EPISODE 637

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[00:00:23] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today our guest is Kevin Galang. Thanks for being on the show, Kevin.

[00:00:31] KG: Thank you very much, Whitney. I'm excited to be here and I applaud you for doing a daily show. That is impressive and I thank you for the content that you put out there.

[00:00:41] WS: Thank you very much. I appreciate your all's show, appreciate you allowing me on your podcast as well, which we'll talk about. In case you haven't heard of Kevin before, he's an educator, abundance believer and is on a mission to inspire others to take control of their financial success. He teaches busy professionals how to turn other people's debt into streams of income for their savings, or IRAs. He is the co-host of the Tech Guys Who Invest Podcast and host of the Note Nuggets Podcast. You're doing two shows. I don't think I knew that. That's impressive also. Pretty crazy. Maybe you're as crazy as I am. I'm not sure.

Kevin, thank you very much for your time. Tell us a little bit about your real estate journey. Tell us a little bit about your passion here of helping others change this mindset and just understand how to create wealth.

[00:01:29] KG: Yeah. How I came to real estate investing was actually, I lost an argument to my girlfriend, more of a debate. I used to believe, and this is what I grew up believing – my parents raised me on this is that all you need is you got to go to college, get some good grades, get a good job and you save and invest in a 401k, you buy a primary residence and then you retire. I honestly believed that.

My girlfriend was the one who opened my eyes to the idea of multiple streams of income. She's talked about we need to be in real estate. I was hard-headed. I thought, “You know what? I don't think you're right. I think the corporate ladder is the way to go.” Of course, I conceded. I wanted to see, all right. You know what? I surrender. Let me do more research. Turns out she was 100% right, that multiple streams of income.

[00:02:14] WS: That's probably not the last time she's been right either.

[00:02:18] KG: I'm so happy. She was right about it. I took a dive in the real estate and I learned that within real estate, there's so many avenues that you can make money. I was a victim of what they call the shiny object syndrome. I heard about house hacking, so I was like, “All right. Let me look at house hacking. What is this BRRR strategy?” Then somebody introduced me into Airbnb. “Oh, short-term rentals. Let me look at that.” Then I went to a seminar, or a weekend summit and then I heard about mobile home parks. I took a couple weeks into that.

I was bouncing around a lot. Then I heard a podcast about mortgage note investing, how you can be a real estate investor without ever owning property, by being the bank and you can help people stay in their homes, giving them a second chance financially. I'm sure, you know, as well as your listeners know that especially with the how the economy is, a lot of people are one financial emergency away from not being able to afford a mortgage, or anything like that.

That's problematic. I want to be able to help people in that regard. Being the bank is one of the ways that you can do that. You can buy distressed debt to help them say, “Look mister and miss borrower, I know that you had some hard times and you may not be able to afford 100% of your current principal and interest. Let's work together to find a number that makes sense to you.” They have some skin in the game. They know that I'm willing to be there to help them and they'll continue to pay.

I heard a podcast that was talking about all that and that blew my mind. When that clicked, I started to dive deeper into that. I made a bunch of different leaps, listened to my girlfriend, did more research and educated myself. Then I found out things like the self-directed IRA. I got frustrated, because nobody teaches you this. There's all the avenues, like EQR, pre-easing, things of that nature.

Ultimately, when you look at the financial or retirement instruments, the greatest things that are marketed to all of us are the 401(k)s, IRAs with the big institutions like Charles Schwab or Fidelity. Not to trash talk them as a whole, or institutions, but my frustration is that nobody opens your eyes. You do have to take control. That's why I'm passionate about it.

My parents taught me the information they thought was best at the time, given the knowledge they knew. I'm 31-years-old. I can't keep saying, "Oh, this is what my parents taught me." I had to unlearn that, while learning new things. When I'm learning something, as you mentioned, I believe in abundance, I want to share with everyone. I want to open it as many people's eyes as I can to the idea of taking control of your financial journey.

[00:05:00] WS: Wow. Okay. There's numerous things there that we should unpack. I know you're into mortgage net investing. Either way, I think before all that, you're just talking about the mindset shift alone is such a big deal. I've talked about on the show numerous times personally, that just in my mindset shift and when that happens, when I started seeing much bigger changes in my business personally, professionally, I mean, there's numerous things there we could talk about, but what about when your girlfriend exposed this to you that, "Okay, we should be doing this," and you're thinking, "Oh, wait a minute. This is the way I've been taught. This is what I know is safe, a secure, climb the corporate ladder." I mean, it's the same thing I would have been told, or was told growing up and still didn't pursue that.

That's the difficult though. You get pushback from family, pushback from other people. Tell me a little bit about how you did change your mindset, because like you said it, you were a little stubborn about it, but it's hard to believe. It's hard to believe that you haven't heard about this before. "Oh, well if it was so good, I would have already heard about it," or something like that. How did you get past that and walk us through that a little bit?

[00:06:00] KG: The biggest eye-opener for me was when I read *Rich Dad Poor Dad*. He talks about not trading your time for money. I have an engineering background. I went to school to be an engineer, so a lot of it is numbers driven. When I started to see that you could generate passive income from assets and even outside of real estate, if you invest in stocks, you could generate dividends. There's that possibility of generating passive income from real estate businesses, etc.

When I saw that, I started to realize, I don't have to actually be working for that – hence passive income. Right now, I am trading my time for money. If I stopped working, I stopped getting paid. With passive income, as soon as I stop working, I'm still getting paid. I'll get paid when I sleep. I'll get paid when I'm at the gym. When I started to connect those dots, that lightbulb really hit.

[00:06:55] WS: Yeah, Robert Kiyosaki, it's been so long since I've read that book, but it seems like I do remember him saying something about until you can make money when you're sleeping, you'll always be working for money, or you're always – I don't know. There's some saying like that. What happened then? Your girlfriend told you about this, you started educating yourself. What were some of the next first steps for you to jump into this business? I know you started educating in different asset classes trying to figure that out, but what was some key things that helped you to be successful moving forward?

[00:07:24] KG: Getting educated. For some people, it's going to be podcasts like yours. For others, it's going to be YouTube videos, for others it's going to be books, others it's seminars. You have to figure out what type of information works best for you, because what I ingest and sticks best for me won't be the same for you. You have to figure out what that is and then dive more into that.

I love learning from people directly and building relationships. That's something that I feel like I'm good at. I'll reach out to people and say, "Hey, this is what I'm trying to do. Can I pick your brain over some coffee, over some lunch?" Or just send them an e-mail of questions. That's not to say that each time you send that to somebody, you're going to get a response. It may take a few e-mails. For me, that's what worked. I took a look at some books, read them, consumed them, studied them even more and I asked questions. All right, I don't understand this. Let me Google. What do I not understand about this?

Then not being afraid to ask those people that have more experience than you the same kinds of questions. “Hey, this is how I understand this. Is this correct? How would you explain this, or how do you go about this particular thing?” For me, it was the books, then finding the people that were doing what it is that I wanted to do, reaching out and building those relationships.

[00:08:38] WS: Tell me about finding those people, because sometimes that can seem a little daunting, especially if you're new in this business. If you just learned about it like you did, I mean, it’s like, how do you even know how to find somebody that already knows how to do this? Why are they going to give their time to me? How did you do that?

[00:08:55] KG: There are a couple of things. If you listen to a podcast with a guest that's on there that they're going to give their contact information. Reach out. They may not get back to you the first try, but if you are going to quit after they don't respond to you with the first e-mail, maybe it's not necessarily for you. You have to be okay with it. It may take a couple of tries to get their attention.

Another thing, BiggerPockets was a big thing for me. I reached out to people that were local to the area that I was in. Facebook groups, there are an abundance of people that have knowledge on that. What I found is, at least in the real estate investing space is, if you are making an effort, people are willing to help you out. It’s like the analogy where somebody's car is broken down, somebody's sitting there waiting for some help, not making an effort to push their car. People are less inclined to help you out. But if you are pushing your own car and you're struggling, people want to help you out. They see you're working so like, “All right. Let me help this person be successful.”

From my experience when I'm taking action and I'm stuck on something, people have been really helpful to say, “Hey, I experienced this. This is what I did next.” Facebook, BiggerPockets. LinkedIn is a great resource also. Real estate investors tend to be marketers of some capacity. They'll put, “I invest in multifamily. I invest in mortgage notes.” LinkedIn has the ability for you to search by those titles. You search those people, send them a quick message and again, they may get back to you, they may not, but it's a great way to start.

[00:10:25] WS: You mentioned that you can't give up if they don't respond the first one. I would create a big list of people and sure – if you don't have a CRM yet or something like that to track your contacts, I would follow up every 2 or 3 days until they do respond. No, I think that's great advice. I love the analogy of start by pushing your own car. That's a great analogy. I love that. It's so true. You see somebody in the side of the road, if they're sitting in the car, most people don't stop. Who's going to stop? If somebody's actually pushing their own, I guess not only if you just feel a little more sorry for them or what, but you do. It's like, okay, they need some help. It's obvious they need some help.

[00:11:01] KG: If you think about it this way, the people you're reaching out to, they value their time, especially if they're successful investors, professional investors that do this full-time. Their time is definitely money. If you say, "Hey, Whitney. I like multifamily investing. Where do I start?" That is a massive question to unpack. If you presented it say, "Hey, Whitney. I'm looking at this deal. This is exactly how I see it. What do you think of this market? I know you invest here." Something more specific where they can get back to you a quicker answer, I find that that would be more helpful to you asking that question.

[00:11:37] WS: I want to get into note investing a little bit. I want you to explain to us what that is and elaborate just a little bit and just so the listeners can have a better understanding. I know it's not syndicating, but maybe you can syndicate notes, can you?

[00:11:49] KG: You absolutely can syndicate notes. You can syndicate notes, there are funds that do that where you buy a pool of mortgages and then you work those out, if they are non-performing mortgages, where people have defaulted on those loans. You work through each one of those notes. Then how you structure the fund is going to differ, but there's going to be payments like that. You're syndicating money to buy a larger number of assets.

At that same time, you could buy commercial notes as well. The apartment complexes that you syndicate for, you guys get financing. That being said, if there's financing, somebody else could buy the right to be the bank. That is effectively what I'm doing as a note investor. I'm buying the right to be the bank. Instead of the borrower paying a Wells Fargo, the borrower would end up paying myself, my entity and my partners.

[00:12:39] WS: Yeah, let's jump into that just a little bit. I mean, getting into note investing, and I just think, even if you are focused on syndicating large deals, it's just helpful to know about this, helpful to have another avenue of investing, or a way to diversify different operators, things like that. I love learning about different really asset classes or ways to invest in real estate like this. Mortgage note investing it's like, "Oh, wait a minute. You're telling me I'm going to invest in real estate, but I don't actually own the property." Elaborate a little bit on how that works a little bit. How are we protected and risks and things like that?

[00:13:11] KG: Yeah. You are protected by the property. You don't own the property in the regards where you are swinging the hammer, you are choosing the paint colors. The borrower who is making the payments on the mortgage owns that property. They can do whatever they want to it. They want to knock down a wall, they can, for example. You're just concerned with making sure that they continue to pay. You're focused a lot on the asset if it's worth what you're loaning against.

The idea there is the worst-case scenario is you end up with that property through a foreclosure, for example. If you are buying a note where the property is worth less than what the borrower owes, how are you protected? If you had to take that property back and sell it, you're taking a loss. Generally speaking, that's why there was this properties that were underwater in the crash. People just walked away, that type of example. As a mortgage note investor, you're protected by the property. That's part of analyzing the due diligence of a note, residential note. You want to say, hey.

[00:14:13] WS: You better make sure that it's worth more than you're paying for it.

[00:14:16] KG: Exactly.

[00:14:18] WS: Why would the other mortgage holder get rid of that property if it's still worth more than what the person owes on it?

[00:14:24] KG: Yeah. There are a number of different reasons why some investors just want to recapitalize, so they can invest in something else. That's one reason. Some people are if it's non-performing, let's say you're buying it from a local bank, they want to get it off of their books.

From my experience and I've talked to some attorneys that tell me banks are not in the business of managing properties. They, generally speaking, don't want to own the property. They will write that as a loss if somebody stops paying and then get whatever capital they can, because they make their money on loaning money out. That's the bank business model. They make money on originating, on origination fees and then the spread that they create on the loans. That's the business model they're in. They're not in the model of having and owning property. They'll sell that note if it's non-performing to somebody else.

[00:15:15] WS: Okay. Any of the risks that we need to think about here, or how do you even get started? I mean, do we just call the bank and say, “Hey, do you have any notes you want to sell?” What does that process look like a little bit?

[00:15:25] KG: To get started in note investing, there are a few websites that I use. Paperstac.com. I don't have any affiliation with you. I'm just telling people exactly what I use. There's another one on Note Trade X is another one that I use. Then on LinkedIn. I harp on LinkedIn, because it is definitely a tool. You can find people that have note investor in their title and say, “Hey, I'm looking for notes.” That's worked for me. They say, “All right, here's what I have for sale.” That's another way to do it.

Seller financing is another way that you can find note investing. For the listeners out there that don't know what that is, seller finance opportunity, let's say you have a family that's been in this home for 30 years, they've paid it off. They’ve owned that house outright. They're not tied to financing anymore. Well, if they want to sell the house, they can sell it to a borrower and say, “You know what? If the house is worth a $100,000, they'll take a $5,000 down payment from the interested buyer.” That $95,000 in equity, the remaining payment they'll take financing on. The seller will finance it. They will become the bank. The new homeowner, which is also the borrower will pay that old seller a monthly principal and interest, because they've created a note which is a promise to pay between the two parties and those get recorded in public record.

You can fill that out, or find that out on your county public records wherever you live and say, “Oh, this has been seller financed.” The way you'll be able to tell is because when it talks about who the grantor is, the person who originated the note, it's an individual and not necessarily a Wells Fargo, or such-and-such LLC.

[00:17:07] WS: How difficult are foreclosure processes and how often does that happen, or how do you protect yourself maybe from getting in a deal like that?

[00:17:14] KG: For the foreclosure process, my best advice is to build a network with the attorneys, because I'm not an attorney and it's going to differ state-by-state. If you're looking at a note in a specific state, or if you focus decide focusing on say, Tennessee, start to build the network in Tennessee, ask attorneys questions, "Hey, I'm thinking of being a note investor here." Same way you would with investing, or building relationship with the property manager that you are syndicating, or looking for apartment complexes.

Start building those relationships, get to know the information directly from the experts. That's why there's such an emphasis on the value of the property and making sure that when you buy it, it has the amount of equity you're looking for. Because if you have to foreclose that you build a cushion that incorporates that foreclosure cost to protect yourself.

[00:18:03] WS: It's interesting to me just the different avenues in real estate that you can get into. Note investing is something that I've not dabbled in at all. What's been the hardest part of this real estate journey for you?

[00:18:14] KG: I would say the hardest part is getting out of your own way and finding that focus. That took me a while. Another thing that I've struggled with is this idea of doing a deal because everybody else is doing a deal. Everybody else's journey is different. Accepting where you're at. If you want to change it, you have the power to change it, but be smart about it. Don't just do something because everyone else is doing it. Make sure you run the numbers, take the emotion out of it. If the numbers make sense, be ready to do the deal.

There's a skill set when it comes to analyzing opportunities. You could have the perfect opportunity come across your desk, but if you haven't been looking at these notes, or these apartment complexes, you would never see how good it is unless you develop that skill, or you find somebody that has that skill and say, "Hey, look. I think this is right. This is my analysis. Can you help me out?" That's something that I've struggled with is recognizing that I don't have to do something just because other investors are actively working right now.

[00:19:18] WS: That's awesome. Just great advice. Tell me though how you with note investing, how do you prepare for a potential downturn?

[00:19:26] KG: Yes. With non-performing notes, there is an inverse relationship. As the economy tends to worsen, there's going to be more of an influx of non-performing notes, because fewer people are going to be to make those mortgage payments, which means there's going to be a greater inventory for note investors.

When the economy is doing well, if you're buying performing notes where the borrower is continuing to pay, you're golden as well, because as the economy's doing good, people are going to continue to make payments, you're getting that passive income. To protect myself from the downturn, I think being on both sides of that, so investing and performing and non-performing I cover the basis of the ups and the downs in the economy.

[00:20:07] WS: What about a way you've recently improved your business that we could apply on ours?

[00:20:11] KG: One thing that I've been using is DataTree. Again, no affiliation. Just a tool that I use.

[00:20:16] WS: DataTree.

[00:20:17] KG: Yeah, DataTree. It's a data aggregator. You put in the address and then they give you a number of different reports you can pull from. It pulls up liens. This is for residential. I haven't tried it from a commercial perspective. It has reports on the property of the given AVM. It shows the entire transaction history, who it's been transferred to, the previous ownership, assignment, a mortgage, things of that nature and it's in a centralized location and that's huge. Because otherwise, I'm having to go from X, Y and Z website, from Zillow, to realtor.com, to the county, website making those phone calls. If I can see it in a single spot, I can say, “All right. This is going to make my life faster.”

[00:20:55] WS: What about the number one thing that’s contributed to your success?

[00:20:59] KG: I would say, the podcast. The podcasts have been hugely successful. One of the reasons why and not only from a marketing perspective to share my thoughts, ideas and experiences, it holds me accountable. If I want to come on a show like yours, I want to be able to articulate my message clearly. I need to know what I'm saying and I have to keep learning to keep educating others. It's a feedback loop that I've created to help me improve.

[00:21:26] WS: How do you like to give back?

[00:21:28] KG: Outside of the podcast, my time if you have questions about mortgage note investing, I'd be happy to help. If I don't know the exact answer, I will find the right person for you to answer that specific question. Because I know what it's like to struggle with you're like, I don't know exactly where I need to go, what I need to do. I'd love to help somebody out, especially with overcoming that mindset shift.

[00:21:51] WS: Awesome. Well, it's difficult. It is difficult, but it's one of the first steps that needs to happen. I've heard that book mentioned, *Rich Dad Poor Dad*, so many times. When somebody's fixing to go through that mindset shift and thinking about those multiple streams of income that your girlfriend helped you open your eyes to a little bit. I love that, just the saying and analogy of start by pushing your own car and just numerous things that you helped us with just changing that mindset. I'm fully behind. It’s the most important first step. You got to do that. Then just educating us on note investing as well, Kevin. Grateful for that. How can the listeners get in touch with you and learn more about you?

[00:22:27] KG: Yeah. To learn more about the Tech Guys Who Invest Podcast, go to tgwipodcast.com. If you want to learn more about the ins and outs of note investing, go to notenuggets.com/podcast. If you want a book off time on my calendar, go to contact.notenuggets.com.

[00:22:45] WS: Awesome. Thank you so much.

[END OF INTERVIEW]

[00:22:47] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook, so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too, so you can get the latest episodes.

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[OUTRO]

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