REIClub

Interviews

Steve Cook

Wholesaling for Quick Cash

www.REIClub.com
1-888-683-3052 Toll-Free
Support@REIClub.com

Tim: Hello, this is your host, Tim Randle, and I'd like to welcome you to another episode of the REIClub Interviews. As most of you know REIClub is a fantastic online resource with tons of free information and tools for real estate investors. If you have not spent time to discover all of those resources please make a note to do some time soon in the future.

Each month the web site is updated with new articles and information to help you learn and grow your investing business. If you are not on our newsletter list, please go and subscribe and you'll get some free bonuses just for doing so.

As always, any and all views expressed on this interview are the views of the speakers and does not represent legal or financial advice. We strongly suggest that you seek your own legal and financial counsel.

I'm very excited today because I have Steve Cook, one of the nation's top experts on wholesaling. Steve, how are you doing?

Steve: I'm doing great, Tim. I appreciate you having me on the call.

Tim: Like I said, we're very excited to have you here. I want to give a brief background on Steve. I've known Steve since the late '90s and since 1998 Steve has flipped hundreds of properties and is an active Baltimore real estate investor. Soon after he got started he was getting bombarded with inquiries on how he was doing what he was doing because he was so successful at it so he quickly incorporated teaching others how to do it and he's had hundreds of successful students, as well.

Steve, would you mind telling us more about how you got started and your background?

Steve: Sure. I started back in 1998; I think I met you probably within a year of getting started in the business. But prior to being a real estate investor I was a restaurant owner and I failed miserably in the restaurant business. After I lost my restaurant I was in a position where I was broke, I had absolutely no cash in the bank, my credit was shot, I had creditors breathing down my back looking for money and I didn't know what I was going to do as far as making a living and being able to keep a roof over my head and food on the table.

One of the things I had always wanted to do was real estate investing and I started to really research it again, but I was researching real estate investing from a completely different point of view than what I had done in the past. I had to figure out something that I could do with no money, no credit, no experience and tons of debt on my shoulders. So I researched all different kinds of investing and the thing that I kept coming back to was wholesaling; I could buy properties or just control properties and just quick flip those for quick paydays which is what I needed at the time and the rest is history. I went real deep into it once I discovered the process and it's the way I've been making a living ever since.

Tim: I don't want to put you on the spot but do you have an approximate idea of how many deals you've done to date?

Steve: As of right now I'm in the neighborhood of about 450.

Tim: Wow, and wholesaling is your primary niche? So everybody knows where you—

Steve: I almost exclusively do wholesaling but I do rehabs here and there and on occasion I throw in a new construction or something like that, but for the most part wholesaling is by and far my favorite thing to do.

Tim: Are you still doing deals or is teaching taking up most of your time?

Steve: I am still doing deals as we speak; just in the last couple of months and I will admit I've slowed down quite a bit by choice. The deals that I do today are pretty simple, I look for a pretty high profit margin deals and I'm currently in the middle of a rehab right now that we've been doing for two and a half weeks and it looks like I will have a contract on it this weekend. Wholesales in December and January I wholesaled five houses so, yes, I'm still very active with it. My goal is to get down to under 10 deals a year but that's been a struggle for me.

Tim: It's a bad habit you can't rid of, huh?

Steve: I tell people that I need to go to Home Buyers Anonymous because I'm addicted to buying homes.

Tim: That's funny. From your perspective what would you see as the pros and cons of wholesaling?

Steve: Well, I don't know that there are too many cons, there certainly are and I'll get to those. But the pros, which is exactly what I needed when I was getting started, is that they are quick paydays. The paydays, although they're not necessarily very big, you can get some very large paydays on occasion. On two paydays I've made $65,000 just quick flipping a single family home, never having to take title or anything to it. So the paydays aren't always very small. I've gotten it to where my average is about $10,000 to $15,000 with little to no risk in those transactions; I'm in and out right away and it's just a very quick, clean way to invest.

The cons are that you have to keep on doing it. It's not like acquiring rental properties that will give off cash flow for a long time. The difference is the cash flow that you get from your wholesale deals is that it's much larger than $200 a month from a rental property. But once you've earned that payday it's not going to do anything else for you unless you reinvest that cash.

So that is probably the biggest drawback to being a wholesaler is that its something that you have to continue to do if you want to continue to maintain the income that you've been earning.

Tim: For those that don't know, what is a bird dog and should someone start that way?

Steve: Well, a bird dog is somebody who for lack of a better definition is just a property locator or deal locator; somebody who can get out there and find deals for you. Whether or not people should start that way really depends upon where they are personally with their resources and things like that. However, I do recommend coming along side another investor and working for them for a little while to learn the ins and outs, determine who all the players are in town.

I did start out as a bird dog but it wasn't intentional. The first deal that I finally did come across a light bulb went off and I realized what a deal was. I think that's one of the challenges so many people have is that they don't know what a deal is. But once I did find that one deal I had an investor who wanted to buy that from me immediately; I didn't have it for more than 48 hours and somebody wanted to buy it where I would have made $2,000 on it. Well, I came along side that investor and he started teaching me the ropes and within the next six weeks I found seven deals for him and he paid me $1,000 on each deal. So I made $7,000 in six weeks finding this investor homes.

I learned so much about the business in those six weeks that I was helping him find property that today that is still the foundation and the core of everything I do. Some of those relationships that I had established were the people who I met from helping him are still part of my team today. So being a bird dog, taking out the financial consideration, I tell people to be a bird dog and don't worry about how much money you're going to make. Instead, worry about what are you going to learn, what knowledge are you going to acquire that nobody can ever take away from you and like I said, I still benefit from those relationships that I picked up while being a bird dog 10 years ago.

Tim: That is great information. You mentioned finding deals and let me ask what are your say three to five favorite ways to find deals?

Steve: Historically I've always bought most of my properties off of the MLS. I love bank REOs, estate sales and HUD properties have been the things that I've bought the most of. I like the MLS because there are a lot of property on there, it's not a very emotional process, I'm not dealing directly with the sellers of houses and I have become very good at sitting at a kitchen table to negotiate with somebody; I don't like doing it so I try to avoid it. I can but I prefer to avoid it.

With the MLS I can just make my offers, I can make consulting offers and I can make offers that embarrass myself and I don't ever have to go face to face with the seller when that offer is being presented. I'm very comfortable with doing that and I just make a lot of offers on the MLS.

Today the majority of my deals come from referrals and what I have done is I have brought together a whole network of people that would be bird dogs for me. In fact I call it breeding bird dogs. That's basically the business that I've gotten into is teaching other people how to find deals and have them bring it to me.

I'll just share one quick tip with you as to how to really pull that together and have all the best deals in town coming to you. Whenever I'm in a group or in a room with a group of investors I'll ask them to please pass up their business cards or simply just poll the room and ask, "Does anybody pay referral fees for properties that may be brought to them?" Most people are willing to pay a referral fee, however, what I've discovered is that most people's referral fees are $250 or $500 and occasionally somebody is willing to pay $1,000 referral fee for a deal. The problem with that if you told me that you'd give me $500 for finding you a deal your card is going to go to the bottom of the pile because $500 doesn't excite me, I'm not going to be too interested in calling you when I find a deal. I think the fact of the matter is $500 is just not a lot of money to people these days and it doesn't excite too many people when they see that $500 referral fee.

The approach that I take is I tell people that I pay a minimum of $10,000 as a referral fee for a deal. Well, what happens is I immediately shoot up to the top of everybody's list and I'm the first phone call whenever they get something. Now, obviously, I'm not buying everything that comes my way and the only properties I am buying are the ones where I can justify paying $10,000 on. But people want to know how do I get all of these great deals and quick flips that make me $30,000 or $40,000 well, it's because all of the deals that are happening out there the first person who sees them is me because I'm at the top of everybody's list. They are all willing to call me because they know if I buy it they are making $10,000 and the others are only going to pay them $500 or $1,000.

So I've gotten to the top of everybody's list so whenever they find deals they are calling me. But more importantly, when the deal doesn't work out I then take that deal to the rest of my network and the students and other people I know and I help them get that deal closed so that I will still be their go to person and they know that if I don't buy it I'll still help them get the property moved into numbers work.

Tim: Great tip. So those are two primary ways you are getting referrals?

Steve: That's it today, yes.

Tim: You mentioned earlier and I wanted to come back to it, that one of the biggest issues you see is that newer folks do not know how to determine what makes a deal. I know that's a pretty broad question, but how would you define what makes a deal?

Steve: This is a very difficult thing for people wrap their heads around and I've had a lot of people ask me to mentor them along the lines of wholesaling. Mentoring somebody in that field is really challenging because it is all a head game and most people get very emotional about the house buying process even as investors. They say this is a business to them but they get emotional when it comes to buying a house. You've got to put your emotions on the shelf; there is no place in this business to get emotional. Everything is about the numbers and the only way that you're going to get the numbers that you need to make these deals work is to have a motivated seller. Many people getting started out they just don't understand that, they can't understand what a motivated seller is. Intellectually they can read it and they can say, "Okay, it's somebody who needs to sell." But until you've met one you don't know what a motivated seller really is.

Many investors are motivated buyers because they want to get started so badly and they take their emotions into the deal and they never get going and never get off on the right foot. So the key is just having that motivated seller, leaving your emotions out of it and working with numbers that work. Does that answer the question?

Tim: Yeah, I think so. Its one of those things you'll know it when you see it type of things.

Steve: I tell people that light bulb goes off. Once it does then my students, when that light bulb goes off they are off to the races. It can take them months to get that first deal but then it takes them days or weeks to get the second deal.

Tim: The reason I ask that question is that I agree with you, like you said, you'll know it when you see it, but some investors have a pat answer that's like a formula, and this is how I come up with what a deal is, so I wanted to make sure that we got your perspective on that.

What would make you walk away from a deal, if anything?

Steve: Nothing would make me walk away from a deal. I just had this discussion with a student a little while ago, who was getting pretty emotional about some deals and he said, "Well, I just don't like the house." I asked what they were asking for it and he said $60,000. I said, "So at $60,000 it doesn't work. But if they sell it to you for $5,000 would you buy it?" His response was, "Yeah, then I'd buy it." I said, "Okay, so the problem isn't what you see with the house. The problem is the price right now." So the bottom line is that there is a right price for everything and the only thing that would make me walk away from a deal is that the price is too high.

Tim: Okay. That leads me to my next questions which is how do you go about determining your offering price?

Steve: We use a formula based off of what the house would be worth fixed up and I'll just share with you the formula. After repair value, ARV, times 70% less repairs and that is the offer we come up with. As a wholesaler I need to offer less than that just to get my wholesaling profit in there. But more importantly I just want to make one thing clear; that formula is a general rule of thumb. Its not the golden rule, it's not necessarily the formula that everybody should be using. There are many factors that have to be considered when you come up with a formula that you use to make offers with.

For instance right now in this market when we're seeing the value go in the wrong direction I have changed that formula and today we use after repair value times 60% less the repairs to come up with our offer. We're putting a little extra buffer in there because during the rehab process we're likely going to see the values of our properties drop. So just keep that in mind anybody who is listening is that you need to continue to modify that formula to suit your needs for the time.

Tim: Let me ask you a question about paperwork; do you use protection clauses in your paperwork or any specific tips you want to share on that?

Steve: Well, this isn't as important for me anymore because I'm very capable of settling most things. But in the beginning I was not always certain that I would be able to get deals done. The number one problem that I see when people are trying to protect themselves is that they're really not that serious about moving forward or they allow that fear to screw up their deal because they are basically putting in protection clauses that are very blatantly designed to get them out of the deal and that doesn't work.

I don't put any clauses in my contracts. I never have and the only clause that I ever put in my contract is a financing contingency. In the past I always needed to get financing so it was a legitimate clause for me to put in. If I ever found out that I paid too much for a property or if my lender felt like I paid too much for a property I could get out of the deal.

Now, one of the concerns that so many people have and I get questioned about it all the time because I make many sight unseen offers is well, what if you find out there's something materially wrong with the property after you've had your offer accepted. Well, after my offer has been accepted if I get out to the house and I find out that the foundation is crumbling and the house is coming down I would just simply have a talk with my banker and say, "You know, Mike, I really think I screwed up on this one. I know you guys are going to lend me the money but you know, this foundation is really shot and I think I'm going to really take a bath and the bank might have to take this property back from me. Are you sure you want to lend me the money on this one?" The bank is going to deny that loan and then I'm basically exercising my financing contingency and I'm out of the deal.

So I have every—if I know what's wrong with the property I'm obligated really to tell the lender that there is something materially wrong with the property and it could be a bad loan for them at which point they will decline to lend me the money and I can get out. That is the only contingency that I've every used.

Tim: That brings up another area that we probably should explore because as you know a lot of the wholesaling teachings and trainings out there almost advocate staying away from the banks and traditional type financing. You mentioned a couple of times that you went to your banker; can we hear more about how you established those relationships and how you use them in your business?

Steve: Sure, let me just go back and what I'm going to share with you here, Tim, right now, is something that I have not really taught much over the years because it really just occurred to me how important it was.

For years and many other people out there teaching the same thing that if the numbers work the money will come and I wholeheartedly believe in that. However, knowing how the money is going to come and how the money is going to play into the deal is a consideration that everybody really should know up front. The reason being is that one of the things that has really contributed to my success and I'm just going to take a step back and go back to the beginning and just share a little bit with you.

My first three years I did just over 100 deals and at the end of those two years I decided to sit down, evaluate everything that I had done and just go through each deal and see what was good, what was bad and then I decided to make up a list of what my five best deals were, what my five worst deals were. I did that for my wholesaling business and then I also did that on the rehabbing side because I just wanted to see what some of these deals may or may not have had in common.

After going through that exercise with my five best wholesale deals there was one thing that every one of those deals had in common and that was that my buyer used my title company and my lender in all of those transactions. The transactions went very smooth, I profited very nicely on those deals and the key was that we brought together the right team to make those deals happen.

So from that point forward whenever I wholesale a deal I made it a requirement that if you want to buy a house from me you had to use my title company and you had to use my lender. The only circumstances that I would work with somebody under some other model would be that I was well aware of who their lender was or they had cash for something. Otherwise, I would not allow you to use your own lender to buy a house from me.

Well, what had happened is that I had become very, very familiar with my lender and I knew exactly what they would do, what type of financing they would provide, how much they would lend on each loan, who they would lend to and I knew their lending program inside and out; I knew them intimately. So as I was moving forward whenever I was looking for houses I was always looking for houses and wanted to buy them in such a fashion that I could make it fit that lender's program.

So now if I had a property for sale and I knew what the lender's program was I just needed to find a buyer and plop them into the shoes of the borrower and I had just brought all of the pieces together to do a deal. There are so many buyers out there who don't know how to put these deals together themselves, but it was very easy for me to find buyers once I had the property and the lending already in place. So I had come to an agreement with this one and this was a hard money lender at the time, I came to an agreement with him that he would finance all of my deals and if I decided that I was going to wholesale them instead, he would finance my buyers provided that the numbers still made sense. So my entire business for a while revolved around this hard money lender and how his programs worked.

Just in time I decided to go out and establish more relationships with other lenders and I should say that other lenders actually came to me and asked if they could start lending to me and to my buyers and I started relationships with small banks and things like that. But then and this is what I want everybody to understand is that you need to understand their lending criteria inside and out. You can't just sit here and assume how their financing works; you can't just listen to what somebody tells you in a course that hey, this is the way that the lenders work. Not all lenders work the same; you've got to get to know all of the criteria that each lender you are bringing into your team uses to determine whether or not they are going to do a deal.

For instance, I have a lender right now, it's a bank, they give great interest rates, they are actively lending, even now in the slower market, to actively lending when most other banks have stopped lending to investors. But they give great interest rates and they are prime plus 1, they charge one point to investors and they are willing to go up to 80% of the value of the home, of the after repair value, after it's fixed up. However, there are a couple of things that become a challenge and one of them is that they will only go 80% of the purchase price of the house. For somebody who is buying a house for $100,000 the bank will only go up to $80,000 and my buyer has to have $20,000 down to buy that house from me. Anybody who is an active investor knows that it's a challenge to find people who have that kind of money to bring to the table to buy homes.

Well, it used to be with this particular lender that we would also borrow the repair money to fix the houses up and they would let me build that $20,000 into the rehab fund so that I could lend the money to my buyer or find a private person to lend the money to my buyer and then could pay back that money as they were completing their rehab. Am I making sense, Tim?

Tim: Yeah, I understood you but we probably ought to go over that last part again for those who don't know how the loans work.

Steve: So the bank will actually lend the money to purchase the house, and in addition to that they will also lend the money to fix the house up. The total of that can't be more than 80% of the after repair value. Well, if your purchase price is $100,000 to buy the house and you need $50,000 to fix it up and it's worth $200,000, our numbers are going to work out really well.

But let's just say its $100,000 to purchase; the bank is only going to lend $80,000 at the time of settlement. When we are settling on that property we need to come up with another $20,000 at settlement to make this deal happen. I can go to a private person or myself, we can lend the money to the buyer of that property so that they can purchase the home from us. So the lender is allowing us to get that money from an outside source; they are not making the investor come to the table with the money themselves.

But I said that we had $50,000 in rehab for this property, we could then bump that number to $70,000 and that is what we'd ask the bank for is $70,000 and we would get $50,000 for the rehab plus another $20,000 to pay back that private lender. So now the person that the investor went out and borrowed this money, once they've paid back the private lender they just have one mortgage with the bank at a 6% to 6 ½% interest rate, which is a great interest rate for lenders.

Having said that now, what I've done is I've created a 100% financing program for investors. Now this is something that in this particular market is almost unheard of but this is something that I've been doing for the last 10 years. I've been offering 100% financing to investors offering them deals that work, offering them the money, getting them in with no money down, and putting them into profitable deals so that they could keep coming back and buying more properties from me.

The key with all of this is having lenders that are flexible; who are investor friendly and they know what to do. The bank that I work with today is so investor friendly, so friendly towards me anyway, that they will now, they don't want me building that money that I just said into my rehab estimates that way anymore. They specifically want me to put a line item on the draw schedule of the borrower that says, "Repayment of loan to Steve Cook." So that if I'm the lender on that transaction when the person is finished with their rehab the bank then just cuts a check to me for the repayment of that down payment loan and that is specifically the way it says it on that draw schedule, "Repayment of down payment loan to private lender." So they are giving the money right to the investor so they can pay that off.

We've done this just over time and building a relationship with the lender and we sort of have crafted this program where we can go out and get 100% financing for our borrowers. Now this is very, very important for the investor as they are out there looking for houses and they are deciding what to offer for a property is that before I ever make an offer on a property I've already worked through the numbers and I can see how they need to work with the lender and for my buyers in order for this deal to be put together with 100% financing. So it is very important that I know this and that I can structure my offers properly.

That doesn't take me much time anymore because I've done it so many times and I know within seconds of looking at a house and seeing what the values are what it is but I had to spend more time sharpening my pencil as I got used to this. I just want to sort of sum it up and maybe give everybody some tips on how to go about doing this.

One of the keys is that there are two types of lenders that you want to have on your team and I'm going to define those real quickly; one of them is a private lender. I know that many people like to make a distinction between private lenders and hard money lenders. When I talk about hard money lenders I'm talking about private individuals, not the institutional hard money lenders, but somebody who is local in your market who has a boat load of money that they are lending. Whether they are lending at 8% or 15%, that doesn't matter to me; it's the accessibility of the money that matters and their flexibility in being able to work with you on these deals is key. So you want to find individuals who are willing to lend for real estate.

In addition to that you want to find small, local banks. These are community banks that have not too many branches in the area. They might have one branch only, they might have five or ten branches but these are small banks and not national banks. The big difference between the small banks and the big national bank is that the big national banks have a mold that you need to fit and if you don't fit it they can't work with you.

The small, local banks they will create a mold for you and I've had the small, local banks create molds just for my deals. That comes just from going in and sitting down with them and we'll talk about that in just a moment. So you want to find the private, local banks and you want to find the private lenders; the individual people who have money. You are going to want those two because through those two sources you should be able to get done just about any kind of single family home investment deal and just about any small commercial deal if you have those two on your side.

So you've addressed the financing portion of doing these deals. So when I go in and I talk with a small, local bank I'm going in and I'm trying to discover what programs they currently have available. I don't want to go in and make proposals to them and say, "Here is what I'd like for you to do for me," because many times they are very uncomfortable with doing something new. So the first thing I do is I ask them what it is that they already have to offer and I listen and I continue to probe and ask a lot of questions about the program. They tell me yes, they do a rehab loan for investors I'll start asking questions; can you tell me about the terms of the loan? I'm taking notes and I'm writing it down as they tell me. If they tell me we require 20% down I'm going to ask them does it matter where that 20% down payment comes from. Do you care if I take back a second mortgage for that down payment or can the buyer cross collateralize and tie up another property in lieu of putting down a down payment? I'm sort of at this point just seeing how far the bank's tolerance will go and I just ask them little questions here and there.

Sometimes you're not comfortable asking them during the first meeting and that's okay. But another key thing that I want everybody to understand is that when you are having these discussions, you want to come across as the person who is going to be doing all of the borrowing. You want them to take you seriously and too many people walk into banks and they immediately start talking about their buyers and they are going to bringing their buyers in. The banks don't respond too well to that because if they are going to give you their time and start talking to you about their programs they want to know that you intend to do something with them. Otherwise they just prefer that your buyers come in and they'll just talk to your buyers.

What you need to do is really let them believe that you're going to be the person who is working with them and one of the last things that I would say to the bank or after they think now we might be moving forward with a relationship I'm going to say to the banker, "Listen, before I go out sometimes when I go out to actually put a property under contract, I don't always buy them myself because somebody comes along and sees what a great deal I got and they want to buy it from me. If that ever takes place and that happens would you be interested in financing those buyers for me?" Most of the time the lender is going to say yes, they would be very interested in lending to them. I say, "Great, if those types of deals take place I will bring them into you to talk to you." But I've approached it the whole time as if I was going to be their customer and then it is sort of the last thing that I ask so I'm getting permission from them to start bringing in my buyers in. And now that I understand their program I know exactly what to tell my buyers and I know exactly how to structure the deal, and I know exactly how to make my offers so that the whole deal will work.

This is just something that I've been doing for the last eight years, Tim. After those first two years and I sat down and I figured it out I just completely restructured my business and I make everybody use my lenders from here on out and its made life very good and made my transactions very smooth ever since then.

Tim: For those that didn't catch all of that I would suggest rewinding and going back and listening to the whole banking section again because what Steve mentions is very rare and a very smart idea as far as providing as much financing for your buyers as you can and in Steve's case he's got it all the way up to where he can finance them 100%. In addition to that he streamlines the closing and profits using his own lender and title company. So both of those ideas are very worth listening right there.

Steve: Let me say this, Tim, because for anybody who is listening to the call that is going to go out and try and develop these relationships don't get discouraged if you don't get there right away. Your job as the investor is to go out and find the best program that you can possibly find. Right now, it's not as easy to find and develop these relationships as it was a year or two ago.

What I'm finding is that many people are just getting the door slammed on them right away because they aren't approaching it the right way. Everybody needs to understand this; if a bank does not lend money, they don't make money. They can't stay in business if they're not lending money. Now if a bank has been burned by investors, right now they are very gun shy and they're not going to want to lend to other investors.

So what you need to do is say, “Mr. Banker, I understand the programs that you were doing in the past are things you just aren’t interested in doing anymore. At what level would you feel comfortable?” You want to probe again; you are looking for their tolerances. Just because they were burned at that 80% LTV level doesn’t mean that there’s not some level that they are comfortable with. So if you find that a lender is hemming and hawing and saying, “Well, we’re not really interested in doing that anymore.” You could say, “Well, what if the LTV was 70%?” Or, what if the LTV was 60%? You keep on going until you get something from them because what’s important is that you have something to offer your buyers and you know how that program works.

So if you get a banker who says “Look, we would consider doing this at 60% LTV.” Say, “Great. Let’s talk about the down payment real quickly. What if my buyers are borrowing their down payment? Would you work with that?” What you work on then is you do the combination of financing and you get your private lenders and you get your small, local bank and between the two of them you can create that 100% financing program.

So the key is finding out what you can get out of your lenders and the small local banks and then combining it with the private financing and the two of them together is how you can offer your buyers 100% financing. Tim, you’ve been around a long time and when you can offer 100% financing buyers will be coming out of the woodwork.

Tim: Absolutely. That pretty much everybody at your local REA club if you can offer that kind of package.

Steve: So when you put together that type of thing, Tim, you create buyers.

Tim: Let me, along that line, do you have a type of way that you attract—I know you have a full buyer list now, but when you were first getting going did you—what were some of the ways to attract buyers and also to communicate with them?

Steve: I’ll tell you, one of the keys was the financing and I found most of my buyers really just through the classified ads to start out with. I would put ads in the paper and I would just write an ad as though I was very motivated. I wrote an ad that would really get the phone ringing. But one of the things I always pointed out in there was let’s say it was a $150,000 neighborhood and I had a property that I was selling for $75,000. I would just put, “$150,000 neighborhood. Only $75,000. Financing available.” That would get my phone ringing.

The majority of the people who would call up on those ads were people who had little to no experience. In fact that would probably be 95% of the calls that would come in from the ads. Most investors when they are looking to wholesale are waiting for those cash buyers to call them because that's what most people tell you that you pick up the house like that and you've got cash buyers coming out of the woodwork. I found out that there weren't that many people out there with cash or if there were, they weren't calling me. So I had to figure out a way to create buyers.

So of all those people that most investors would blow off, I was working with them and the one question or many times they would call up and they'd start asking me questions because I was the one who put the ad in the paper and they wanted some information about the house and I'll just tell you a little funny side note is that many of the people their first question would be, "Does the house have a garage?" The reason that so many people ask that question first is because that is the first question on the Carlton Sheet questionnaire. I would finally ask them to put their Carton Sheet questionnaire away; I wasn't going to answer all of those questions for them.

Tim: [Laughter] That's great.

Steve: Then I would turn that around and I would start asking the questions. They were not ready or prepared for that. They thought they were going to go through all of those questions. Instead I would ask them how long have you been investing? The answer to that question was, "Well, I'm just getting started," or "I've been trying to do this for a while." I might even ask them how many deals have they done. Most of the time they had never done a deal or if they had done one deal or two deals it was always very low. My response to them would be, "Why haven't you done a deal yet?" Or why haven't you done more deals? Depending upon what their answer was and there is only two answers that I ever got from them and those answers were either I can't find the right deal or I can't get the money. And I had the solutions to both of those. Regardless of what their answer was, I would say, "If I could get you the right deal would you be interested in doing business with me." Or if I could get you the money would you be interested in doing business with me. They always answered yes.

Then I would explain to them here is the way that I operate; I'm a wholesale distributor of residential property. I buy properties cheap and I sell them to other investors. I have the money in place, I have the title company in place and I'm looking to establish long term relationships with my clients and I don't want somebody who just comes in here and buys one house from me and then I never hear from them again. I say, "Does that sound like the kind of person you would like to work with?" I'm already priming them to buy more property from me and I don't want them to buy just one and they all get very excited about it.

Then I would just put the ball in their court. I would say here is the list of properties that I have right now, go out take a look at them and if there is something that's of interest you give me a call back and I'll get you started down that process. So I just brought everything together and when they would call me back I'd tell them we need to get together, we need to sign a contract, I do need to determine whether or not you are credit worthy to go to my lenders and I'd have them pull credit reports or ask them what they did for a living, how much money they made, what kind of credit did they have because I didn't want to bring deadbeats to my lenders.

Once they came on board I just put it all together and I showed them exactly how we structure the deals, how I would get them in with 100% financing, how I would get them their rehab money and just put it together and closings were so simple. All I did was just walk in, pick up my checks and go. So it was a very, very simple process and when you can offer that 100% financing and the good deals, your buyers, there are no problems finding buyers. You create buyers, you don't find them.

Tim: Good stuff. Back when you were active like let's say we go back to those first few years when you bought over 100 properties, how many offers would you make in a given month?

Steve: A day or a month?

Tim: Okay, we can go day.

Steve: I was making as many offers as I could possibly make. I would say that I probably averaged in the neighborhood of about 30 offers per week and I did have two occasions where I actually 9 offers accepted in a day and that happened to me twice. And one of the cases I had made 40 offers and got 9 of them which was a pretty high rate. But I was constantly making offers and many people would come to me and say, "Well, Steve, you don't have that many houses to make offers on." If it was two or three weeks later I might be making offers on the same houses that I offered on three weeks ago. I just continually stayed on top of it and anything new that came available I would just make offers on and it is just an on going process. You just keep making offers and making offers and making offers and eventually they stick.

Tim: I know you've slowed down some now but lets if we can stay back in that kind of time frame what were say three to five tasks that you were doing on a daily basis to kind of grow and improve your investing business?

Steve: Well, the number one task is always just making offers. That was the key to the entire business. Once I had inventory it was very easy for me to bring buyers in and I became very well known within the investment community. When somebody needed a deal they didn't bother going out and looking because they knew that I always had an inventory. So I was frequently dealing with making offers, marketing the properties that I had and I didn't have to do a whole lot else because I had a great team of people around me that I had established that took

care of the rest.

I would say that maybe one of those tasks was that I was always just kind of keeping everything coordinated with the lenders and the title company. I was really just—I used to tell people I was sort of like a coach and telling all my team members what to do. I was telling my realtor to make offers here, I had a girl in the office who I was telling how to handle perspective buyers, and I was directing the title company on exactly what to do with each transaction, telling the lender I had another person coming in so I was sort of like the ring leader; just telling each person what they needed to do. I just had that machine just rolling the whole time.

Tim: You mentioned your team; so you had your primary realtor, you had your title company, you had your lender and you had someone in the office. Were there other folks that you used on your team and how did you find them?

Steve: I would say that the other one key member that I had which I didn't use too much on the wholesale sale would have been a contractor. As far as how did I put the team together, let's just talk about each one of them individually.

As far as the real estate agent is concerned for making offers and that particular realm of the business you want to find somebody who is a little newer in the business that is hungry, who doesn't have something that's already established and they haven't been set in their ways. A real estate agent who has been in business for a while is typically tainted towards investors who want to make a lot of low offers and it's really hard to get them to come around. At one point I even had my mother become my agent for me and she started making all of my offers. But I've never had a problem getting anybody to do that.

On the flip side, if you're looking to bring somebody on to your team to sell houses for you it is nice to reward your wholesale, the person who is making all of your wholesale offers for you with that business; however, I look to have a professional on my team to sell my houses for me. I want somebody who has been around a long time, somebody who has done high volume and I don't mean somebody who did high volume in 2005, everybody did that. I want a person who did high volume 10 years ago when the market wasn't good and who has been around for 20 years and knows how to sell houses in up markets, down markets. So I go out and I look for the best of the best to actually sell my houses for me.

When it comes to title companies and this is a tip that I want everybody to really pay attention to. When it comes to title companies I get out and I ask for referrals from other investors. Other investors have already determined who the investor friendly title companies are. So you don't want to get out and have a title company that you need to train. You want a title company that can train you and tell you the best way to do things because they've already done it for other investors. You don't want a title company that tells you that you shouldn't be doing this. That's not the kind of I'm talking about when I say training. You want a title company that says, "Hey, there is a better way," or "We might be able you a few extra bucks if you do it this way." That's the kind of title company you want.

But the key to getting a good title company is that that title company is putting together the whole transaction; they know all of the players out there. They are working with other investors and they know where all the other investors are getting their money from. They also know who the hard money lenders, the insurance companies, they know all the investor friendly players out there and you can get referrals from the title companies to the best agents, the best lenders, the best insurance companies because they know it. That is one of the key players that you can find is the investor friendly title companies/attorney that all the other investors in town are using. Once you have that you can get all the other referrals that you need.

Tim: Great tip. Let me kind of put you on the spot here; would you be willing share one or two secrets you regularly in your business that most people don't know?

Steve: Tim, I think I would be willing to share that if I were keeping anything secret. I think historically I've always been an open book and I've taught everything that I know and I don't feel that I've ever really held back. As you are asking me that question I'm actually sitting here trying to think do I actually have a secret and I can't think of anything off the top of my head that I do hold.

I think that the key to my success is that I've always treated people well in my business and I've always been fair to everybody. I try to be a little bit different than everybody and as I mentioned earlier breeding bird dogs and offering a minimum $10,000 finder's fee, you become the go to person in town when you do that. Everybody wants you to see their deal before they bring somewhere else. When I develop these relationships with people I am helping them all along the way. If I don't do the deal I will still help them to move it.

But most importantly, when they bring a deal to me and it's a slam dunk, $40,000 wholesale profit I'm writing them a check for $10,000 and I'm not thinking twice about it. People want to know how did I get all those great deals, well that's how

I do it. I've already shared that but that would be the secret to my getting great deals in the last couple of years, if I have one.

Tim: How about three to five action steps that you would recommend for someone that's just kind of starting out.

Steve: Well, first of all get around other investors; get around people who are successful in business and you can do that by going to local REAs, participating on Web sites like Tim's, REIClub.com and just networking with others who are out there actually doing. Once you start getting around people and who are doing you want to start asking them for referrals and then you have to start following up on those referrals. Many people sit here and they'll start getting all of these names and numbers but they never do anything with it. You've got to start taking action, finding out who players are in the business and bringing them along side of you as part of your team.

Now keep this one thing in mind; they are not going to take you seriously if you are not doing anything. As you do approach people you need to be perceived as a person who takes action, who is actually going to make things happen and then they will take you seriously. You need to really sit down and come up with a good plan and this one of the things that I really focus on with my students these days is helping them to come up with a plan.

We approach that from two different angles. Number one; first we want to do is establish why do they want to be a real estate investor because I need to know what their motivation is and that is something that helps me to get them over the hump once they know specifically why they want to be investors. If people don't know exactly why they want to be a real estate investor they typically won't take the actions to overcome their fears and hurdles that are before them. So when they really know and they have a clear picture of why they want to be an investor they don't let the hurdles and obstacles get in their way and they'll push right through those and take the steps that they need to take. So I help them get a clear vision of why they want to be an investor.

Then we put together a plan to help them achieve their goals because as you know, Tim, not all investing is going to help somebody achieve their goals. Somebody who goes out and just starts buying rental properties and they don't know why or what it is they are trying to achieve or they don't have the resources to be able to maintain those rentals they could just be setting themselves up for failure.
Somebody who just starts rehabbing houses without a plan could be going down a wrong path and end up being a landlord because they didn't know what they were doing and they were doing it the wrong way. Wholesaling is something that isn't right for everybody; it's the type of investing that requires time and there are a lot

of people out there who just don't have the time to invest into being out there and finding deals and they might be more suited to doing a rehab which requires a lot less of your personal time involved with the finding deals.

One of those steps that they would really have to take is to come up with a good plan, know exactly what type of investing you're going to pursue and focus on that and then start taking those action steps and moving in that direction to make things happen. I tell people that you just take a little step at a time and all of a sudden the ball starts to roll because each step you take requires another action item on your part and before you know it you can go from being someone who's never done a deal before to where bankers and real estate agents and title companies are calling you up with the next step that you have to take and one day all of a sudden you wake up and you're a real estate investor.

So its get focused, start taking those steps and make something happen.

Tim: Since we have a few minutes left here, let me go back to some more generic questions. For those that didn't have access to MLS how did you go about getting comps in the early days if you didn't have access to the MLS?

Steve: That's actually funny, when I first started when I didn't have access to it, I used to drive around neighborhoods and look for other homes that were for sale and that is one of the rules that we're not supposed to break and we're supposed to look at homes that have sold but I had no way of getting that information. If I saw a potential deal I would drive around the neighborhood, look for three or four other homes that were for sale that looked similar to the one I was considering buying and I would call up those agents and say, "How much are you asking for that house? Okay, thank you very much." And I would gather that information just to give me some idea of what the values might be.

In time I discovered that here in the State of Maryland that they maintained the tax records online and that Yahoo would give some home values that were not very good, but I used them as a general guide to determine whether or not I should continue or further pursue a deal. The tax records were better but the information was very limited but the information was accurate that they did give me. So what I did was I used sources such as that just to make a quick determination as to whether or not I should even be pursuing a deal and when something started to look good then I would put more time and effort into maybe meeting with the real estate agent and sitting down and nailing down what the comps were. But I didn't have to have perfect comps just to make offers.

On that note, one of the things I don't do my due diligence right up front. I typically make my offers first. I have a little bit of an idea of what the value on the area but I would make low offers up front and I was fishing for that motivation that I said was the key to making a deal happen. I would throw a whole bunch of offers out there and wait to see who nibbled and what I waited for was a counter offer. When I got counter offers, that is when I would do my due diligence, that is when I would determine what the home was worth, that is when

I would go out to estimate the repairs. But you have to understand I was making offers that were so low I really couldn't get hurt.

If somebody was asking $60,000 for a property I didn't offer $55,000 and wait for a counter because likely I might not get one, they might just accept it. So if they were asking $60,000 I was likely to offer $30,000 and it was very unlikely that they would accept my offer but they might counter at $40,000 or $45,000 at which point they're showing me okay, they are motivated here and now it's time for me to go out and see what this house is worth. Now its time for me to go see what kind of repairs it needs because they are showing me that there is a little more motivation there. That was the way I had approached it.

So I would get the comps, sit down with a realtor only when I really knew that I had a seller that was likely to work with me.

Tim: More good information. Steve, I know we need to let you go here. I do know that with all the great strategies and tips that you've shared and provided for our listeners that there is likely a million of them that would like to get more information from you. If you are willing to provide contact information what is the best way for our listeners to get in touch with you.

Steve: As you know, Tim, I maintain just a forum where I answer questions for people and I do that at my Web site, FlippingHomes.com and that is the easiest place to get in touch with me.

Tim: FlippingHomes.com if you want to get in touch with Steve and again, Steve, I want to thank you very much for taking the time to share all of this great information with the listeners. I know if they were taking notes they got a lot out of it because there were lots of great tips in there.

Steve: I appreciate you having me and I'm always willing to share.

Tim: For our listeners, thank you for joining us and we look forward to the next episode of the REIClub Interviews. Thanks again, Steve, I appreciate it.

Steve: Thanks.