Ep #55: Interview with Eddie Speed

Full Episode Transcript

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Dr. David Phelps and Evan Harris

You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

David: Good day everyone, this is Dr. David Phelps with the Freedom Founders mastermind community and the *Dentist Freedom Blueprint* podcast. Back today with a good friend of mine who's going to bring some great information, great value in terms of alternative investing. When you see that stock market volatility, you know you've got to look for other avenues to protect your capital and protect your retirement.

With me today is Mr. Eddie Speed out of Colonial Funding Group and NoteSchool. Eddie, how are you doing today?

Eddie: I'm great, David. How are you?

David: Eddie, it's always fun to talk to you. I just want to let our listeners know that you and I go back a good number of years and I have enjoyed our relationship. I enjoyed learning so much from you.

I had a little bit of experience in the real estate and the note arena which we'll talk about today, but being able to be a part of your world and actually be on the inside for a few years back in—I think it was after the downturn—somewhere around 2008, 2010. Getting a chance to work with you and Colonial with your note pricing acquisition desk was a lot of fun for me and gave me a chance to really vet out a lot of deals.

I want to tell people a little bit more about your background. I think the first thing people need to know is you're a rodeo boy from back in the day, aren't you?

Eddie: Yeah, I did. I grew up working in a cattle auction barn. I grew up in Mississippi but I grew up cowboy, roping and riding horses and later giving riding lessons and roping lessons. It's kind of funny that I ended up in this business because it's a million miles from where I started.

David: Your parents-in-law, your father-in-law from Mississippi is the one I believe that kind of got you looking at real estate and more specifically about the note business and note investments, is that correct?

Eddie: He was. He and another guy in Hattiesburg, Mississippi really brought buying seller-financed notes to a significant part of the United States. It's interesting they were kind of like you, my father-in-law was for sure. He had trailer parks and rental properties and all that kind of stuff and he'd end up with some tenant that had paid him for years and they wanted to own it.

Well, either the customer or the property wasn't bankable so he'd end up making a private loan, owner financing to them. Then he started buying notes and one thing led to another. So he was a real pioneer in the business. I credit both of those guys with really—I would not be in the business today had they not really mentored me.

David: Eddie, when you say a property really wasn't bankable, just so people understand what that means, what do you mean it wasn't bankable? Why couldn't people just go to the bank and get a loan and buy a property or your father-in-law or anybody else with property and wants to sell. Why wouldn't that happen?

Eddie: Well, there's different eras. When the market is really good, look at 2002. You could borrow money against most anything in 2002. There was a lender for everything.

But there's different market cycles where the banks are really stringent in the collateral and the type of collateral. Like my father-in-law did some of his first owner financing just selling a mobile home itself. It wasn't really secured by land so it's not the kind of notes you and I have dealt in the most, David. It was a used mobile home and the banks didn't want to make a loan on it.

The guy had been paying rent on the house for years and they just wanted to buy it from my father-in-law but they didn't have the cash and he couldn't send them to the bank because the bank wouldn't loan the money on that mobile-home-only loan. That's an example of a non-bankable property. That's very big today, David, because of how stringent the lending criteria is.

David: Yeah, we'll talk a little bit about that because I think that is important. Let's kind of set the stage here because a lot of the dentists and doctors that I talk to of course they are looking for a better place to put their money. I think most of them intuitively know, Eddie, that real estate can create a lot of wealth for people, if they just know how to do it the right way.

The first way most people think about real estate is they think about being that landlord and dealing with tenants and toilets and all the moving parts that go along with that. Let's kind of flip the switch here and let's talk a little bit more about and explain how one can invest with real estate as the collateral but without dealing with the management. That's done with what we call real estate paper or notes, based on seller financing.

Talk a little bit about that and let's talk a little bit about the security. Because again, I want people to wrap their heads around the fact that we're talking about sort of a lending model here versus a property management model.

Eddie: So this is the most that I've done in my career. I mean, I've done a lot of transactions. I think I've closed like over 40,000. So I mean, in 40,000 deals as you know, David, it's a lot of different things. But the thing that I've done the most of in my career is I've bought a note for someone else, like a Dr. David Phelps has owner financed it, collected payments for a period of time.

Then you want to sell that note and me then step into the role of being the bank. When you sold the property and you owner financed it, you were the bank, right? You'd only sold the property but you provided the financing vehicle and they're paying you out over time. The most similar industry people could relate to is the tote the note car lot industry, right? Buy here, pay here they call it.

So it's the same thing. The seller of the property becomes the bank and now say I don't know twelve or twenty-four months into the deal, David, you need to get to your cash. So you call an Eddie Speed that's a pretty well-known guy buying seller-financed notes and you say, "I want to sell my note." And we agree on a price that I may buy that note at maybe even less than what's owed in some cases. But we agree on that.

Then we have a due diligence standard that we have—obviously now our executive team has done literally billions of dollars in private notes so we kind of have a sense of what will pay and what won't and what characteristics you look for.

Then we buy the note and start just receiving payments every month and we become the bank. So instead of having a rent house, you're buying somebody else's financial arrangement, a note, where they're receiving payments every month and then you just buy that from them and you start collecting payments.

For the most part today the model would be pretty simple. We're going to pretty much require and facilitate a small private investor having a servicer that services the loan. So they are specialty servicers that understand this type of financial arrangement and paper as you referred to it and they know how it works and they know how to service it.

They have experience. They've done thousands of transactions and so they collect the payments every month. They do the accounting. They monitor the taxes. They monitor the insurance. They do all the things that a servicing company would do for servicing a loan. Then when they get the payment every month, David, they wire it to you.

David: Yeah. So people, I'd say Eddie, most people by the time they're in their 30s certainly, have probably purchased a home, they've owned a home. And most people are going to do that, again, with bank financing. So if you think about how that transaction worked and again, I know it's a lot of paperwork and maybe it's been a while since someone's done that but as the borrower, getting a loan to buy the property you sign what's called a promissory note.

Then there's a second document that goes along with that note that's called the security agreement, or in some states it's a deed of trust, or in some states a mortgage. But basically, it's a security agreement that ties that note specifically to the property one is financing or buying.

So when you're talking about trading paper or … paper, or selling paper, investing in paper, what we're investing in is that note and that security agreement. Just the same as banks do when they sell their notes, mortgages, to another servicer, correct?

Eddie: That's correct. A lot of times with seller financing, they'll also do another, there's a slightly different way to paper it. We won't get too drilled down into the mechanics of it today but there's a slightly different method where you actually don't give the buyer ownership of the property yet.

They sign a note but you agree to give them ownership once they fully pay for it. That's called a land contract. Whether it's a land contract style of papering it or whether it's a note and mortgage, those are vehicles that we've done a lot. We're very familiar with both sides. We both do both sides ourselves and as you have too, David.

So the idea is simply this: if you own a note, David, you've sold a property and the guy's been paying you successfully and I've done the due diligence and I've looked at the title. I've looked at the pay history from the loan servicer. I've looked at the evaluation on the property and I'm comfortable with that investment.

Then I can buy that note from you, David, and I can have a servicer service the loan. And they do kind of the ongoing management of the loan and if you're collecting $350 a month, I get $350 a month from the servicer and they just wire it into my account. The bottom line is I'm the bank.

David: So what we're buying or investing in essentially, Eddie, is a promise to pay, but that promise to pay is secured by the collateral, the actually property. In many cases as you said, we can buy these promises to pay, this paper, with what we call seasoning.

In other words, they have a track record of payments already made. Maybe six months, maybe twelve months, maybe two years, and that's part of the variables that you would look at during your due diligence to determine what kind of value you would put on that note. That's part of also in due diligence how we mitigate our risk.

I think that's a big thing that people again that are not knowledgeable but they think, so how do you reduce your risk as part of due diligence? How do you talk to people today about how much to invest and some of the basics of evaluating this promise to pay?

Eddie: Well the way I like to describe it, David, is the whole world of underwriting, whether you're underwriting buying a stock or you're underwriting anything. What your docs do every day in dealing with all the vendors and equipment and office leases and whatever, right? All of this is about establishing minimum standards that you recognize from experience.

So here's the easiest example in the world. If I were a bank and I were going to make you a conventional mortgage on an office building, for your dentist office. I'd say, "Well I want you to have been business for five years and I want you to have a credit score of this. I want you to have enough reserves to…" See what I'm saying?

These are all things that a lot of people that are in your audience can relate to. All the bank has done is taken experience over time and said, "These people that met these, at least, these standards, the likelihood of them successfully paying back their building become very high." It's a predictable result. It's not 100 percent chance, right? But it's a high percent chance, a very high percent chance.

So all we've done in our business is taken an executive team that has now bought literally over three billion dollars in owner-finance paper. That's a pretty good amount of experience.

David: Yes it is.

Eddie: That's probably the most in the entire industry times two, literally. So what we've done is taken 30 years, 35 years of experience, and knowing the type of loans that will pay and won't pay. And now, we've quantified it to say if this loan has these characteristics, this amount of pay history, based on this guy's credit report, and this kind of property, whatever, there's various combinations you can imagine.

It's not necessarily an absolutely one-size-fits-all shoe but we've got different kind of matrixes built. And we now know what the likelihood that a loan that fits in that category, what's the odds it will pay? That's from experience.

David: Yeah. You're right, you're right. Now let's just take the worst-case scenario, everybody wants to know worst case. So you've done your due diligence, you have a note that has some seasoning, a track record on it. The notes pay along fine, maybe for twelve months or twenty-four months and then the payer hits some kind of a bump in the road. Maybe it's a health issue. Maybe they got laid off work. Medical issue in the family, divorce, all the factors that can happen.

So at that point, the note goes to collection. Maybe the people, the payers, maybe they vacate the property. Either way, how does the investor in that case remedy his or her situation there, Eddie? Particularly a passive investor who really is not looking to acquire a property this way but they just want to keep their principle safe and keep it earning a return?

Eddie: So one of the key elements in this business is to have the right vendors in place that can solve your problems. So if we go in, we find a lot of customers, David, as you well know that own 500 loans like this or 1,000 loans like this. Now, one of your docs, or even you individually, David, you're not going to buy 500 loans at a time.

David: No.

Eddie: But we might. Then our mission is that part of those loans that we buy, we need to be able to resell them in the marketplace. So we sell loans to just one-off investors that would like to own a loan like this. Using the same vendors, the same servicers, and the same processes that we do when we buy the loans.

So what we've learned is is they're specialty servicers that have unique knowledge and experience. One of the key things that we've learned after doing this now for a long time is they need to know how to solve the problem for the guy that owns the loan. If they can't help him solve the problem, they're not a good vendor.

You know, you and I've visited a lot about this along the way. It's like we place such a high emphasis in these specialty relationships that we can kind of glue an investor in that otherwise they wouldn't know about this guy and that we think that that's a real value add that we connect them with. So the foreclosure process and okay, well now you're going to resell it.

So an example, one of the primary servicers that services these types of loans for us has sold about 20,000 properties with seller financing. So they don't just service loans, they know how to resell the properties if they had to go owner finance it and resell it again.

David: Eddie, when I invest in a note as opposed to buying stock or a mutual fund on Wall Street, in which case I'm going to pay 100 percent of whatever the going retail price is of that stock or that fund with a note investment, they're typically sold at a discount to the current balance.

Even at that point, your total what we call the ITV or the investment to value, that is the amount of funding that an investor would put into a note compared to the market value of that property, it's going to be a substantial deduction or a discount to that value. So that also gives us what we call margin, right?

Eddie: Yeah.

David: We've got a margin there. So that if we do have to take action or if there would be a decline in property values, which the markets always cycle. We've got that built-in protection whereas you don't have that on the stock market.

Eddie: There's no doubt about it. I'm going to use nice, round numbers just so that people can wrap around the percentages that we're referring to. Let's say the house was worth $100,000, David. You bought a note for $70,000. You didn't buy the house, you just bought the right to receive the payments secured by the house, right?

David: Right.

Eddie: But God forbid, as you said, that the payer, some life event, or lose a job, death, whatever it is, some triggering event that even though he's paid for a long time now he still doesn't work out and pay. Well you still have $70,000 invested in a $100,000 piece of collateral. You didn't want the guy to default, right?

It was not your desire for the guy to default but it doesn't mean that you're going to lose money because he defaults. In the low percentage chance they default, we should be operating within a realm of that doesn't mean you panic. It may mean you have a little interruption in your payment but it doesn't mean you panic because honestly you're probably going to make money with it.

David: That's exactly right. I think the key thing that a lot of people don't understand is when one is connected to a network like Colonial Funding Group and NoteSchool provides with all the vendors and all of the contacts that you have all over the country, that it's literally easy to wholesale a property. If one has to go through foreclosure, to wholesale out to what we call a boots-on-the-ground investor in probably any market in this country in a heartbeat. That's what makes this market work.

If you're a solo guy out there and you're trying to do this by yourself, it could be a little bit formidable. But you're in a network where you've got the vendors, you've got the contacts. For me personally, Eddie, I'm not afraid to invest in different markets in the country for that very reason because I know if something comes up, the connection I have through you and the other people that we know, that property could be easily liquidated from my portfolio and I could go on to the next.

Eddie: I mean, I don't know, you and I are in a mastermind with Jason Medley that has probably 100 of the biggest real estate investors in the country. And of course, you still mix your time with real estate investor guys as well as obviously your network and your whole mastermind process that you do with your doctors.

But all I pretty much do all day, every day, is deal with people throughout the country that are doing what you're saying. So there are liquidation strategies that would be very common to you and I that the average person wouldn't know. "Well how would I go about that?" So that's a key to the business is I don't need to live next door to the property.

I mean, I own, as you know, I manage a portfolio for my mother-in-law who's elderly. My father-in-law passed away eighteen years ago, taught me the business, and I've managed essentially her portfolio to some degree for all these years. The notes that I just described to you, David, she owns about 400 of those notes. Now, she lives in Hattiesburg, Mississippi. I don't think there's two notes in that portfolio that are in Hattiesburg, Mississippi.

David: I wouldn't think so.

Eddie: We like it because we buy these notes and the likelihood of them paying are extremely high. As we said, we're not hoping for someday to have some kind of misfortune in their life and lose their house.

We're just saying, if they do, then there has to be resolution. Unlike seemingly the banks couldn't figure out. If somebody doesn't pay, you're not going to look up and go, "Well Eddie let them go a year and didn't pay and didn't do anything about it." I don't know why the banks did that but we agree they did. But that's not good management from our perspective.

David: No, exactly. Just so people that are listening to this podcast interview today know that one can invest in any kind of real estate but particularly I think a great place for investing in secured notes is in their IRAs, their self-directed IRA accounts.

For those who don't know what that means, it means you've got to have your IRA accounts with a custodian that allows for your direction of investment into different asset classes like real estate. Your Fidelity and Schwab accounts and Vanguard, are not setup to do that. It doesn't mean that you can't have a self-directed IRA but you can only purchase what they allow you to purchase.

There are a multitude of custodians around the country that will allow you to set up a self-directed account and you can do your investing in these notes that way and therefore defer or have tax-free distributions depending upon what kind of accounts you set up. Don't want to go into great detail but a lot of people don't understand that Eddie and I think that's important to bring up.

Eddie: It is, it's a big part of our educational piece. You and I have done a lot of stuff with a lot of different IRA administration companies but I know you and I both have done a lot with Quest.

David: Yes.

Eddie: I had one of the executives from Quest recently at an event and he gave me a compliment, David. I didn't tell you this but he said, "Of all of the people that have invested in various things, our people that have bought private notes through Colonial have better success in their long-term investment than any other relationship that we can think of." Now they can't recommend an investment to their person, but they know who they're buying from.

David: Yes.

Eddie: It's because I think, once again, you and I David, performing notes has just been a good thing for both of us for a long time. It's not because—until the stock market became so unstable, the average person wouldn't embrace this idea. Like, "I know I buy stocks and bonds." Now people are like, "Well I'm scared to buy stocks and bonds because I'm scared I'm going to wake up and I'm worth 30 or 40 percent less than I was the day before."

Now all of a sudden, as you well know, it's what the kind of the financial planner types call alternatives. We are what I think is the ultimate alternative investment. Buying a note on a property secured by—rather than just buying a rent house. Now there's nothing wrong with rent houses. You either have to manage it or you've got to make sure you have someone who can manage it.

David: I started out, as a lot of people did, Eddie, with rent houses. That's how I built my portfolio but at this point in my life, I am much more on the note and lending side and much less on the real estate side. So yeah, there's a place for both and that depends on who you are, where you are, in your blueprint. But I love the lending side.

I think we need to talk a little bit about the source for notes because that's going to be something that people will say, "Okay, do I call my realtor up? Where do I go find these? Do I find them on Craigslist?" What's that going to look like today, Eddie? Because I think that could be trouble for some people that think this is a great idea but they're not quite sure where to go. They might not get the best advice if they're not plugged in.

Eddie: We've tried to fill that gap. I'm not saying we're the only ones that fill that gap but I think we've done a pretty darn good job. Our company where you could do this is Colonial Funding Group. It's ColonialFundingGroup.com.

You can go in there and there's a process as an investor where you say, "I want to buy a note." Then we'll have a group of notes. We're not saying that we'll give you long-term mentoring or coaching, but we'll have a reasonable amount of communication with you about this note and the characteristics of this note.

And if you like it, you can buy it and we'll connect you with one of these servicers and these vendors that they're guys that I'd say the best—when you're really putting your money where your mouth is when you're selling a guy something and you're giving them the same vendors that you use. That's what we do.

These are typically loans that we have bought in bigger packages. So the guys that sell us 500 notes at a time, one of your dentists are not going to be able to call them and go pick off one note.

So we'll sell them a note that we're comfortable with and I can tell you with integrity, it's the same kind of asset—if we're willing to put money into the same kind of assets we bought for my mother-in-law, and as you know, David, my mother-in-law is, I love her like my second mom. So that's what I would say about what we believe about it.

There's a fairly easy process that we think we've developed where somebody can just go buy a note. Average cost of a note like this, David, is about $35,000.

David: So it's very doable and with that price point, you can be very diversified as well. That's what I like also.

Eddie, talk to me just a minute about crowdfunding because that's a term that's become relevant in the last couple years. Some people think, "Maybe that's the way I should get involved in getting some of my money invested." Pros and cons of crowdfunding?

Eddie: I've been to a lot of crowdfunding conferences. I think it's an interesting idea. It's clearly spawning because of the alternative investment mindset that people are in. The biggest issue with crowdfunding is where you're investing their money, are they promotors, or are they operators? That's where the rubber meets the road.

There's a lot of crowdfunding guys that are good at promoting investors coming to their site. I know a lot of crowdfunding firms that are like working with hard money lenders and stuff like that. The problem is, David, they don't have any experience in hard money lending. You and I come from the deep roots of at the end of the day, somebody with experience and discipline has to be looking at that deal and saying, "Yeah, this is worthy of offering." That's my biggest concern.

I'm not criticizing any—there's some really good crowdfunding groups. There's some that aren't as good. But the bottom line is, if you and I were investing in crowdfunding, I would say, "Who did the due diligence on this investment and what is their competency in that subject?"

David: Yeah, well said. Then there's also an opportunity for investors to invest in a fund. A fund that has already aggregated certain types of notes and is doing all the work. Can you just talk a little bit about that?

Eddie: So we have a capital fund, Colonial Capital Management so you can see we have a family of companies called Colonial, right? So our capital fund is called Colonial Capital Management and that's what we do. We deal with credited investors. It's a pretty big investment. It's a minimum of a $100,000.

So we kind of say, hey, we're not looking for every investor but we're looking for investors that are high net worth that need to go deploy some money. They do well in the fund. We have a very good track record. That gives us the power to go buy that 1,000 loans at a time.

So we have a capital fund, we go buy in bulk and then we have a liquidation strategy that lets us turn part of the money over in the fund pretty quickly which keeps the return pretty good, a velocity model they call it, right? Our model is and our fund is pretty simple. We buy by the case and sell by the bottle.

David: [Laughs] I'll bet you picked that up in Hattiesburg.

Eddie: Somewhere along my travels.

David: All right. We're going to wrap this up here but I want to go to your crystal ball forecast, Eddie. I'm not going to hold you to this but you're one of the smartest guys. You're a go-to guy in my world and if I'm just trying to figure out how to hedge my bets, and that's what we're all trying to do as investors in this marketplace. How do we hedge our bets because there's so many unknowns, so many uncertainties out there in the marketplace. If you had to guess, Eddie, if you had to guess in this next twelve months, what do you think interest rates are going to do?

Eddie: I think they're going to slightly tick up. I don't think they're going to race up. I think we may see a slight tick up.

David: I agree. I think for at least the near term, which I think is the next several years, maybe a slight tick up but I don't think they're going to go anywhere. I think there's too much debt in this country that the nation's holding to let that happen.

Eddie: The advantage I have there, David, as you know, is that I go to lots of mortgage banker, stress debt conferences, cash flow rental property conferences, so I get to hear a lot of economists. I don't know anybody that is like highly regarded that is saying that we're going to have some rocket interest rate surge in the next two or three years.

David: Yeah. I was going to ask you about the stock market but I think that trend is already…

[Laughter]

We're going to skip over that one.

Eddie: One thing I think for both you and I, David, is that we're not being flippant about the issue in the stock market. All of us have friends and family and people we care about deeply that are invested in the stock market and we're concerned about it.

We don't want to see an adjustment in the market but sadly people that don't have alternative investment strategies in mind feel like they're kind of stuck with the stock market. They're stuck with—if all of a sudden if it gets a big reset and it drops by 30 or 40 percent, they're like, "Good grief, I can't believe this is happening to me again." But they don't know what to do about it.

David: What about rents and property values? Where do you see those going in the next 12 months or so?

Eddie: I think that there's going to be a slight uptick in some rents across the country. I think that the working class property that we deal in, the sub $125,000, $150,000 house, I think there's so much pressure from people that are investing in rent houses as an alternative to the stock market, I don't see a dip in that market.

Higher-end properties, there's been such a boom, such an increase in values, I think we could see a reset in some of those values.

David: All right, the last forecast. Who do you predict is going to win the Super Bowl this year?

[Laughter]

Eddie: You know, my 18-year-old son who—this a movie that hasn't totally played out yet—but he played in the Texas State High School Football Championship Game three years in a row for his high school and he was the lead inside linebacker this year.

He thinks he's going to play college football somewhere and based on the phone calls that we're seeing I would say that's a fair statement. So we didn't sign with anybody but we're talking. I asked him in the last couple of days who's going to win the Super Bowl, so I'm going to go with him. He says it's going to be Carolina.

David: Carolina. All right.

Eddie: So by the way, we'll all know whether I'm a fool or not here pretty quick, won't we?

David: That's right, that's right. Mr. Eddie Speed, ColonialFundingGroup.com and NoteSchool.com, it is always a pleasure. Thanks for your friendship. Thanks for providing us so much in terms of investment help and just your insights are really invaluable, Eddie. Thanks so much for being on our interview today.

Eddie: Thank you.

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