Stay Up To Speed With Eddie

CREATIVITY IS LIKE WATER — IT TAKES ON THE SHAPE OF ANY CUP

Being a successful entrepreneur in real estate investing is all about discovering voids and filling the gaps. The gaps in the market that need filling one year can be completely different than the ones in the year before. Creative financing is what fills those gaps for the challenges facing every deal you make.

EDDIE SPEED

I DON'T HAVE A CRYSTAL BALL — I HAVE A REARVIEW MIRROR

At this point in the wake of the COVID19 financial beating, new voids have suddenly appeared that weren't here just three months ago. I'm confident the economy will recover. But will we have a V-shaped recovery that turns back up immediately, or a U-shaped recovery that gradually turns back up, or are we looking at an L-shaped recovery where things stay flat for a long time?

In recent weeks, I've been doing 2 to 5 interviews every day for articles, podcasts, etc. (That's on top of my normal workload, so I'm busier than ever.) Everybody is asking me to look into my crystal ball and foretell the future. And I wish I could! I tell them I don't have a crystal ball — I have a rear view mirror. It gives me a clear view of the past, which can be just as valuable! The creative techniques I've developed, expanded, and perfected in previous downturns are being put to use to fill gaps in today's market to save the day for thousands of investors.

I can honestly tell you that I've boosted my net worth more in weak markets than in boom markets. But I haven't done it by taking advantage of people down on their luck; just the opposite. I've done it by HELPING people down on their luck using creative financing to fill the voids big institutions couldn't fill. When buyers are being left behind, creativity makes deals come together instead of falling apart.

THE SUREST WAY TO FAIL IS TO BE SET IN YOUR WAYS

I think of the real estate business as more like a river than a pond. A pond can quickly turn stagnant, but rivers are always flowing and staying fresh. As the saying goes, you'll never step in the same river twice. That's why we're constantly adjusting the curriculum in our NoteSchool classes.

When I got into this business back in 1980, mortgage interest rates were a staggering 20% and I was calling on mortgage lenders and real estate companies. When I walked in the door it felt like I had walked into a funeral home. They had no ideas, no plans, and no hope. They were set in their ways and saw no way forward because they only knew how to do things one way. But because I had a different mindset and fresh perspective, plus a toolbox of creative techniques learned from my father-in-law, it turned out to be a bonanza for me.

Creative financing also helped me thrive in 1986 after the huge savings & loan banking debacle that started in Texas and the Southwest, that caused the most loans to default since the Great Depression (and led to the formation of the Resolution Trust Corporation to liquidate the mountains of defaulted loans). It helped me thrive in the 1998 financial crisis when 8 of the top 10 financial institutions went belly up. It helped me thrive during the terrible downturn after 9/11 in 2001. It helped me thrive in 2008 when the Lehman Brothers subprime lending fiasco

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collapsed after loaning money to anybody who could fog a mirror, and financial powerhouses fell like dominoes.

I'm confident that creative financing is the answer to not just survive in 2020, but to THRIVE! Lots of real estate investors are finally seeing the beauty of creative financing. If creative financing was a lady, investors who would have rated her a 2 in January will be giving her an 8 in June!

LOOK FOR THE OPPORTUNITY HIDDEN INSIDE EVERY PROBLEM

Right now, the reason you see an empty shelf at the grocery store where the toilet paper used to

be is because of a supply chain problem. Well, that's not the only place where the supply chain has been disrupted. It's also happening in the downstream flow of lending money.

The money flow starts when a warehouse facility lender supplies the money for banks and mortgage companies to lend. In turn, these banks and mortgage companies then loan that money to real estate wholesalers and rehabbers, as well as individual retail home buyers.

These loans must meet the guidelines and requirements of Fannie Mae, Freddie Mac, FHA, or other federally backed financial conduits who will eventually purchase these loans from the loan originator. But if those loans have some kind of a "glitch" (and there's a huge range of potential glitches), then the loan originator has to buy them back in an "agency buyback." At that point, the loan gets branded as a "Scratch and Dent" loan. (Right now, we are seeing 10X the normal number of Scratch and Dent loans.)

What happens to all these Scratch and Dent loans? The loan originator has to find somebody else to sell them to, and many potential downstream buyers have moved the goalposts by changing their criteria, or simply evaporated altogether. These agency buybacks cause the money to flow back upstream instead of downstream, so it causes a logjam that stops the money from flowing to close deals. (They are trying to sell those Scratch and Dent loans to me at 95¢ on the dollar, and when it gets down around 60¢ I'll get serious about buying them.)

As warehouse lenders see the logjam downstream, they have become extremely limited in extending credit to banks and mortgage companies until they can clear out their inventory.

With banks and mortgage companies in turmoil, the neck of the funnel has narrowed so it's harder for loans to squeeze through. The requirements to qualify for a mortgage have tightened up dramatically in recent weeks. Lenders are requiring bigger down payments, and a credit score for the retail buyer of 700 instead of 620. (We're seeing way more buyers in the "penalty box" today than just 90 days ago.)

There is another problem. About a third to half of hard money lenders, who are private investors that normally lend to real estate wholesalers, have stopped lending money period. The ones still lending have significantly decreased their loan-to-value ratio. The end result is deals aren't making it to the closing table and thousands of potential home buyers are ultimately getting left behind.

BUT, all these problems have opened up a HUGE door for entrepreneurs who can structure deals with creative financing to fill the voids!

Let me give you one example. If a wholesaler can only borrow 70% from the private hard money lender, creative financing enables you to have the property seller finance the remaining portion of the deal with a "Piggy Back" second. Instead of using your cash for a big down payment, you can borrow 70% in a Hard Money first mortgage from your hard money lender with the remaining 30% coming from the seller who carries the financing instead of getting all their cash up front.

The seller gets paid out over time (so you are buying their equity with tomorrow's dollars instead of today's dollars), and the deal closes instead of falling apart. To help bridge the gap, Piggy Back Seconds are making a powerful comeback (I used them in a huge way back in the 1980's).

Even though there's a lot of uncertainty in today's market, I'm confident that investors who understand creative financing will come out smelling like a rose on the other side.

How do I know? Because I have trained 40 years for this party!

NoteSchool

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