 percent and we still figured out how to make money doing that.

J.P. VAUGHAN: Yeah.

JOE KAISER: You know, that was six or eight years ago. Right now it's around 3 points and somewhere around 9 percent for hard money ... not so bad.

J.P. VAUGHAN: That's not bad, for paying that kind of money. It's still expensive money when you compare it to today's rates. Which are historically low. I think the lowest in the past 40 years or whatever.

JOE KAISER: Oh, definitely.

J.P. VAUGHAN: Again, I just want people to understand that a hard moneylender (where you're paying points and high interest rates) shouldn't be looking at credit. They should be looking at the property.

JOE KAISER: Those are used for short-term situations.

J.P. VAUGHAN: Right.

JOE KAISER: On some of those they are higher... you know, 9 and 10, 12 percent. Those are things you want to be in and out of. That's just a constant in doing business.

J.P. VAUGHAN: Right.

JOE KAISER: ... about financing that deal.

J.P. VAUGHAN: Short term money.

JOE KAISER: Short term. The beauty with us is that you know the guy's got a check like two days later.

J.P. VAUGHAN: Right.

JOE KAISER: You know he's hooked up with title companies. He can get title insurance in a day or two and he's got his own little escrow company to close these things. The key to this was just how quickly he could put it together.

J.P. VAUGHAN: So the higher cost is worth it because you can turn on a dime, so to speak.

JOE KAISER: Exactly! If I need the money today, it's not going to matter what he's charging. If I can get the money a week later and somebody can do it at a much cheaper rate, that's not going to help me.

J.P. VAUGHAN: Not if you're going to lose the deal, right?

JOE KAISER: Not if I'm losing that deal. I need it now and just the availability is sometimes worth paying a premium for.

J.P. VAUGHAN: Right, exactly. And then the follow-up question, Joe, is...

17. How can I find hard moneylenders?

JOE KAISER: I didn't realize it was hard. They advertise in the newspaper for us. I see the same ads that have been running for years.

I hooked up with a guy early on and have used him pretty much exclusively for hard money. I know he's got a lot of money or he's definitely got the access to it. He's pretty much funded what we needed.

J.P. VAUGHAN: Yes. What I usually tell a lot of beginners, one of the best things you can do is join your local real estate club because you will find out. You'll be able to network with so many people and find out who the lenders are, who the hard moneylenders are.

Private investors are as we talked about earlier. You will learn all kinds of stuff like who's a good agent to work with or who's a good real estate attorney.

Just the networking alone can answer so many questions about how do I find X, right? Don't you agree?

JOE KAISER: Oh, definitely. It makes everything so much easier when that's how deals fall into your lap. You're just sitting there not doing a thing and some one from a title company will call and say, "Look, I've got somebody here and he's stuck. Is there anything you can do?"

If we hadn't had that connection, that deal wouldn't have happened.

J.P. VAUGHAN: That's right!

JOE KAISER: Yes. That probate deal I was talking about just a minute ago... that's exactly how that happened. An officer from a title company called us.

J.P. VAUGHAN: That's incredible, isn't it?

JOE KAISER: Yes. Exactly.

J.P. VAUGHAN: It's like our good friend, Lonnie Scruggs, who, of course, is the king of mobile homes. He's in his 70s now. He doesn't want to do any more deals. He hasn't wanted to for a number of years. But he can't quit doing it because people keep bringing him deals [laughs].

He has such a vast network of people, of friends and park managers and everything else that he just can't quit doing deals. They keep bringing them to him.

JOE KAISER: That's why it's so hard early on because you have none of that in place. We fight against that but it's one of those things where you have to put in the time.

J.P. VAUGHAN: You do.

JOE KAISER: Do a good job at it along the way and those things will develop.

There are certain things you can kind of force to happen and others that you do have to "go with the flow". If you're doing a good job, you'll get that track record and those things will come to you.

You'll know it, too, because at some point that kicks in and all of a sudden, you can almost coast. Things are happening that just happen with or without you.

J.P. VAUGHAN: To put the energy in early on and move the molecules and make the connections and talk to people and network. And one day you'll wake up and things start happening.

JOE KAISER: That's true and you just almost have to pinch yourself. You can't believe how all this stuff works. There are days that you would sit there when you were young just thinking, "When am I going to get a deal? I've been beating my head against this wall for years or a month and nothing is clicking."

Then today we see how these things are practically just falling in our laps.

J.P. VAUGHAN: David, question 18. People seem to get stuck on methods. The question is, and this was a frequently asked question –

18. What's the best method to use, flipping, rehabs, buying subject-to, lease options, buying in whole. There's so many different

ways to buy and deal with real estate.
What's the single best method?

DAVID FINKEL: Okay, I'm going to give you what my take on the subject is. I looked at this and I'm going to answer the very next question at the same time because it fits together, question 19, about what is a quick flip and how does it work.

J.P. VAUGHAN: Right.

19. What is a quick flip deal? How does it work?

DAVID FINKEL: Number 1, there is no "one best technique". That might disappoint some people. People would love it if there were a "best technique" because then they can learn just that and be set there.

Understand that different people are going to be at different stages in their investing. I like to I ask people a question. "If there's a deal here that you could turn \$12,000 cash in 60 days how many would take that?"

About a quarter of the hands go up on that. They need that check like they need their next breath of oxygen.

Then you'll ask again, "How many of you, if you could wait a year or two, but make somewhere in the neighborhood of around \$30,000, would rather wait and make \$30,000 a year or two later?"

You'll find maybe about 25 percent of the hands raised for that.

I ask the next one. "How many of you would rather wait five or six years and, rather than making \$30,000, you'd make \$80,000?"

A lot of hands go up for that one.

The last question I ask, "How many of you would hope to never sell that property and make a couple of hundred thousand dollars, but make it over the next 30 years?"

Usually about 10 or 15 percent of the hands go up on that one.

So, depending on how someone answers those questions, that's what's going to tell you what the better deals are going to be for your strategy. If you want that check for \$4,000, \$12,000 or for \$18,000, you're going to need to turn your deals fairly quickly.

So you find properties that you're buying real cheap to flip. That is what that specifically means. A quick flip is where you're locking up a property under a contract. Rather than closing on that contract, usually it's for a cheap cash price, you're selling that contract typically to another investor.

I think the best way to handle that is to put the property out there to the Investors as well as people who want to live in the property themselves (the retail market). Whoever gives you a cashier's check first gets it!

I don't think you should market it one avenue at a time. I think that's a big mistake that people make. If you're looking to make profit over the next year to two years one of the best exit strategies is to acquire property to sell it on a one or two year rent-to-own.

People ask me all the time, "How can I increase the likelihood of my tenant buyer on a rent-to-own basis of actually exercising their options?"

- **Number 1.** Don't sell it to them for more than a 12-month term.

The longer you give your tenant buyer, ironically, the less likely they are to buy. I find that after two or three years, "life" happens to just about everybody [laughs]. So give them 12 months or give them six months or nine months.

- **Number 2.** Set a price that's realistic.

Even if you just sold the property for its day's value, 9 months or 12 months later with no realtor commission involved, full price plus just a little bit of extra because it's a rent-to-own property with easy financing. You're still getting a pretty good deal if you've got a good price going into the property.

If you're open to hanging on to a long-term, you're going to make the most money.

Here are my thoughts to anyone getting started. Understand that if you're constantly turning properties, then you're working too hard long-term.

You're lending your money and you're not getting anything that's going to be passive for you over time.

So whatever you're doing, even if you need that cash, turn some properties. That's great! But a portion of what you buy, you need to hang on to. That's my belief. I'll share my bias because I want people to understand where I'm coming from.

There's a thousand different ways to do real estate. I want to be clear and upfront with people what I like to do and don't like to do. Some of it's appropriate for some people and some it's not. I'm totally okay with that. I don't like doing rehab because I think people ...

J.P. VAUGHAN: You have something in common with Joe Kaiser [laughs].

DAVID FINKEL: No doubt. Well, Joe's probably bought three. So I was like, "Joe, are you pretty handy with a hammer?"

JOE KAISER: No.

J.P. VAUGHAN: The last time we talked about rehab, Joe said, "If you ever see me with a hammer in my hand, shoot me!"

JOE KAISER: Shoot me!

DAVID FINKEL: Oh, okay. Well, I don't want to be shot but I want you to slap me. Joe will be dead, but I'll just have a welt on my face [laughs].

I think people consistently underestimate. They *might* get the financial costs of the rehab right but not always.

As a matter of fact, they always underestimate the time cost and they always underestimate the emotional straining cost of that. I mean, when you have a property that's empty... that you have so much invested in there or you ...

J.P. VAUGHAN: That one's so stressful.

DAVID FINKEL: It is! It's like two months of hell, why would anyone want to put them selves through it? The other part to my bias is I like homes in nice areas because of that.

The second part is I don't want to be a landlord forever. Being a landlord can be very time intensive. It's not my best and highest paid use of my time as an investor.

I like to sell what I acquire on a rent-to-own basis so I put somebody in there with more of an "owner's" mentality. It doesn't get rid of all the headaches of being a landlord. There are still some responsibilities in there.

JOE KAISER: Right.

DAVID FINKEL: I do know I can get rid of the majority of them and I also know I can defer the rest of them. I know I have maybe about 10% traditional rentals; the rest, about 90%, are leased with options to buy.

They cause about the same number of headaches. The rent-to-own stuff still has some stuff involved.

Typically what happens is, I sell on a two or three year rent -to-own, knowing that they're probably not going to buy. A lot of that maintenance is going to get deferred. I just take care of it with their option money at the end and I'd rather do that than have to take care of it along the way. That's just a bias that I have in my own state because it's easier.

J.P. VAUGHAN: And people, as they get into the business, develop their own preferences, biases and things like that. There are people besides the three of us who *like* to do rehabs.

DAVID FINKEL: Yes. It would be great for them. I'm glad there are rehabbers out there. The irony is that there are probably 10 rehabbers for every one of us.

I mean, it just seems that's the most popular way for the average person to invest. They think, "I'll buy it cheap. I'll go there on the weekends and fix it up and then I'll resell for immediate cash profit."

Of course, that cash profit will be short-termed earned income. They're going to have to sit there and work their weekends. They're going to have holding costs and closing costs, twice! Yuck! I don't want it!

J.P. VAUGHAN: Yes.

JOE KAISER: And they'll earn that money, too.

J.P. VAUGHAN: Yes.

DAVID FINKEL: They will and they deserve every dollar that they earn.

J.P. VAUGHAN: Yes.

JOE KAISER: Every penny of it. Because I could tell you about a 17-month rehab we did once.

DAVID FINKEL: Oh, no!

JOE KAISER: Yeah, we had \$80,000 in it and at the end we split, I think, \$4200.

J.P. VAUGHAN: Oh, my gosh!

JOE KAISER: ... what are we doing?

J.P. VAUGHAN: At least you didn't lose money. Well, you lost all your time.

JOE KAISER: Well, it was something I would rather have avoided.

DAVID FINKEL: It's refreshing to hear you say that. A lot of people paint a cozy picture of rehabbing properties.

The first property I ever did I can remember sitting there painting cabinets. Peter was teasing me because he was doing it with me and he said, "David,

you've painted like one shelf and I've painted these four cabinets... What's going on here? Why are you going all the way to the back of the cabinet?"

"They can't see that."

It was funny.

J.P. VAUGHAN: But you know what is even worse than doing it yourself? Dealing with contractors.

JOE KAISER: Oh, yuck.

J.P. VAUGHAN: Now I don't want people to get the wrong idea here, a lot of people like to do rehabs; the three of us don't.

DAVID FINKEL: Right. Some people are really good at that stuff. People underestimate how much it takes to successfully pull off a rehab.

Just the organizational skills that you need to make all these things come together at the right times, it's beyond me.

J.P. VAUGHAN: Yes, and within a reasonable timeframe so that you can sell it.

DAVID FINKEL: Yes.

J.P. VAUGHAN: Right.

DAVID FINKEL: And nothing ever goes according to plan! It's just a lot of stress. Constantly dealing with all kinds of people and it's just a lot of work. You can make a lot at it but you do earn every nickel of that.

J.P. VAUGHAN: Okay, Joe, question number 20.

20. How do you find quick flip deals?

JOE KAISER: Well, I'm not sure quick flip means anything different than any other deal as far as finding goes. We talked about the courthouse and who might be a motivated seller, sort of directing our energies, almost to the point of a laser beam. Figuring out what we want and focusing on that and tracking those people down.

That's how we do 90 percent of my business. It's strictly me going out and finding them. I was looking at the newspapers' real estate section the other day and I realized I hadn't looked in that thing for at least three or four years. I know that's not where those deals are.

Finding quick flip deals is just the same as just finding a good deal. It's knowing where to look, then putting in the energy and the time to make those things come together.

J.P. VAUGHAN: The follow-up questions to that, Joe, are –

21. What are the risks in a quick flip? How do you reduce those risks?

J.P. VAUGHAN: We touched on this earlier, I think.

JOE KAISER: Well, I guess getting hung up is going to be the problem, I would think.

If you've negotiated a deal and you've done a good job with it, the answer is pretty good. You're going to be able to turn that to somebody. I can see where, if you've paid too much and you really didn't do your homework, you could get hurt on that if you couldn't subsequently close and there some issues there.

Attorneys make their presence known on those kinds of things. You know, "earn his money to get lawsuits started up". That's possible.

I would think if you knew what you were doing and you had escape clauses in there, you did a good job negotiating.

For me, if it's something that I sign up, I've got a couple of weeks at least, to find a buyer for it. If I don't find a buyer then we're just going to say no harm, no foul. I'm going to be able to gracefully exit from that scenario. And nobody's going to be hurt or upset or anything because I will have explained that to the seller going in.

This is how I do it and what is most likely to happen. As long as we've got that understood in the beginning... if I don't find a buyer then we can part friends. And just go on to the next one.

J.P. VAUGHAN: Okay. This is question 21.

22. What are the basic steps in a lease option? What are the risks and how do I protect myself?

JOE KAISER: Oh, this is one I enjoy. I do a lot of lease options and so do our students. Basically what you're doing is negotiating two things to the seller. (1) You're finding a motivated seller that has a critical need. The determining factor in any deal is finding a seller. And (2) doing something with the property.

You're negotiating a lease for that period of time. At the same time you're pre-negotiating a price upfront to purchase that property at any point over the lease period. It's called an "Option to-Buy". So you're leasing it with the option to buy, not an obligation, but the right, contractually, to buy that property at any point in time. That's an option.

And so now to the risks involved in lease options.

Basically I would say there are three real risks that you need to deal with.

Number 1. What happens if you can't find an end user for that property? In our case our exit strategy, most times, is to sandwich lease option that property... where you find a tenant buyer for the property on a rent-to-own basis. We buy on a rent-to-own basis ourselves.

So we use a clause in there; we call it clause number 9. It simply says, "qualified resident". Having a resident of the utmost quality, in the property, is most important to all parties. "This agreement is subject to tenant", which is in an agreement we use, as the investor, finding an approved and qualified resident to occupy the property. So, basically, we make our document subject to us finding an end buyer, a tenant buyer.

We're careful not to take advantage of the seller and leave that agreement there for three or four months. That's totally wrong.

Whenever you're dealing with a seller, you have an obligation to treat them fairly and ethically. So two to four weeks is all it really should take for you to find a tenant buyer for a property. You should keep them informed along the way.

If you find that the rent that you're paying them is way out of line for you to find a tenant buyer (which is the number one reason why you may not find a tenant buyer) just have a conversation. Renegotiate it or choose just to walk away from the deal early on.

The second risk that you have on a property is what happens down the road. What if the seller chooses not to allow you to exercise that option? That's one of the bigger ones.

Especially if any of the people listening tonight are in a fairly fast moving market. If you're in a market that's appreciating (and I'll call any market that's really moving up at about 7 percent or higher, a pretty fast moving

market) and you've got the property under control for four, five, six, seven years. You're going to talk about significant growth on that property.

The seller who was motivated two or three years ago, down the road at closing, might not be as motivated to sell you the property. They are looking at the 70 or \$80,000 of equity that you've created in that.

So, we protect ourselves three ways. I'm going to go through it quickly and for those of you that do a lot of lease options, you can take look at the protégé program that we have. It has the set mark in-depth there. I know there are other courses that have it in there as well.

Number 1. We record a memorandum of option, or the option itself, down at the local land records office. In our area it's at the local county records office. For some people it's at the county clerk. Some are actually literally at the courthouse. But I record an option, or a memorandum of options that I put on a public record, that "clouds" the title.

J.P. VAUGHAN: That means that the seller can't sell it out from under you.

JOE KAISER: Yes. Make it difficult for the seller to sell to somebody else. It does not make it impossible.

I remember a property we were working on about a year and a half ago. Our tenant buyer was exercising their options to buy so they did the title insurance report.

The preliminary title report didn't show our option on that. I was thinking are you sure it's not on there because I have a recorded document that came back to me after it was recorded from the courthouse, from the county clerk's office.

J.P. VAUGHAN: Wow.

JOE KAISER: They didn't find it and I didn't push it because if they're willing to insure it, I mean, I wasn't concerned about it.

J.P. VAUGHAN: Right, exactly.

JOE KAISER: But so I don't hold that options are very good. They are a decent cloud on the title, but they're not really strong enough. We do the second step, which is to record what's called the performance mortgage or performance deed of trust.

DAVID FINKEL: Literally tape a document called a mortgage or a Deed of Trust, depending the state that you're in.

A mortgage or a Deed of Trust is a document that is used to secure some other piece of paper, usually a promise. This is used when you buy a property. You use a promissory note that says, "I owe you money" and a Deed of Trust or a mortgage, which says, "If I don't pay you, you take the house back and force the sale for your money."

You can use that same Deed of Trust or mortgage to secure the performance of the seller on the option. What that means is they don't sell it to you that way.

You don't just have a cloud on the title; you have literally a lien on the title. This puts you on there as a secured creditor.

There is no way a title company is going to miss that, it's too strong. It is the strongest way an actual individual can get a lien on the title.

J.P. VAUGHAN: Right.

DAVID FINKEL: Then the third thing we do is we actually set up all the closing documents upfront and in advance. We have them held by either an escrow company, a title company, or from the East Coast by a closing attorney.

Then we have those documents, including the purchase contract that we will use, if and when we exercise our option. These include the instructions. The closing agent includes the actual deed that is used to transfer title from the seller to us right there, with sealed instructions.

What that means is no one can change their mind without both parties signing.

J.P. VAUGHAN: Right.

DAVID FINKEL: We make sure it goes to a closing agent, which is the escrow company, the title company, or the attorney that we pick. We choose a party that we have developed a relationship with because if worse comes to worse, you don't want to use these documents down the road.

You're going to want fresh documents because title companies don't like using deeds that have been dated one, two or three years ago.

J.P. VAUGHAN: But are they there in case a problem arises?

DAVID FINKEL: Yes. If worse comes to worse, I'd rather have to fight for a clean title to a property with my being on title imperfectly than to have to fight with my not being on title to a property at all.

These are just things you do upfront, then the problems do not occur. The problems I have had with sellers not honoring their option were ones that I did not escrow the documents for the closing. I got lazy, scared, or I just plain forgot.

J.P. VAUGHAN: Well, that's a great explanation.

DAVID FINKEL: Sorry if I went too long.

J.P. VAUGHAN: No, it's good.

JOE KAISER: The other thing that I see a lot is that the seller still owns that property. So, that equity that gets created over the years still looks a lot like their money.

Don't you find that, too?

DAVID FINKEL: Yes.

JOE KAISER: Yes. And they have a hard time remembering what all we talked about.

J.P. VAUGHAN: [Laughs]

JOE KAISER: So it is nice to have all that stuff all tucked away there just in case.

J.P. VAUGHAN: Yes.

DAVID FINKEL: It's interesting that you would say that Joe. People ask me all the time, "Why wouldn't you want the deed to the property?"

The answer is, of course, you prefer having title to the property whenever you can. But we find that we will take about one of every three lease options. We turn them into our getting a property subject -to the existing financing down the road, once the seller and I have a relationship.

I'm guessing, Joe, you probably do something similar. You are probably very timely on all your payments.

We send all of our checks on the 25th of the month. That way the sellers get their checks early, just by a couple of days. But every single month they are early, like clockwork.

That's a lot of credibility for them to carry back financing or to sell us the property subject-to the existing financing down the road.

Have you noticed that for yourself?

JOE KAISER: Well, we like to get a payment ahead. Then we have everything set up through contract collections. That way we can pretty much depend on the tenant's payment to make the payment. We will know, in enough time, if the tenant is going to be late. At that point, we will know if we will have to cover that payment. But, if we're a payment ahead and the tenant pays on the 20th, that's still way ahead for the contract holder.

J.P. VAUGHAN: Yes.

JOE KAISER: And then all those issues about late payments or late fees, all those just kind of magically disappear, and we never have to think about it.

J.P. VAUGHAN: So that sort of goes right to the next question; number 23.

23. What is the best way to find good tenants?

JOE KAISER: You know, one of the things I was never really good at was property management.

J.P. VAUGHAN: I know. [laughs]

JOE KAISER: I have so many other things I would rather do. For me the fun was always in the hunt.

Sure I've spent a lot of time now with carefully doing the due-diligence with tenants. You have to convince me that you're the person I should be renting to now.

We've done evictions. In fact, we've done a lot of evictions. We inherit a lot of properties. Inherit meaning, we buy problem properties, and we inherit tenants.

We know this eviction routine pretty well now. It's not a lot of fun. It's messy and expensive. We'd certainly rather avoid that. So as far as quality tenants, I'm not sure.

We do the normal stuff that everybody does. We screen, screen, and screen. We pretty much cross our fingers and hope we did enough. We have the resources where we can do a good investigation on people. If there's even a hint of problems, we look for somebody else.

J.P. VAUGHAN: In other words, you do a thorough credit report.

JOE KAISER: Definitely.

J.P. VAUGHAN: You check with the landlord.

JOE KAISER: We're online with all of that stuff.

We can get criminal histories and those kinds of things, as well. I had a gal the other day saying, "Well, he's got a felony. Is that going to be a problem?" [Laughs]

J.P. VAUGHAN: Oh, just a little one.

DAVID FINKEL: That is going to be a problem. [Laughs]

And, you know, if you're in the position where you have to rent to people who you shouldn't be renting to, you're doing it all wrong. You're making a mistake somewhere. It should never get to that point.

J.P. VAUGHAN: Well, here's an interesting thing that I just thought of. Joe, I know that you're holding about one out of every 10 properties that you buy.

JOE KAISER: Pretty much.

J.P. VAUGHAN: You're sort of cherry picking the best ones to hold as a long-term rental.

JOE KAISER: Right.

J.P. VAUGHAN: Whereas, David, I think if I'm correct, your tenants are all lease-option tenants.

DAVID FINKEL: Yes, about nine out of 10 for me.

J.P. VAUGHAN: Nine out of ten are lease-option tenants?

DAVID FINKEL: I have multi-family houses.

JOE KAISER: You have multi-units, as well?

DAVID FINKEL: We do some multi-units and, obviously, we have more of the renters in them.

JOE KAISER: Right, sure.

J.P. VAUGHAN: So, Dave, what do you do to find good tenants?

DAVID FINKEL: Regarding finding straight tenants, I would say two things.

The first thing is, if it's a house or an apartment, probably a townhouse or a condominium, make them pay you money upfront on a rent-to-own basis, even if you don't want them to buy. You can structure things so that they can get out of that pretty easily.

Here's an example: Give them the option to buy. They give you let's say \$8,000 upfront, fully refundable, provided one of three things happen -- I mean all three things happen.

- **Number one:** They pay their rent on time every month. They're allowed to be late on one payment every 12 months by 15 days or something like that, or by seven days. But anything more than that, they lose that money.
- **Number two:** Their option money is fully refundable if they stay there during the entire lease period, which might be 12, 24 or 36 months.
- **Number three:** Tie it into an option that they cannot exercise for a certain period of time.

Doing that, it lets you take a security deposit, which, by law in most areas, allows like one month's rent, one month's security deposit, and let's you get four or five times that amount. That's one good way to go.

The second thing is, and I think people forget to do this; you need to create a huge amount of competition for the property. So you get a huge number of people who want to apply for that property, regardless of the rental demand in the area. Then from these people who want to compete for the property, you choose the best.

I still see property management people making the beginner mistake of showing the property to one person at a time.

Mistake! I'll get five, six, seven, eight families there all at once. They'll behave much better. I get deposits on all the property from two or three different families, and then I'll do my due-diligence to choose the best one.

Then I'll quickly, and I mean quickly like the same day, get back to the people who I didn't choose and give them their money back.

Then I'll take the person who was best. I think it's important.

I think if I can hold money in my hand from somebody, I don't care about their past as much. Having them give me enough money upfront helps. I mean I can be bribed. [laughs] No really, think about it.

JOE KAISER: Oh, I agree with you.

DAVID FINKEL: I mean, if they give me money, I don't mind using their money to fix stuff. If you're paying good people to do the work you don't have the problems with them not showing up because they went out drinking the night before or something like that. So that's what I would say about that.

I like to qualify people by money. Not that it's not important to check out past rental history and all the rest of that. If I get enough money from someone, I know that I can beat them in an eviction before their money runs out.

JOE KAISER: Do you give them any flack at all or you just go right into court on those evictions?

DAVID FINKEL: You know what, I'm a big believer in treating them like a good parent would any child who is misbehaving. I know that if I let them stay up past their bedtime at 9 p.m., even by a minute, then they're going to want their bedtime to be later the next time.

So, for example, I know in Oregon I have to give them a certain number of days. I believe, if I remember correctly, it's five days before I can do my eviction.

In California if their payment is not in by the 5th of the month, and we do this with all of our properties across the board, we start the eviction process. A three-day notice gets posted.

We hire flat fee eviction attorneys in the different areas to do all of it. I'd rather just pay someone some money to do it right.

JOE KAISER: Yes.

DAVID FINKEL: I make a phone call and I just step back and let them do it. It's a race. If they can pay me before the eviction is finalized, I take their money. If not, that's just life.

J.P. VAUGHAN: It's not that expensive here, Joe. What are you paying David, about \$350, or something, for an eviction?

DAVID FINKEL: You know what, it depends.

I used a company out here called Kimball, Carey, and St. John. They do all the stuff for us in California. If they just do the three-day notice, they charge us something like \$90.

J.P. VAUGHAN: Oh, right.

DAVID FINKEL: If they have to do an unlawful detainer, it's another 200 and some odd dollars.

Then they go to court. The most it costs me when the tenants go to court to fight the eviction and all that kind of stuff -- with an attorney for both court appearances -- I think it's like \$700 now. It used to be about \$500. But it's worth every penny because they are so good. They're right on top of it. They call me up to say, "We need this; we need that from you." That's all.

J.P. VAUGHAN: Right, right.

JOE KAISER: Isn't it nice when you figure that out? You've got somebody there just ready to go for you. And you know, you can just sort of pull the trigger, and it gets done. That's worth so much.

DAVID FINKEL: Definitely! Definitely.

JOE KAISER: We used to listen to tenants and sort of hope that what they were saying was true, my partner especially.

[Laughs]

You quickly learn that, at some point and sooner than later, you do need to bite the bullet and just do what has to be done.

DAVID FINKEL: Right.

JOE KAISER: It never gets better. You give them more time and, in the end, you're going to pay one way or the other. So you might as well take care of it now when it's manageable and it's the least amount of dollars on the table.

DAVID FINKEL: True. Plus if you stepped in early on the process, usually one three-day notice and they recognize that you are serious about this stuff. They don't pay late after that. It's amazing.

J.P. VAUGHAN: It's scary. I would think it would be scary to get a three-day notice. It does show that you're not fooling around, that you're serious.

Okay, David, number 24. Please explain because a lot of people really don't understand this.

24. What is a subject-to transaction?

Include how to explain it to the seller and the risks involved for both parties.

DAVID FINKEL: Oh that's a good one. Especially the, "*How do you explain it to the seller?*"

I'll tell you how not to explain to the seller as well.

First of all, subject-to is buying a property subject to existing financing.

What that means, and I'll give a quick example that will follow this up to explain it, the seller literally deeds the property over to you, the investor.

You just take over sending in the mortgage payment every month to the seller's bank for the seller's loan. You're not assuming a loan. You're simply leaving that old bone in place that the seller went out and qualified for, and the seller already paid for.

You're just taking over making the payments. You understand that you own the property, but your right to the ownership of that property comes second to that of bank's lien against the property, typically as a mortgage or a deed of trust.

A quick example of how that works: You find a seller who is four payments behind, headed toward foreclosure on a \$100,000 property. I know a lot of people are in areas that are way too expensive. And, others where it's way too cheap. But it's just easy to make the math part of it clear.

So, they're behind on their payments by \$4,000. They owe \$90,000 against the property, including that \$4,000 back payment. The house is worth \$100,000. You come in and make up the back payments of \$4,000 and you take title. The seller literally deeds it to you. You own it, but they leave their \$90,000 mortgage against property. It's not getting paid off, nor are you formally assuming the loan. You're just not telling the bank about it.

Now some people say, "Well, is that okay not to tell a bank? Is there something illegal about that?"

Not only is it perfectly ethical to do that, but also it's interesting. Look at a government form, like the HUD 1, the closing statement. There's a blank on there that talks about Subject-to Financing.

Subject-to Financing has been around for the last 50+ years. It's not anything new. It's just been a well-guarded secret. It seems, for a lot of people, they just haven't known how to do that.

So, how do you explain this to the seller?

First of all, I'll tell you how not to explain it. I don't say to the seller, "Hey Mr. Seller, what if we buy your property, leave your loan in place, meaning you're totally on the hook for all the risk. We'll have nothing into it, and maybe we'll pay the payment, maybe we don't, but either way it doesn't matter because you're the one on the hook."

I don't language it that way. I do want to make sure, before all is done, that they understand everything that I've just said there. But I don't give them the first impression that way.

The first impression, I'd say, "Mr. Seller, I don't know... (I'm going to be reluctant here) I don't know if we're even willing to do this... but what if we're willing to make up that back payment of \$4,000 and just buy the property outright? Then we'll take over making that payment each and every month from here on out. Is that something we should even talk

about? Or probably not. You probably hate the idea." [I'm using negative phrasing].

The seller says, "No, we should talk about that."

I simply say, "Well, okay. What about us making up the back payments and then just taking over the payments from here on out after we've bought the property. Would that even work for you?"

Then they can tell me the things like, "Well at least it keeps the foreclosure off my credit, and at least you can save my future credit. But down the road I can go ahead and buy another property."

That's how I language subject-to to a seller.

Before I buy, I want to make it clear to everybody. I never convince a seller without making sure they're very clear on understanding the position that it stays on their credit report with a loan in their name, number one.

Number two: I'm not going to be personally liable for the loan. They will still be liable for the loan. But, most people you buy a property subject-to from, just want to walk away anyway.

If you ask them the question, "Mr. Seller, I don't know if I even want to buy this property. Just in case I choose not to buy it, what's your plan B? So, if I don't want to buy it, maybe I can give you some input to make your plan B a little bit better."

Nine times out of ten, their plan B is just to give it back to the bank or to say, "I don't know. I guess I'll probably end up losing it anyway."

They just want to walk away from it.

They're totally willing to walk away from it, so why not have them get something out of it, at least saving their credit.

Sometimes I'll give them some money for that. It can be anywhere from \$5,000 to \$15,000, or even more, if it's a good enough deal and there's enough equity in there.

That's what it means to buy it subject-to. That is how I explain it to a seller.

The big pitfalls, subject-to wise, for you as an investor are going to be 11 different ones. So, take a look at the course.

Let me share what I think probably is the most important.

J.P. VAUGHAN: Let me just say this and interrupt for a second. David, in one sentence tell everyone about your subject-to course.

DAVID FINKEL: Sure. In one sentence, it's a graduate level course. You know, 12 hours of audio training just on the topic of how to buy, how to structure, how to sell properties subject-to the existing financing.

J.P. VAUGHAN: And the title of the course is "How to Find, Close and Sell Properties Using Existing Financing".

You can go to the online catalog on our site, CREonline.com, and click on it and you will see Joe Kaiser's and David Finkel's names.

DAVID FINKEL: I appreciate that.

J.P. VAUGHAN: We don't have the time to do all 11 things here, so...

DAVID FINKEL: I'll give them one. The most important one that I see.

J.P. VAUGHAN: Okay.

DAVID FINKEL: When you're dealing with a seller who's under stress, like a foreclosure or something, you have to be careful that you're not going to be called into court later on.

You don't want to be someone who's basically done something that's called coercing the seller into a deal. You're dealing with a seller who is what is legally called "a seller under duress". They will claim that sometimes.

This means that you're dealing with a seller who's in a very stressed situation, very vulnerable, and you just need to make sure that everything you do is at arms length.

You don't typically want to go in there, buy the property right there on the spot, and give them nothing for their equity, or walk away with the deed that day.

Some states even have laws. In California you have to give them five -day rights of rescission, if it's a property that has already started the foreclosure process with a notice of default filed.

The key is just treating them how you'd want to be treated. Be fair with them. Make sure that you have them understand things. Even ask them if they have a counselor, an attorney, or a friend that they could run this stuff by, to meet with them, and you.

I make them write, in their own hand, that they understand I plan on reselling the property for more money. I do all those basic, common sense things that show that it wasn't me forcing them into something. These things help to show that they really did understand and knew what I was planning on doing, which was to make a profit off the property. It shows that they choose to move forward in the deal and are still willing, of their own free will.

J.P. VAUGHAN: Right, and California is particularly finicky about all that stuff.

DAVID FINKEL: Oh yes. I think that we're kind of the worse state there. So those of you that live in other states just smile, it's one more reason not to live in California.

[laughter]

JOE KAISER: The other thing there, too, is the better the deal the more likely they're going to come back and claim a foul happened somewhere along the line, of course.

J.P. VAUGHAN: Right.

DAVID FINKEL: Yes.

JOE KAISER: We are particularly careful about those kinds of things.

When there is this kind of honeymoon period, while I'm there solving their problems, people tell me they really appreciate that. They tell me how much they appreciate that.

I ask them to send me a little letter and talk about what just took place here and how we were able to help them out. It's nice having those things in the file. Because they are going to forget how it was, at some point.

At some point, probably sooner than later, they do come back. You know, you get a call from an attorney and he's distressed about something. It's nice to have all those supporting documents in the file.

J.P. VAUGHAN: That's true. Okay, Joe question number 25, and we've hit on this before, too.

25. How do I find pre-foreclosure deals?

J.P. VAUGHAN: Let me again state that you cover tons of ways to locate pre-foreclosure deals and totally dominate the foreclosure marketplace in your course. But, why don't you just cover a couple now.

JOE KAISER: Well, I do spend a lot of time at the courthouse. We do most of our business from some. It starts with some public record somewhere. Any of those kinds of situations end up in a court file. So, we spend a lot of time there.

I will actually sit there, with my laptop, when I'm doing a group of things, and I mull over a file and absorb what's taking place. With enough time you get a picture of what is going on. You can see the different players, and the different parties, and you develop a strategy of how to approach this guy or that guy.

In one foreclosure file there are so many different ways to go after that property, whether it's, the homeowner themselves, a creditor, or maybe somebody has a partial interest, like an ex-wife or something. All those players have an impact. You figure out a game plan.

J.P. VAUGHAN: A second mortgage, perhaps.

JOE KAISER: Yes! Any of those things. You get in there and you just bump around a little bit. You get a good feel of what's going on. It doesn't take long and, pretty soon, the solution, or at least a good approach, becomes obvious.

We found that we spend a lot of time working with lien holders. Lien holders say "yes" ten times easier than people in foreclosure say "yes". We know those haven't been paid in forever.

J.P. VAUGHAN: Why don't you explain what a lien holder is.

JOE KAISER: Well, somebody who's got a loan or an interest against the property, other than the owner.

J.P. VAUGHAN: Right.

JOE KAISER: Or, it could be a junior mortgage, a judgment, creditor or one of those kinds of things.

We've had a lot of luck with partial interest. People -- say an ex-husband, ex-wife sort of thing -- who no longer own the property but through the divorce have some sort of interest. It's not an interest that they have done anything with for years. They may have forgotten about it. But, certainly, they have given up on it.

If you can get a hold of them, often times they will sell you that interest for next to nothing, just a token payment.

You know, \$500 will buy a whole bunch of stuff. You never get to that point if you don't take the time to sit there with that file and go through it a little bit.

J.P. VAUGHAN: Do your detective work.

JOE KAISER: Yes. Just see what really is going on and find the source.

Sometimes you can talk to people who have sort of an inside knowledge about the particular thing.

A lot of times, we'll be trying to find people, because, with a lot of these foreclosure properties we run into, there's nobody around. So, we'll hunt them down. We do that often by their last name. Hopefully it's something other than Smith. We get online to find relatives and we talk to them. Often a relative will tell you the whole story.

You take little pieces here and there and come up with an approach that's reasonable. That solves a problem or two and gets you paid.

J.P. VAUGHAN: Okay, next question, again about foreclosure scenarios.

26. What's the best way to negotiate a short sale with the bank?

J.P. VAUGHAN: Before you start, there's a lot of people on the call tonight who don't know what a short sale is.

JOE KAISER: Well, the theory behind a short sale would be when the bank is owed more than the property is worth. So, in order for a sale to happen with that property, the bank is going to have to accept less than what they're owed as payment in full for that obligation.

I don't do a lot of short sales. We used to do something similar. In the old days, we had, I guess we still have, Beneficial and Household Finance, and

those kinds of things. That's where we always had our best luck with getting a hold of those people and negotiating their seconds away.

If a first was in foreclosure, and there's a Beneficial mortgage behind that, they pretty much knew they were not going to get paid anything. So negotiating that and being able to buy that for pennies on the dollar is a real possibility. That would be the only short sale negotiating that we do.

By definition if the property's has no equity, it's probably not one I'm going to be looking at.

J.P. VAUGHAN: Exactly. There are certain people who do specialize in short sales. But again it's a property that has no equity, or negative equity.

David, have you ever done a short sale?

DAVID FINKEL: Yes. I'll jump in here and make a joke of it. I think short sales are something that people don't recognize that you can make a profit, sometimes, on its interest rate.

My mom recently negotiated a short sale on an investment property she did up in Brookings, Oregon. And so, I tease people sometimes and say if my mom can do it you can do it.

[laughter]

She found a property that had about a \$120,000 loan against it. It had some fire damage. She negotiated an \$86,000 price.

The big thing is, if you're going to negotiate on a short sale, the biggest consideration the lender is going to want is to close quickly.

This particular property, when she went in for the offer, she kind of ignored everything I said, except for one thing. She offered, in 14 days, she would close it.

The lenders said "Well, great, we'll take your offer but only if you close in 7 days."

It's the number one consideration from lenders; how quickly they're going to get their money. Different lenders will negotiate at different times.

Some lenders will say, "Yes, we'll negotiate", some lenders will say "no", the next week. It depends on what their portfolios of real estate are, with their bad loans on their books, so that they can look good for the federal regulators.

Joe hit it on the head there. It is so much easier to negotiate a short sale on a second or a third mortgage or a lien holder like a mechanics lien, than it ever is on a first mortgage.

First mortgages are almost impossible to negotiate short sales, unless, there is some kind of major damage to the property that is very obvious. Banks would rather take back the property and lose their money. I don't know why that is, but I just haven't been able to really negotiate with first mortgage holders.

When a seller tells me they have a big second mortgage or a third mortgage even, I know I'm going to be able to go in there and, probably for five, ten or fifteen cents on the dollar, buy that second mortgage. If they really are in a property that's over financed with that.

JOE KAISER: Isn't it funny how investors, who don't know any better, see a title report with all kinds of liens and stuff, they're disappointed, you know?

J.P. VAUGHAN: Yes.

JOE KAISER: We see those things and it's like, you know...

J.P. VAUGHAN: Extra profit.

JOE KAISER: Yeehaw! Here we go. That's exactly right!

DAVID FINKEL: That's true.

J.P. VAUGHAN: Okay, David, question number 27 and we've already been through some of this.

27. What are the risks and benefits of doing rehabs? Including how to get funding and insurance.

DAVID FINKEL: Sure, sure. I'm going to touch base because I've already made clear I'm at on the rehab stuff.

The big risk with the rehab is just misunderstanding or miscalculating what the real costs of the rehab are.

People get their estimates, but after doing the work there's all this other work they didn't know about that gets uncovered. When they start pulling apart the walls they recognize that the wiring is completely messed up and the whole property's going to burn down probably, if they don't replace it, or something.

So, the thing I would say is the only way you lose money on a rehab is if you overpay.

Please, whatever you think the price is that you could conservatively pay, go lower than that. Build in some extra cushion. Until you really understand what it takes.

Number two: I think people over-improve properties all the time.

I know because I buy properties from rehabbers who rehabbed but got stuck and no one wanted to pay what they had into it. So what happens is, I think for most people, is they rehab a property to their own case, which is the most deadliest of rehabber sins, I think. Not that you don't have the taste, necessarily, but you don't have the taste of that marketplace.

Before I would even contemplate a rehab in an area, I would go take a look at ten other houses that are selling right now in that same neighborhood.

J.P. VAUGHAN: Yes.

DAVID FINKEL: And, see what the improvements are that people are willing to pay for in that neighborhood.

In some areas you want ceiling fans in the rooms. Other higher end neighborhoods, a ceiling fan is going to actually be a detriment because "*it looks kind of tacky*". Some people put a fancy marble countertop on but the market won't pay you for it. You spend a dollar they pay you 85 cents for that improvement.

JOE KAISER: Right.

DAVID FINKEL: But other things will always pay for themselves like laying carpet.

So, just make sure you don't improve it to your taste. Improve it to the taste of the people buying the property. Make sure you understand that part of it.

The final thing I'd say in terms of getting funding and insurance is that I don't know if I'm really the person to be speaking about it. I don't have firsthand knowledge. (Like I need to qualify this. I don't.) I've never gotten a loan to do a rehab property. And, knock on wood; I'm hoping I never have to.

J.P. VAUGHAN: You do, Joe, don't you?

JOE KAISER: [laughs] As far as the funding part or the insurance?

J.P. VAUGHAN: In the old days, in your earlier life, you've done rehab.

JOE KAISER: Yeah. In the old days, it was easy. An agent would come and he'd write insurance on an empty house. Now that's getting harder and harder to do. You know, they shy away from everything.

J.P. VAUGHAN: Yes.

JOE KAISER: We're used to buying things on the phone and they'd go drive around and look at them three months later, or so. Now they don't bind them until they've got a drive by. So it's a lot tougher.

DAVID FINKEL: Yes, for me, and even in California, my State Farm agent can't even write any more policies. They've lost so much money because of my mold and other things that are in California.

JOE KAISER: The other thing about rehabs, you have to be really good at math to do them. You'd be shocked at how cheap you have to buy these things to actually make a profit on them.

In your mind you do the math and think, "Well, we could do this and that. It'll work out."

But when you get right down to it, it's just amazing how expensive it is to rehab, how much things cost, like labor. You have to be able to buy these things really, really cheaply.

J.P. VAUGHAN: That's true. Okay, Joe, question number 28. This is a big question because of the Carlton Sheets infomercials.

JOE KAISER: Yeah, right. [laughs]

J.P. VAUGHAN: The past 15 years.

JOE KAISER: Yes.

J.P. VAUGHAN: Next.

28. How do you get cash back at closing?

JOE KAISER: Well, I would think that would be a good thing to know, wouldn't it?

J.P. VAUGHAN: Oh, yeah!

JOE KAISER: I have friends who are agents, so don't get me wrong, but agents have figured out how to get cash back at closing.

J.P. VAUGHAN: Yep.

JOE KAISER: So how hard could it be? I mean it can't be that difficult.

Everything we do is going to be based on cash back at closing. Especially if you're doing quick flips and those kinds of things. You know, that's just the way it is.

If you're talking about buying houses to keep, closing and getting cash back, that becomes a little more difficult. There are tricky ways to do it, which you don't need to monkey around with.

J.P. VAUGHAN: Yes.

JOE KAISER: This is the way it's done if you're buying and you're making a good deal. For instance, my hard moneylender we talked about earlier, will loan 65 percent loan to value. So if I buy a property, say, at 50 cents on the dollar, I will walk out of escrow with a check every time.

It's the easiest way to buy cheap and get a loan. You walk out of escrow with money.

If you're doing quick flips, you're not looking to keep the property then. Cash at closing is pretty much the whole game plan.

J.P. VAUGHAN: That's the definition of a quick flip.

JOE KAISER: You bet. You're getting cash at closing.

J.P. VAUGHAN: And then...

JOE KAISER: It's tougher if you're trying to keep it.

J.P. VAUGHAN: Right. If you get it for a rental.

JOE KAISER: Yes.

J.P. VAUGHAN: Yes, unless you get financing, like you said.

DAVID FINKEL: We also get cash back at our closings because when we're doing our closing, we're selling that property simultaneously to a person on a rent-to-own basis.

J.P. VAUGHAN: Right, right.

DAVID FINKEL: We're getting 3 percent or 5 percent of an option payment, which gives us some cash right there.

J.P. VAUGHAN: Right. That's right. So, we've covered most of the ways to get cash back at closing.

But it's a big question... it's a big question!

DAVID FINKEL: I think it's interesting. Like Joe, I'm appreciative of your mentioning that there are some ways that are talked about, in certain courses, in terms of getting the cash back at closing. They really borderline on loan fraud.

J.P. VAUGHAN: Fraud.

DAVID FINKEL: It's really terrible.

J.P. VAUGHAN: Yes, right.

JOE KAISER: Oh, yeah.

DAVID FINKEL: You know, the phantom second mortgages that sellers assign back over to you and give you the check under the table. I mean ...

J.P. VAUGHAN: Not a good idea.

JOE KAISER: It's tempting and you know that. And you get cash, but you know what?

It's fraud. Just don't go there.

DAVID FINKEL: The funny part is I had a loan broker just the other day on a property we were selling. He was trying to finance his buyer and suggested that very thing. And ...

J.P. VAUGHAN: Oh, wow.

DAVID FINKEL: ... but it was like everyday business to him. That's just how he gets these things done.

J.P. VAUGHAN: But the truth is if you're doing a good deal, if you're making a profit from the very start of the deal, you don't have to do any of that. You buy it. You buy it for the right price. You don't need to do loan

fraud. It's just not necessary. It is much more common than a lot of people think. It's just not the way to go. It's not worth the risk.

DAVID FINKEL: Well, I wonder about these people who aren't as savvy. And, you know, this broker, had I just been somebody who didn't know better, it sounded like a good deal. I wonder how many people are signing up for this kind of thing and what the consequences are.

J.P. VAUGHAN: But we've seen on the newsgroups all the time what people say.

DAVID FINKEL: Yes.

J.P. VAUGHAN: My broker said I could do this, you know. And fortunately we have a lot of people answering that question saying, don't do it. It's loan fraud.

JOE KAISER: Right, what I tell them is, "Great, get that in writing with a loan broker". Say, "Disclose that to both parties." Then I would be happy to do it, once it's been disclosed, because then it's no longer fraud.

DAVID FINKEL: Good idea.

JOE KAISER: [laughs] You'd be happy and surprised, how quickly the loan broker changes the topic.

J.P. VAUGHAN: Exactly, yes. Okay, question 28. David...

29. What's the best way to find buyers for your deals?

DAVID FINKEL: I go two ways, real simple. The two biggest basics are:

Number 1: Advertise right

Number 2: Dell with owner financing, whether it be on a rent-to-own or sometimes I'll sell with wrap around mortgages or contracts.

I know that if I'm selling with financing, the property doesn't matter. I don't put my time and energy into making the property look perfect. I focus my time and energy into creating an environment where people are competing to buy. So I'm going to do two things.

Number 1: I'm going to use ads in the paper. You need to have those in there. I'm going to advertise on Saturdays and Sundays because all week is kind of a waste of money. It's the Saturday and Sunday that gets you 80 or 90 percent of your calls.

I'm going to put my ads in the correct section. If I'm selling on a rent-to-own basis, I do not put it in the For Rent section. I put it in the For Sale or the Rent-to-Own section if the paper even has one.

I'm also going to use signs. Dollar for dollar signs are actually a better source of leads for buyers. I do not believe in having preprinted signs other than for what's right there in front of the house, and maybe on the corner lot, leading up to the house.

I find that those ugly little handwritten signs actually pull better for buyers.

For example, if you're in an area that you don't get a lot of rain, you can just use fluorescent poster board. If you're in an area of the country that gets lots of rain or a lot of snow, just buy some blank yellow corrugated plastic, probably 18 x 24 or 12 x 18. Just write on there real big letters what it is that you're offering.

Typically, if we're selling on a rent-to-own basis, we'll just put down rent-to-own, four bedroom, two-bath house and then the phone number, 24-hour message. And we'll get a lot of calls.

Where people blow it in creating competition, in my opinion, is they spill the beans over the phone. People think that they should qualify over the telephone. I think that's a mistake.

I don't want to qualify over the phone. I just want to get everyone to the property as long as I know what they have to work with is an upfront payment.

I'll still let people who don't have the money come to the property because of two things. Number one, they'll be competition for my people who do have the money.

JOE KAISER: Right.

DAVID FINKEL: And number two, who knows, maybe they will fall in love with it. Maybe I can work with them and help them get the money out of their 401K plan or a relative giving them the money. But I want everyone there.

Ideally, I'm going to have 10 or 15 people coming to the property. I don't do my showings from 10 to 4 like realtors do. I do my showings from 10 to 10:45 and I don't even have a showing. I make specific appointments with everybody. They just coincidentally all start at the same time.

J.P. VAUGHAN: Right. Well, that creates urgency.

DAVID FINKEL: Yes, urgency, fear of loss, competition, and all the good things that gets you selling a property fast.

J.P. VAUGHAN: Right. How about you, Joe, anything you want to add to that?

JOE KAISER: Well, I'm not doing a lot of lease options as far as selling right now. So ...

J.P. VAUGHAN: But you're selling your properties.

JOE KAISER: Oh, sure. You know, I've got an agent who we pretty much have hired now. We've got a lot of properties that go through our system here. So I've got a guy who is a very aggressive agent. We list the things and he just gets it done. He does all of the running around.

DAVID FINKEL: That's great, Joe. Here's a question for you. Do you have him list at the top end of the market? Or, do you have him go into just a little bit less, to get them turned quicker?

JOE KAISER: Right, we're always going to be a little bit less.

DAVID FINKEL: Okay.

JOE KAISER: Our thing is, I'm not low profit or anything, but we do need to just get them in and out. The longer they hold on, gets to be a problem because we could get really good at buying properties.

Where we get hung up is all of a sudden we look around and there are just way too many properties and way too much cash invested in those. So getting rid of them is the primary thing.

J.P. VAUGHAN: Especially if you do big volume.

JOE KAISER: Yeah, we do a lot.

J.P. VAUGHAN: High volume.

JOE KAISER: We do a lot. We're buying them cheap. We're still putting up some significant dollars into them. So, it turns out that you can run out of money really quickly, even buying houses at 50 cents on the dollar.

If you're not aware of that, it's great to look at the balance sheet to see all these huge equities there. But all of a sudden, there's no cash available.

That's a scary thing. So we always have to be moving properties aggressively.

J.P. VAUGHAN: David, the next question, question number 30, we've pretty much covered a lot, but it is –

30. How do I reduce my risks?

DAVID FINKEL: I'll just recap in about a minute what that was.

Number 1: Don't put money into the deal until you learn how to buy right. Don't sign personally on the loans until you learn how to buy right. Then you make decisions if it makes sense for you to do that.

Number 2: Have your properties pre-sold. Have your end buyer, who has given you a cash commitment, before you ever commit to the deal.

Number 3: In terms of reducing your risks, it goes back to number one. Don't put your money in the deal until you know what a good deal is and how to do it.

JOE KAISER: Good point.

J.P. VAUGHAN: Good. Joe, number 31.

31. I'm in a very competitive market with lots of other real estate investors. How can I make money?

J.P. VAUGHAN: Boy, you know, that applies to where you live in California, too, you know?

JOE KAISER: It's all a very competitive market. The short answer is, don't go there.

You know, we don't invest in what most people are considering the marketplace. That's where we sell our properties. But we go, what I call, subterranean. We go to the market underneath the market. That's the people who don't, who may not even have a property for sale. They're just people with problems that need to be solved. If selling the property is a solution for them, that's the person I want to talk to. That's not the person who's got the house listed.

I'm not the sort of person that hooks up with an agent or makes a whole bunch of offers through the MLS.

I think that's what a lot of my competitors do. They pour over that MLS every day. They've got agents sending them their hot sheets and playing them to properties that sort of fit their criteria.

I don't want to mess with any of that. I'm more than happy to let them have that marketplace.

I kind of want that marketplace, you know, it's not a secret or anything. But it's underneath all that. It's sort of just sits there. We get in and bump around in that marketplace. That's where we get all our deals and there aren't many people there.

We run into some of the same faces every now and then, but there aren't a lot of people who've figured that out so much. I don't think there are seminars or courses that really teach what that's all about. So far as competition, it's not as bad as it may seem.

J.P. VAUGHAN: Because you're talking about all the detective work you're doing at the courthouse.

JOE KAISER: Well, it's a lot of that. But, we saw in the paper recently that, in my neighborhood, it's the most overpriced market in the country. I'm doing okay.

J.P. VAUGHAN: Yes.

JOE KAISER: So if we can make it happen here ...

J.P. VAUGHAN: Right.

JOE KAISER: ... and, you know, it's got to be a valid way of doing business.

I was in Spokane, which is eastern Washington, 300 miles east. I was just shocked at the deals that could be made there. You know, I couldn't see

any competition there. There was just a ton of business and a little bit of the old school stuff where sellers will still sell on real estate contracts. Private financing, kind of thing.

DAVID FINKEL: I'm chiming in here. If you're looking just at foreclosures, the American Mortgage Association said that in the second quarter of 2002 (which ended in June) out of every property that had a mortgage, 2.7 percent of them were literally in default. It was just amazing.

JOE KAISER: Wow.

DAVID FINKEL: And for every one that was in default, you had about one other one, headed that way, behind in their payments.

It means if you drive by to your local grocery store and pass 100 houses, 2 or 3 of them are in foreclosure. Right there, and about 2 or 3 more are behind in their payments. They're everywhere.

JOE KAISER: Yes.

DAVID FINKEL: And that's just foreclosure. It doesn't even take into account the tired landlords, the divorce situations, and the people that want to get started in their business and need more capital, or want to turn their properties for people who have been relocated. I mean, deals are everywhere.

JOE KAISER: Well, we bought a property last year from a fellow who inherited a one half interest in a property in California. He wasn't selling.

The people living in the house aren't selling. That property is not on the market.

There's zero competition for that deal. But I happened to be going through a probate file. I saw that he got this half interest six years ago and he sold me half of a house for, literally, cents on the dollar. That wasn't a deal in the marketplace. That was totally beneath the marketplace.

And if we weren't out looking for that very scenario, there would have been no transaction. He'd still own half of a house and not have anything to show for it.

J.P. VAUGHAN: That's what you mean by going subterranean.

JOE KAISER: That's subterranean, right there.

J.P. VAUGHAN: I love it [laughs]. Well, I can't think of a hotter, faster moving market in Southern California. Or even where you live, Joe, in Washington State, Tacoma. So the next question is –

32. How do you make money in a hot, fast moving seller's market with high priced houses?

DAVID FINKEL: [laughs] I mean, the same way you make it in the slow market. You just need to understand that in a fast moving market there are two things to consider.

Number one: The sellers are still going to have motivating reasons.

I remember in San Diego, the higher the market was, in the summer of 2000, houses were having less than two or three weeks on the market. They were selling for over listing prices. Houses were appreciating across the county, about 16 percent on average, with some areas going up over 20, 25, 30 percent per year.

J.P. VAUGHAN: Yeah, it was crazy.

JOE KAISER: Wow!

DAVID FINKEL: That same summer, we still picked up three houses, and you know, one was a referral.

A mother of one of my students in the area here cuts people's hair for a living. She found someone -- in her barber chair. Actually, I know, for women, you don't call it a barber's you call it something different.

J.P. VAUGHAN: It's a salon.

DAVID FINKEL: In a salon, sure, that's it! Don't ask me why, but this woman was telling her about how she was behind in her payments and into foreclosure.

We ended up buying that property. We made about maybe \$120,000 in equity in that house and we will hang on to it because it's a long-term keeper for us.

J.P. VAUGHAN: Yes.

DAVID FINKEL: But, you know, they're everywhere.

Number 2: Let's get back to the second part of what to watch out for in a fast moving market. The most dangerous time to mis-price things, in a fast moving market, is right where the market might be taking a turn down.

So, please, that's even more reason why you shouldn't be buying with cash or money you had to sign personally for. If the market turns, you just want to be intelligent about that. You want to make sure that you've got the ability to hang on to the property because its cash flow over the next three, four, five, six years.

You'll come out okay on the other end, if you can really make the property cash flow.

J.P. VAUGHAN: Joe, you want to add anything?

JOE KAISER: Yes. People are always telling me, "There's not a deal to be had in my marketplace." My guy will just list it, you know. Offers are coming in at more than asking price.

DAVID FINKEL: Well, the reality is, some people won't just list it. Some people can't be bothered, don't want to go through the hassle. Some people will do anything not to be involved in that market place or to get involved in that process.

If I can come in and make them a reasonable offer, they'll sell it to me just to get it done. So they can move on.

The motivating factor isn't their getting the last dollar in this deal. The motivating factor is their moving down the road. If I'm the guy who can make that happen, they'll make me a deal that will work.

DAVID FINKEL: Good point, good point.

J.P. VAUGHAN: Okay, you guys. I know, Joe, that you're not a real estate agent. You don't have a real estate license either do you, David?

DAVID FINKEL: No, never really had a desire to get one.

J.P. VAUGHAN: Yes. Well, the next question, number 33 is –

33. What are the pros and cons of getting a real estate license, if you're a real estate investor?

J.P. VAUGHAN: Who wants to take that one?

JOE KAISER: Well in this business, when you've spent some time in it, you start to see the things that work and the things that get in the way. The goal is to eliminate all the stuff that gets in the way. Having a license, I would think, would fit into that category, for me anyway.

J.P. VAUGHAN: It would get in the way because of disclosures and all of that stuff.

JOE KAISER: I just don't want to be bothered. I just want to be able to rock and roll with this stuff and do what I do and make things happen. And there are all kinds of other things that get in the way. I just can't be bothered, you know.

DAVID FINKEL: Yeah, I'd ask myself, "What's the real advantage of having a license?"

The only one advantage that I see of having a real estate license is, as an investor, you get access to the MLS. Well, I can get access to the MLS if I network with the realtor, without any of the downside.

J.P. VAUGHAN: Right. And you don't have to pay for it either.

DAVID FINKEL: Right. There's nothing wrong with being licensed, though. I know of plenty of investors who make money and are licensed.

The biggest downside that I see in being a licensed agent is that there's a huge bias in the marketplace for sellers who sell "For Sale By Owner" and just don't like realtors.

J.P. VAUGHAN: Right.

DAVID FINKEL: Because they've been hounded to death from people calling them up that way.

J.P. VAUGHAN: Right. And if you're a licensed real estate agent, you have to do all the disclosure stuff.

DAVID FINKEL: Right.

J.P. VAUGHAN: And I've known a lot of investors who have given up real estate licenses just to ...

DAVID FINKEL: It's not worth it.

J.P. VAUGHAN: ... not have to say I'm a real estate agent because of the negativity ...

JOE KAISER: Always the first question out of the seller's mouth ...

J.P. VAUGHAN: Right.

JOE KAISER: "Are you an agent?"

J.P. VAUGHAN: Right.

JOE KAISER: It's always been nice to say no.

J.P. VAUGHAN: Yes.

DAVID FINKEL: I just want to share something with the people listening because we do a lot of stuff on the phone where we're screening sellers.

One of the things that our students' get is the question, "Are you a realtor?"

I just want to share with people the best response if you're not a licensed agent. And they say, "Are you a realtor?" I want you to scrunch up your face and say, "No, did I need to be a realtor?" [laughs] And they just totally refrain just by answering that way.

J.P. VAUGHAN: That's a good one, David. Okay, number 34. David...

34. Is it possible to make money in real estate part-time and how would you do it?

DAVID FINKEL: [laughs] The answer is yes. You're going to need to be fairly disciplined. What I mean by disciplined is, for some reason, I found in real estate, if you're working one hour this week and then 10 hours the next week and then two weeks of nothing, it just doesn't all jell together.

But if I'm consistently working 5, 10, 15 hours each and every week, or maybe even at the very most, 20 hours on a part-time basis, in 10 or 15 hours a week, after about two or three or four weeks in a row, things start to jell together. I start to get a little bit of a rhythm. I don't know why that is but discipline is important. So yes. You can do that.

I'm thinking probably 80-85 percent of the people in real estate work full-time somewhere else.

Yes, you can make money on it part-time. One of the things you have to consider is the discipline, but also, you just need to understand that you can spend two things to get deals.

You can spend money or you can spend time. This is for people to consider as they go down the road.

What I mean by that is, if you do have another full-time job, consider "what you can pay somebody else to do for you and what you can't pay somebody else to do for you. You can never pay someone else to negotiate the deal for you. Sorry, but you can't do that.

JOE KAISER: And you wouldn't want to if you could.

DAVID FINKEL: Yes, because they wouldn't. If they were that good and got a good enough deal, why wouldn't they keep the best and just give you the mediocre or the not so good?

JOE KAISER: Yes.

DAVID FINKEL: But don't be doing your own clean up on a property. Don't be the one licking envelopes and sending out things in the mail. Pay other people \$10, or even \$20 an hour to do that stuff.

Investors make hundreds, thousands or even tens of thousands of dollars per hour for sitting down face-to-face with sellers and collecting checks from

buyers. That's where your time needs to be spent. Anything that takes you away from that is going to hurt your income.

J.P. VAUGHAN: Excellent point.

JOE KAISER: Good point! You bet.

J.P. VAUGHAN: And, you know, I think the truth is that most people do start part-time in real estate. So, it is possible. Lots of people do it.

And that sort of leads to the next question, Joe.

35. How do you decide when it's time to quit your job and start investing full-time?

JOE KAISER: I guess it would depend a lot on your tolerance and how much risk you're willing to take. I would think that you would want to error on the side of safety and security there.

When I started in real estate, I quit my job the first day. I had nothing.
[laughter]

J.P. VAUGHAN: That's Joe Kaiser [laughs].

DAVID FINKEL: It's just so different from how my impression of you is, Joe, because you're just such a laid back kind of ...

JOE KAISER: Well, you don't understand. I'd been to a seminar. I was convinced but it didn't quite go according to plan.

My in-laws still haven't forgotten about this [laughter]. So I would suggest sitting down and really thinking about it. You know, it's got to work for the whole family as well. My wife fought it every step of the way because she could recognize the folly taking place in front of her. [laughs].

But I was so convinced that I had found my thing and that I could make it happen. There were just so many things I didn't know. And those will catch up to you.

J.P. VAUGHAN: Yep.

JOE KAISER: You definitely have to spend the time in the business. You know, at some point you'll just know there will be money coming in. You'll have some successes.

J.P. VAUGHAN: You'll have some money in the bank.

JOE KAISER: Money in the bank and you will know. And by the same token, you may decide you don't want to do this at all and there may never come a time to quit your job.

Not everybody has the temperament or the personality for this. And, it's not a bad thing. It's just kind of the way it is. It would be nice to still have that job when you decide that this isn't what you want to do.

J.P. VAUGHAN: Right. Well, some people are happy to pick up a long-term rental every year or two and develop a retirement fund that way.

JOE KAISER: Sure.

DAVID FINKEL: Yeah, that makes it ...

J.P. VAUGHAN: And that's the thing to do, too.

DAVID FINKEL: Absolutely! That's a known path to financial freedom.

J.P. VAUGHAN: Absolutely.

DAVID FINKEL: Ten rental properties. And then, over the next 30 years, paying them off.

J.P. VAUGHAN: Pay off.

DAVID FINKEL: Keep them safe from a lawsuit with perhaps a line of credit or a front mortgage to make them encumbered a little bit and they're going to make a lot of money down the road.

J.P. VAUGHAN: Yes.

JOE KAISER: The rent is going up every year.

J.P. VAUGHAN: The last two are my favorite questions.

36. What's all this talk about the real estate bubble? Is there a coming real estate bust and what should we do about it? Is it too late to start investing now?

DAVID FINKEL: You know that's so funny, while you're reading that question off, JP, I hear the guy from Inside Edition on television reading that out loud too!

And I see it as such a genuine, sincere question that people ask. What they're really saying is, "I'm scared to get started now. Is this a reason why I should basically stifle my dreams?"

J.P. VAUGHAN: The price is running with this real estate bubble stuff right now. It's on the newsgroup at least once a week.

DAVID FINKEL: Sure.

J.P. VAUGHAN: Where someone has read The Wall Street Journal article on the "real estate bubble".

DAVID FINKEL: Sure, it sells publications. What people don't recognize is that they're using language from the stock market that doesn't apply the same way to real estate.

J.P. VAUGHAN: Yes.

DAVID FINKEL: Because when stock markets crash ...

J.P. VAUGHAN: Yes...

DAVID FINKEL: ... you're talking them going down 50, 100 percent in value.

When real estate markets crash, there is no crash that same way. Markets are crashing when they go down 10 or 15 percent. That's a big crash in a real estate market. There's a big difference here. I mean, if somebody lost the house or lost 20 percent of the value that would be a crash.

Even still market rents are going to stay within reason. They're going to be buffered for those 12 months or so. And we all know that's a long enough period of time. Provided that the area doesn't lose its economic base or it can re-establish an economic base, it's going to go back up in value again.

Provided you're not in an area that only has one industry, which is making LP records or something like that.

J.P. VAUGHAN: Yes.

DAVID FINKEL: You need to have a fairly broad base economic fact or you're not concerned about jobs loss and all that stuff.

You know what? Even if it does take a hit, ride it out the other side and you'll still make money. And you know what else? When that market takes

that bust, you're going to make a ton of money buying if the properties are less expensive.

J.P. VAUGHAN: That's your opportunity. That's your call to people.

JOE KAISER: Sure. You know, they talk about this real estate bubble and I'm like, hey, where do I sign up for this?

DAVID FINKEL: Right! I mean, some of us want that to happen so we can buy. You know, basically, I want that sale to happen.

JOE KAISER: You know, it's easy to put deals together when you've got all kinds of stuff going on in the marketplace. People are worried about this and that and things are crashing around. That is when you want to be in there picking up the pieces. Those are easy.

I remember when interest rates went through the roof. They either sold to me or they didn't sell because no one was qualifying for those loans at all.

J.P. VAUGHAN: Right, right.

JOE KAISER: That was just the best. Everybody was bemoaning the fact of how terrible the market was.

J.P. VAUGHAN: Right, yeah.

JOE KAISER: It's like, "Come on, man!"

J.P. VAUGHAN: Yeah. Boy, talk about an interest rate spread, huh?
[laughter]

DAVID FINKEL: That's for sure.

J.P. VAUGHAN: Okay, the last question, guys, is this –

37. If you lost absolutely everything, all your assets, all your money, all your credit, how would you start over investing in real estate today?

J.P. VAUGHAN: Joe, do you want to go first?

JOE KAISER: Well, looking at assets, your money, and your credit. None of those impact my investing today. None of those things have any factor as to what my investing is like today. I do the same thing I'm doing right now.

J.P. VAUGHAN: Right, and you could still do a quick flip, right?

JOE KAISER: Well, yeah, those people think it's all about them. It's all about their money, their credit, and, it's nothing about them. It's all about what you know, who you know and how artfully you're able to assemble that team and bring all of these things together to put deals together.

So, what you've got today, credit, money, or whatever, that's immaterial.

J.P. VAUGHAN: Dave?

DAVID FINKEL: I would even go one further than that. It's interesting that you talk about the assets there. The question kind of put that out there, but I wouldn't even list those as real assets.

Not just because of the investing, but the love of my family and health. Those are so much more important than real estate and money.

Money is important, there's no question about that. It can create freedom, time, and security for people that you love. It can create enough that you can have an impact on generations to come. That's all wonderful and noble. I also know that the health of loved ones and their relationships, and myself are even more important.

One of the things I would just mention to people listening is that you should consider the idea of feeding for the future. Where a percentage of what you earn goes reinvested back in your capacity for earning more money.

Which means in your education.

A percentage of what you earn goes into your relationships. Basically what that means is taking 5 or 10 percent of a net profit from a property and having it be for family stuff, that you do together with them.

And a percent goes into helping people who you don't even have an idea who they are. You'll never meet them individually. But there are charities

and groups of people that just let you make a statement out there, that you have so much good stuff coming into your life, so much abundance, that you can give some of it away.

So that aside, what would I do different all over again?

I think early on I would recognize that I wouldn't be so afraid of acquiring more properties.

Early on I was scared and said "no" to a lot of deals. Doing it again this time, it wouldn't be nearly as hard. I would say "yes" to a lot more of the deals that I was afraid of.

J.P. VAUGHAN: So you'd have the ability to do even more deals.

DAVID FINKEL: Sure.

J.P. VAUGHAN: Than you did when you started out?

DAVID FINKEL: Sure. The other part, the only thing I would have to do different at this point is turn more properties quicker. Only because it sounds like I'd have to have some cash flow coming in.

Right now, I'd rather hang on to things and not have the taxable income. I'd rather have the unrealized gain right now. There are two money problems. Not having any of it and having too much of it. So that would be the only real shift there.

But once you understand about how to interact with people and how to language things, that is, when you're negotiating. You can really work to understand, connect, and take advantage of situations in a good, healthy way. Not in an adverse way.

There's just so much wealth out there. I mean, abundance is really a state of mind. You can have as much or as little of it as you're open to receiving. I know it seems a little "airy" theory, perhaps, but that's what I truly believe.

J.P. VAUGHAN: It's not. It's probably the most important thing that was said tonight.

We're talking about technical things and detailed things. But really, wealth is a state of mind. And the abundance consciousness is so important to success in this business, or in any business, and in life! The thought that the universe is abundant and you're entitled to some of that abundance, you know. So ...

JOE KAISER: It's a good thing.

J.P. VAUGHAN: It's a good thing. On that note, thank you so much, Joe. Thank you, David.

Both: You bet!

J.P. VAUGHAN: This was such a great call. Way better than I thought it was going to be. I knew it was going to be good, but I didn't know it was going to be this good.

DAVID FINKEL: What should we take that to mean, Joe?

[laughter]

J.P. VAUGHAN: No, no, I mean it in a positive way. I knew it was going to be good. So thank you so much.

Thank you everyone for dialing in tonight and listening. We'll have the transcripts and the audiotapes available in about three weeks. We'd try to do it faster, but we have the holidays and those things.

I'll email everyone when the transcript and audio files are ready.

Thank you, Joe and David, and goodnight.

JOE KAISER: You bet. Bye bye.

DAVID FINKEL: Good luck to everybody.

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