Be The Bank - Creative Deal Structuring with Nick Legarmo

Hosted by: Joe McCall
Guest: Nick Legarmo

Joe: Welcome. This is Joe McCall. You are at the Real Estate Investing Mastery podcast. Welcome. Glad you're here. Got some cool things to talk about today. This is going to be a podcast about creative deals. We've talked about it a lot on the show. I love creative real estate because if you're just a one trick pony and you're just offering cash offers to everybody, you're going to really, really struggle in this business. And there's a lot of sellers that want to sell but can't. There's a lot of buyers that want to buy right now, but can't. While the whole competitive real estate investing world is going after either the deeply discounted properties or the buyers that have perfect a plus credit, everyone's going after them. What about the rest of the majority of people out there looking to buy or sell their home? We're going to talk about ways that you can help sellers and buyers and win yourself on creative financing deals on this podcast.

Joe: Cool, so we've got a special guest. I'm gonna bring them on in just a second. First, I want to talk about, yes, can't talk about it enough. My new book, REI Secrets, you can get it free. Just pay shipping and handling at REISecrets.com and this is a book, it's thick. I can't believe it. Daily nuggets of real estate investing wisdom that are going to help you get more leads and close more deals. Those of you that are listening to my show for a while, I do these REI In Your Car podcasts where I'm driving in my car and I just record things from deals that we're working on or coaching calls that we have or whatever. Just thoughts about real estate investing, about the business of getting more deals about marketing automation and delegation, which is kind of like the main three themes of anything that I publish and produce.

Joe: And I've condensed them all into about a hundred little two to three-page chapters in here that you can read. Like just read one chapter a day. This chapter is called, "Are You Committed to Making This Work?" Hmm, I talk about are you actually taking it seriously? How about this one? Oh, it was my favorite chapter. It's called "I Love Marketing". Yeah. Talk about why marketing is so important. Make 10 offers a day on the MLS. What? Yep, you can do that. It's not that hard. "Is This Four-Letter Word Stopping You?" So just, you know, there's no rhyme or reason to the collection or the order of the chapters. They're just intended to be something that you can stop and read in a one day and get a little bit of motivation and wisdom to excel, succeed in your real estate investing business.

Joe: I'm excited about it. And you can get the book for free at REISecrets.com. REISecrets.com just pay a little bit of shipping and handling and you can get it for free. Cool. So, on today's show, I'm excited. I got a guy on here who's from Texas, who's actually from the beautiful city of St. Louis, the beautiful city where the Cardinals are in first place in the division right now and the St. Louis Blues when the Stanley Cup last year. His name is... I'm going to get his name wrong and I'm sorry, but it's Nick Legarmo. Is, well, I'll just bring him on and see how I did. Nick, are you there?

Nick: I'm here, Joe, thanks for having me. And by the way, you probably said it better than I do most of the time. So that's the Italian, the Italian.

Joe: I love it. And you're from an area in St. Louis that is known as the Italian area, the Hill where some of the best restaurants in St. Louis are from is. You know, I'm kind of new to St. Louis. I mean I've only been here 16 or 18 years, but I moved here when I was in my thirties and a late twenties actually. Is the Hill actually really? Is there a large population of Italian families there?

Nick: Well, it used to only be Italians. I think there's actually, I haven't been there in a couple of years, but obviously as people age on and you know, kids want to move to the suburbs, the desirability is not quite as probably, you know, there's just not as desirable an area as living in the suburbs and the newer construction house. But you know, it's been, they had an association and I grew in a very active, you know, it's not really a homeowner association, but it's a cool place. If anybody ever gets to St. Louis, there's some of the best bakeries I've ever been to. Italian bakeries, some of the best Italian food and, and with delicatessens and stuff like that. It's a, and there's just a ton of history on the Hill too. I mean, I mean, some great names were from the Hill, you know, Joe Garagiola, Yogi Berra, there's more, I'm trying to think. There's one other one, I can't think of who it was, but they're all, you know, legends, especially when it comes to St. Louis baseball. Stan Musial used to have a place down, not too far from there. You can't beat the food. And the people are just as nice.

Joe: Nice. Well, if you're ever back in St. Louis, you want to go there for dinner or drink cappuccino, let's do it.

Nick: Get a cannoli, right? Can't go wrong with a cannoli.

Joe: Yes. I was just in little Italy a week ago and, in New York City, and right in Manhattan, they have the little Italy there. And, it was the Italian festival or something like that. I don't know if I've ever been in a such a small area that had so many people as that evening in New York City. It was insane. And, but it was a lot of fun and I had too many cannolis.

Nick: That is not hard to do. Not hard to do, I can tell you that.

Joe: Cool. So, Nick, thanks for being on the show. I want to talk about creative deal structuring. You've been doing a lot of deals in the Texas area. You're living in Texas now, right? What part of Texas?

Nick: I'm in the Dallas area, so, you know, we've been doing business, I've been doing the seller financing and creative deal structuring since probably since probably 2010-2011, after the last recession. And that was really the reason... How we got into it was just as a preventative mechanism for, you know, from preventing from a downturn in the economy. You know, I didn't want to have, you know, I tried to figure out a way how I could control real estate versus own it cause I didn't want to get left holding the bag and you know, 600 and something transactions later, you know, I think we did, we've done a pretty good job of figuring out what that looks like and really how to, how to build a very profitable, you know, successful business and more importantly, be able to provide home ownership to people that had been told they can't, you know, buy. That's really the baseline or the foundation of everything that we do. So, and it's worked out really well. So, it's truly, truly is a win, win, win all across the board.

Joe: So, talk about what your business looks like today. Then I want to ask you some questions about how you got into this.

Nick: Yeah. So, I think what we do is not difficult. It's very, it just complex. And I think that the best way to describe it is if you look at what a wholesale deal looks like or even a fix and flip from acquisition to disposition, it's very, it's fairly definable, right? There's not a whole lot of not dealing with Dodd-Frank or you know, CDs or buyer qualifying or RMLOs, all that other stuff that goes along with seller financing. There again, it's not that it's difficult, it's just complex and all those things that would usually scare people away are actually benefits in my opinion to the seller because it just adds another layer of not necessarily security, but another layer of evaluation. You know, from a professional standpoint, from an expert that really is underwriting a borrower's file and making sure that they are who they say they are or you know, going through a third-party servicing company. They make sure that payments are made or posted. We're in Texas so we deal with a lot of Hispanics and a lot of Spanish speaking people just by the nature of where we are. So, there's obviously a language barrier, there some times. So, the ability to have somebody that's bilingual in house on a third-party level from the servicing RMLO is extremely valuable to what we do.

Joe: Cool. So, what is it, can you talk a little bit more about what you do like...?

Nick: So, you know, so what we do is primarily is we buy, we fix, we sell, which is what a lot of people do, but instead of selling it through the retail channel, like to a retail buyer that's looking for a single family house that's gonna go through the traditional, you know, loan process and through a realtor, we seller finance it basically, and we create our own, we create our own buyer's list. And as a result of that, we underwrite our own buyers. We become the bank. At the end of the day, we are the bank. And it's not that hard to do because you don't even have to have a lot of money because you can still do the deal, process the same way all the way through, except when you get ready to sell, instead of selling it to a retail buyer, you're selling it to a person that needs, you know, seller financing and why this is important because if you look at where things are going and where we been the numbers are dramatic.

Nick: And I don't mean in a small way, they're dramatic in a large way. The number of entrepreneurs today versus 10 years ago, it's astronomical. The people that work for themselves who are self-employed, they can't run down to Chase or Fargo or B of A or wherever they're going to get a loan from and get qualified. The qualifications are too stringent. In fact, you know, I was just reading a report, the average declined credit score's way over 700 now. So, you have to have a credit score above 600.

Joe: Are you serious?

Nick: No, I'm dead serious. The minimum is even, you know, the minimum is 620. But you know, because there's other factors that go into that loan application. There's, besides the credit score, there's your employment. Are you a W2 employee? Are you self-employed? Are you 1099? Really hard to get it right now. You also get things like DTI, which is your debt to income ratio. You know, the banks got their hands slapped pretty darn hard at the end of 2007, eight, nine timeframes. And when interest rates are historically low as they are, they really want to mitigate their risks.

Nick: So, you see a lot of things that come in on the retail market and I'm sure a lot of listeners that have done fix n flips thought they were going to sell it for X and end up getting an appraisal back and it's 10% lower. And it's not necessarily because the house isn't really worth that much, it's just because they're erring on the side of being conservative because the more money they can get down on the deal and the less they're loaning out to that asset, that property, the less exposure that they have.

Nick: So, we just take it... So, it goes back, you know, it goes back to Economics 101, which is supply and demand. And if you look at a neighborhood for example, Joe, all you see up and down the neighborhood are real estate or realtor signs, right? They're listed with Keller Williams or Century 21 or whoever it might be. Well that's a traditional transaction. So, there's, you know, a lot of things have to go the right way for that deal to go down in a timely, timely manner, right? The buyer's going to be extremely, if they can qualify through a conventional or FHA or VA loan, they're going to be picky cause they can... they have the control, they have access to all that other inventory and they control the hammer per se, right? They have the ability to go out and find the house that they want, the way they want it and make the offer that they want.

Nick: And the seller either takes the deal or they don't take the deal and it really becomes at that point, what's the motivation level of the seller? And a lot of times in the retail market, we will see sellers that panic. We see sellers that sell for less than what they probably could get because they panic because it takes...they have all this capital and cash out and now it's taking longer to sell. They're not getting, they're not getting traction because there's so much inventory out there for retail buyers to choose from. The opposite holds true on a seller finance model. If you can't provide seller financing, like, it's almost 50/50. I mean it's almost, right now in the next two to three years, the number of people that need to buy with seller financing versus traditional money or traditional lending is almost 50/50 so. But the market on the retail market is nowhere near 50/50. It's probably 98% retail and 2% seller financing. If it's even that, if it's even that good.

Nick: So, you have a huge imbalance there so when you can control and be on the side of limited supply with high demand, you can dictate the terms of the deal to your favor. And that's what we've done, not that we're trying to gouge and not that we're trying to overprice. What allows us to accomplish it, it allows us to accomplish getting maximum retail price based on the true value of the property but more importantly, it allows us to get velocity... get some velocity. So, we'll get to take the same capital stack and we can turn that capital over and over again much quicker than we could in a retail environment. And that's how we become extremely profitable.

Joe: So, you, you're at, your main model now is to go buy properties. You take them down and then you rehab them. There's some guys out there, Nick, that they just buy Cracker Jack properties and maybe that's not the right word, like really crappy junky properties.

Nick: Distressed property. Three sided houses, burnouts.

Joe: Yeah, and don't do anything to them and then turn around and sell them with owner financing. Do you do that, first of all?

Nick: I don't. I don't.

Joe: Good because those are the guys that you see in the local news. Do you know what I'm talking about?

Nick: And you gotta be careful with that. You got to be really careful. I would say we have done it very few times. I would say on 600 plus transactions, maybe, you know, a handful. And the only reason why we did it was because the borrower was qualified to do the construction. They had their own construction company, they were roofers or you know, general contractors, painters, whatever it might be. And they had the ability and the infrastructure to do that, that they wanted to do the work themselves. And it's a difficult, that's a difficult play. I mean, it's not, it's not where I like to go. I... Plus, here's the thing with that is that you've gotta be really careful where you price them.

Nick: So when I fix a house and I build it to retail, you know, everything we finish out, I've always built and we want to build a quality product that, you know, it's not going to be brand new, but it's going to be extremely safe and livable. And with that, we want it to be affordable. And we don't want somebody to be able to come in and have to sink a lot of cash in after the fact. The one reason why it was one of the biggest reasons why this model works well there's several of them. But getting back to the original question, why we don't do it is because we can't get maximum value. Okay? For example, I'm just going to use a throw out round numbers. I just know these numbers because I just cranked the code out on this.

Nick: So let's just say that... I'm gonna make sure I get the right thing. Let's just say you have a property that's worth $100,000, so you can get max, you get max value when you can build it out to $100,000. In a seller finance model, in a high growth area where properties continue to appreciate regularly, you might be able to go three to five and you might go three to 5% above retail price because seller financing, there's a little bit more risks, the borrower's not quite as qualified as some other types of borrowers, but you can't, you know, we're not going to sell a hundred thousand dollar house for $120,000... It's just, that's just ridiculous. Especially when our cost base is 70% or 75% of that, right?

Nick: So if you look at a cost basis as a 75% okay, which is I think, very middle of the road for most people, so your cost base is $75,000 you seller finance it, you get a small down payment. You know, we take no less than 10% I highly recommend not going any lower than that. But a lot of people take lower. We want to have equity; we want to have them borrow and to have an equity position in that property. It's important because you don't want to take these houses back. That's not our business model. You know, you want them to succeed, you want them to have a property that they own for a long time and they have pride and ownership. And if they get into a situation they can turn around and sell it and at least give them, you know, get out without being a upside down, which is what happens in a lot of situations.

Nick: So, going back to my example, $100,000, the P and I, principal and interest, on a $100,000 loan at 10% interest... Now 10% interest, that's awful high. Well, is it really, and here's the reason why. Here's the question I ask. Well first of all, you don't want to pay 10% interest, then go down to Chase or Wells Fargo or Bank of America and go get qualified and get a four and a half percent note. Nothing's stopping you and you're more than welcome to buy the property that way.

Nick: So, then the next question is well, is 10% too high? Well, no it's not because the government says you can charge up to six and a half percent above APR, which is an annual prime offer rate, which is an index (inaudible) or something like that. It's adjustable. It adjusts weekly and you just pull the rate and you set it up and that's what we do and it's a little bit, you know, it's probably, I can, I could technically write probably a 10 and a quarter right now. I don't know what the rate is today, but we keep it at 9.9% so the question becomes...

Joe: Which, by the way, that usually that payment at that 10% interest is about what the rent would be anyway.

Nick: That's exactly where I was going to. That was the next thing I was going to say. So, if you, if you're in the right price range and you're ride affordability because like this model doesn't work for $300,000 houses. You know, this house, this model is something you want to keep it below the median home price for an area, for example, Dallas, our median home price is now over $200,000. The maximum affordable house price that I can probably safely sell to a borrower is probably in the $165k to $175k price range.

Nick: So, I'm below the median, which is where I want to be and I'm still at affordability because what's really important is that in the question is: what's the interest rate on rent? You know, if you're making $1,000 a month rent payment, how much is your interest? Well, you can't calculate it because it doesn't exist. If you got $1 back on that thousand dollars a month in some kind of a rebate or something, you can figure out what the interest expense is. It's a lot higher than 10% plus you're not getting the benefit of the tax write offs. You're not getting the depreciation or the appreciation I should say, of the house moving forward.

Nick: So, in this example, the P and I is 9.65%. Well if you think about it this way, so majority of the notes that we've ever written we did with wrap mortgages and we had to show lenders what that was and we basically collateralize the note and we pledged the note that we write because we always borrowed money just like you would borrow money for a fix and flip from a hard money lender or a private lender or wherever it might come from, you know, we borrow, you know, ten and two, twelve and two but it didn't really matter. And here's the reason why, because we would run a 75 cents cost basis, right? So, if I'm borrowing $75,000 at 12%, let's call it 10%, but I'm writing a note at $100,000 at 10% it's still not even equal because I'm paying interest only on the front side and I'm creating amortized money on the back. So, it doesn't even, it's not even a fair fight at the end of the day, but I'm only keeping that money in their short term so I can have the ability to build that note up and then sell the note, you know, for a small discount. And the net net of that transaction is the profit. It's still a transactional deal, but we, we realized a long time ago that on the same asset, the same property, we were able to get an extra 10%, 15%, sometimes 20% more money on the same property because we are able to create the financing and so on.

Nick: So, let's just say that you were able to use private money... So, you can get private money and somebody was going to give you 20 year money at, I don't know, say 6%, 8%. It doesn't really matter the number; I use 10%. The cost basis is $75k so the yield on this model right here is about almost 15% because I'm getting 10% money on $100,000 and I'm only paying seven or 8% or whatever the number is on $75k.

Joe: What would your approximate cashflow be on this?

Nick: I didn't figure that out. It's going to be more than rent. Most of the time it's more than rent, which is extremely important. And then we see at the end of the day we're controlling the property, not owning it. And you know, the whole model is, how do you be the bank? Right? We want to be the bank. And Bank of America doesn't own apartment complexes or rental portfolios. Not by choice. They might take something back in an REO, but they don't keep that on their books for a very long period of time. So, they don't have to because they can lend money out. And your cashflow... Joe, have you had a mortgage on your house or have you ever had a mortgage on your house?

Joe: Yeah.

Nick: How many times did you, in your life of your mortgage, you know, most people write 30-year mortgages... I don't know how many years you ever had a mortgage. How many times did you ever call the lender? How many times did you call the bank for any reason? Can you remember anytime?

Joe: Well yeah, back when the market crashed, I was calling my lender to negotiate a short sell.

Nick: Well that's a little bit different. You ever call them when the roof leaked or the plumbing backed up and you needed a new dishwasher or you know the window breaks and the door lock doesn't work or the washer and dryer quit...?

Joe: I wish I could.

Nick: You wished you could. Well guess what? I can't tell you how many calls I haven't received because they don't call me. As a bank, as a lender, they don't call you. Right. But you know, this is obviously an advanced strategy. But what's important to understand, and this is the main point I want to make and where we've sort of evolved and we expanded our business to, is that we're actively in the buying and the selling of these notes.

Nick: So we help educate and teach people how to do creative financing, but they can treat it as a transaction more than as a long-term cashflow because you know, it's really hard to go scratch a check for $100,000 and take it out of your account and get up and get payment of $800 a month. That's a great return. And at $900 a month, but you can't, you run out of capital really quick if you know, not a lot of people just that they don't even have $100,000, but you still run out of cash regardless of what it is. So, we help to create that opportunity and then we can come in and we can help get maximum value for that note and they sell the note and we're a note buyer. And when they follow a certain checklist of things that needed to be done, like using an RMLO, which was a residential mortgage loan originator, which helps do the underwriting and do the qualification to borrow, there again...

Joe: Which by the way, which makes you compliant with Dodd-Frank.

Nick: Absolutely. And see, all this stuff is stuff we don't do anyway. I mean we don't personally do; all we do is review and approve. We look at the underwriting file, they do the underwriting, you know, and then it goes to servicing. Now the borrower, after we sell them, sell the property, write the note and I sell it to you and now you're making a payment to whoever our servicing company is, you're not making it to our company. You're making it to the servicing company. Then the servicing company then takes that payment for a fee, which is rolled into the note most of the time for the borrower, and then from there... Let's say it's $1,000 a month payment and let's say taxes and insurance are another $200 of that thousand, right? So, the servicing company will escrow the taxes and insurance and they'll basically deposit the P and I, the principal and interest, in our account. Just that simple.

Nick: And in the event of a slow pay, no pay, default status, the servicing company will step in and you know, help remedy the problem with our, you know, with our guidance and our, what we want to do. So there again, it's not difficult. It's just complex. But that's what we have stepped in to do, to help the people that want to do five or 10 of these a year.

Nick: Cause here's the advantage, Joe. This is initially where I wanted to make this point. Most people that play in the wholesale space or even fix n flip space... Throw me out a number, is it 70 cents on the dollar, 80 cents on the dollar. I know each market's a little different. Some are more aggressive than others. Give me a worst-case scenario that you think you'd have to pay to be able to get a deal and be able to fix and flip or whatever?

Joe: Well, if you're in California, maybe you can get away with 80 cents on the dollar, but in most parts of the country you need to buy it at 60, 70 cents.

Nick: And you're all in, you're all in including your construction, your cost of capital and your rehab can't exceed what, 75%? I mean so, so here's my question and there's a lot of people chasing those deals. Would you agree?

Joe: Oh yeah.

Nick: They're chasing the distress properties. So, let me ask you a question. So, what happens to the stuff that's above 75%? What about the stuff that's available at 80%, what about stuff at 85%?

Joe: Yeah. Most people don't know what to do with those.

Nick: Exactly and those are huge, huge opportunities. And the reason being is because there's little to no competition on it and you can still do the deal structure because when you do the seller financing, cause you could take those down on terms and you can do subject to, you can let the seller stay in the deal. You know, these are all things, I'm actually writing a book and it's not quite out yet. Maybe it is by the time the podcast gets finished and you know, and I may at the end of this, people that stay on, we'll give them an email address they can send to and we'll send them some of the eBook versions. But at the end of the day, you can still monetize those deals. And Joe, I've done numerous deals where there's been negative equity in the deals, and then because you can create the deals that you want, the seller wants...

Nick: Here's an example. I did a deal, this is a, this has been a few years now. The guy wanted $100,000, that was literally retail price and it was his own house. He had owned it and lived in it for years. He had moved out, downsized, and had a renter in there for number of years. And then basically the renter left and he was just tired of being a landlord, which is what happens. And he wanted $100,000 and I go, that's retail. I go, why do you want a hundred dollars thousand? He said, you know, it's a round number. I really don't need the money and whatever. I said, so here's what I'll do. I will give you a hundred thousand dollars, I will give you $10,000 cash down and then I'll give you $800 a month until it's paid in full. And his rent was like $700 a month. Plus, he was playing taxes, insurance on it. I go, you'll get your $100,000 and I'll pay you, I'll give you $800 a month, which is more than you get and then if I go full term, $800 goes into $90k about 11 years, whatever that comes out to be.

Joe: Which would be principle only payments.

Nick: No interest. I paid zero interest on that. Okay? So, then what did I do? Well then, I went and I wrapped the underlying debt that I have, which was through seller financing, which is perfectly legal, you just gotta disclose it. You know, and when you're in... Go back to supply and demand. When the demand is so high and people want to have ownership and they've been told they can't do it, there's not a, there's not a lot of competition get them excited about the deal.

Joe: So that's a great example. I love that deal. I've done those deals before. Talk about when you're selling that deal, that $100,000 property, what are the terms that you're selling that on?

Nick: Yeah, so it was probably... Well I know exactly what it was. So, what I sold it for, sold it for $105,000. I got $15,000 down...

Joe: Which covered... You took the $10,000 you had to get to the seller from that $15,000 you got from your buyer.

Nick: Yup. So, I put, I, I made $5,000 cash on the transaction. Right. You know, maybe a little less, cause there's probably some closing costs and stuff in there, but it was still, remember, this is a negative equity deal. There is no equity in this transaction. And I ended up turning around and putting them on a 30 year note for you know, probably nine and a half, 10%. This is about five, six years ago.

Nick: So, what did I gain on it? Well, you know, after, you know, so now we've got a cashflow coming in. I mean my cashflow on that is probably, you know, $975. I'm paying $800, so I'm cash flowing it there. So, what I did on that is I just accelerated the payoff. I just took the extra principle and interest that I was receiving of $175 and I just paid down the underlying debt. I probably in hindsight should have left it at that 0% interest, probably wanted to make that longer than shorter. But I just did it because I, you know, if I can get, if I can get the cash neutral, I like that better. I like it better because if that buyer defaults or something like that and I don't have any debt in the deal and I'm already paid off, then I have a lot more options on my side. If you have this, you know, multiple properties like this, then you don't have to necessarily, you know, feel like you're pressured because you've got an underlying payment due to a private lender or a bank.

Nick: So, you know, this got accelerated down. I think I had the whole thing paid off in like five or six years. And then at the end I'm left with a free and clear note, the UPB, unpaid balance. Cause remember I was zero interest but it was likely interest only at zero. I wasn't even paying... I'm still getting amortized. So, let's just say it took me 10 years to get it, which it was a little less than that. But the UPB on a $95,000 note in 10 years, it's still $90,000. So, if that buyer that I sold that property to decide to move on and sell his house and you know, go wherever he is, he's going to call the bank, which is me and ask for the payoff. The payoff is whatever the payoff is an amortization. To this day they haven't paid it off, they're still, um, they're still making the payments and I have a free and clear note in my portfolio.

Joe: So, what are the terms that you sell it, nine or 10%? Is there a balloon that you do?

Nick: No, this is straight; this is no different than if... We write our notes and, I strongly advise people to follow this protocol, you want to write paper that's consistent to what other institutions, write, okay? Here's the, here are the primary differences between an institutional lender, like B of A, Chase, Fargo, whoever, and a private lender. First of all, they have, they have compliance and they have guidelines they have to follow as a small equity, low equity... not low equity, as a small cap lender. Really, the only thing per Dodd-Frank than I have to do is I have to prove that the borrower has the financial capacity to make that payment. That's it. So, if they're paying, if the payment is going to be $1,000 a month, I have to prove through income verification, rent records, whatever it is, that they have the financial capacity to make the payment. You go to a Chase... Chase for example, they are on a whole different set of rules and guidelines. They have a minimum credit score. If it, depending on if it's a, you know, conventional or jumbo or an FHA, there's a credit score tied to that. There's DTI, there's a minimum DTI... your DTI cannot exceed 43% period. I mean, I don't think they, I don't think they've changed that. They talked about changing it commercially or on a, on a traditional side. I don't really care. But we still follow 43% and I would say 90% of the seller financing transactions we write are, meet the DTI requirement.

Nick: The fundamental difference between what we write and what banks don't do is that we write a lot of ITIN borrowers, which is ITIN, which is international tax identification number, which is basically the equivalent of a social security number. And you know, for people that are in the United States that pay taxes, that, that work and have a job, but they just don't have a social security number, that's one. Or they're self-employed, that's two. Or you know, they don't have the credit score. And it's not that they have a bad credit score, although we do consider that too. They just might not even have a credit score because they're underbanked or not banked or don't, only deal in cash. They've been cash buyers for as long as they've been around. So there again, those are all just some of the factors that are used.

Nick: But at the end of the day, like I said, the key to this model in my opinion, is trying to keep rent value and ownership costs as close as possible. Because when you have those numbers in there, if it's $1,000 to rent or $1,000 to purchase, it becomes a very objective decision for the borrower. Right? So, the borrower is going to go, do I want to own for a thousand a month or do I want to rent for a thousand? Whereas if it's $1200 and $1300 on buy and $900 to rent, that's why some markets are extremely difficult to do this modeling because rent values relative to purchase price, it's just doesn't make sense. We can, Texas is a great place because property taxes are expensive and that works to our favor. And the reason being is because if you have a rental house and you want to cashflow, guess who's got, we've got to pass that cost on in the form of higher rent. Otherwise you don't cashflow the deal unless you're not, you know, in a, in a market or an area that allows you to get, you know, appreciation over time, which is not a good, not a good business model.

Joe: So how do you find your deals? How do you find your deals?

Nick: Yeah. You know, that's another great question. And you know, this is, we've always, I've always been against the grain. Okay? What I do, let me say, well look, there's nothing wrong with being a wholesaler. There's nothing wrong with being a fix and flipper. There's nothing wrong with doing any of that. But I don't like to do what other people do it because, because it's competitive and I don't, I'm not afraid of competition, what I don't like is inefficiency. Okay. I don't like, I don't like wasting time. I don't like inefficiency.

Nick: And if I've got to go down the street and I got to go knock on, you know, 50 doors and get one deal, that's not an efficient process. And I come from an operations background, so you know, processes and operations and all that stuff and analytics is a very integral part of what we, what we do and how I evaluate stuff. So, I would say the majority, that's why I did end up going to seller financing because I... Guess what I get, Joe? If you understand the amortization, right?

Nick: And I would strongly have people, even if they don't ever write a seller finance deal, understand amortization is and how it works. Because when you see what that does, it's basically getting all your interest and all your money up front before a dollar of principal is really paid. You know, on a 30-year mortgage, if the payment is $1,000 a month, okay, it takes 23 years to get the 50/50 of that payment. The payment never changes, right. What changes is what portion of that payment is principal and what portion of it's interest.

Nick: So, you got to get to year 23 on the 30 year note to have $500 going to principal and $500 going to interest. In year one, $990 depending on what the interest rate is goes to interest. $10 goes to principal. That's why in 10 years from now on a hundred thousand dollar note, the principal balance, unpaid balance, is a crazy amount and I've already got all my money back out of the deal and my cost-basis goes down year after year after year because I'm getting paid up front but my balance doesn't change. Does that make sense? I don't know if I said I clearly.

Joe: Yeah, but like how do you find the deals?

Nick: My point, the reason why I say that is because I don't go, because of amortization and because of the ability to create seller financing and creative deals, I don't have to pay a competitive price. It gets back. I can pay more. I don't have to be in the 75%, right? I didn't think it. I can be in the 80% to 85% I have no competition there. Cause, Joe, if I hold the note, if I create the note... Let's just use 10% on $100,000—it's easy math. 10% interest on $100,000 is how much? $10,000 okay? So, in one year, the difference just in one year with everything else fairly the same, the difference is, if I'm willing to wait one year, I can take $80,000 instead of $70,000 that's it. But I still get the back end of the deal.

Nick: I still got 29 more years on the deal to make another $10,000, another 10,000. I'm just deferring. That's all that I'm doing and it allows me time and I don't, I don't, I'm not negative cashflow. I never go into negative cashflow in any deal. And I'm usually cash positive or cash neutral because I still get the transactional play, which is the down payment on the deal. So, I'm getting $10,000 cash down payment on $100,000 on property. Even after I pay marketing fees and closing costs, I still got almost as much money as somebody that was going to wholesale the deal anyway, so I get that. So, the short answer to your question, I get stuff off the MLS. I get stuff off MLS because I can, and I get, I get a lot of stuff from wholesalers because they're going to, let them negotiate it 75 cents on a dollar and I'll pay him 80 cents on the dollar. And that's basically it.

Joe: I was just talking to somebody, who was this yesterday? Oh, I just, I've been talking to, I've been doing so many podcasts, I forgot. What they did was, Oh, who was this? So, they were saying how, I forget. Anyway, this one particular deal, the seller, oh, I wish I could remember who this was, but the, what happened was the wholesaler was trying to sell it for a certain price and they were really struggling to get that price. Oh, I remember what it was. It was an interview on another podcast. Okay, this is what it was. And so the guy thought he had a good deal and he wasn't able to sell it to his list of cash buyers, but one creative guy came do him and said, Hey listen, I can buy this if the seller willing to do a subject to for a short, like six months while we do the rehab and then we'll turn around and sell it.

Joe: So, what they've done now is they bought it subject to and they went ahead and rehabbed it and now they're selling it on a land contract, owner financing. They created a wrap and this wholesaler now instead of getting the $10,000 assignment fee that they're hoping to get, they're getting a lot more than that because they were, they were partnering with this other investor that came in and structured a creative financing deal. And now I don't know what the numbers are, but they're going to be making double that because they are able to give the seller... I remember, I remember what it was. The other cash buyers weren't coming to buy the deal because it wasn't it wasn't low enough. Right. But the guy, he was going to have to cancel the contract and walk away, but then he was able to go back to the seller and save the deal by offering something creative, like a subject to, to take over the mortgage for short period of time and then actually kept it longer then did a land contract. You know what I'm saying?

Nick: Absolutely. And you know, and here's why that's extremely important in my opinion. One, good deals are hard to come by and they have been for years. So, you know, the ability to be able to get a, what I call... I played in the fringe for a long time. So, and what I mean by fringe is like if you draw a box, right, you have a box and then you draw another box around the box. The area that between the two box is the area we played in, and it all started back, you know, eight, seven, eight years ago when hedge funds were really big into going and buying properties. Well, I can't compete against the hedge fund. They have, they have so much patient capital and they have so much cheap capital. We can't, I can't compete.

Nick: So, I said, okay, well let me go to an area where they don't want to be, right? They go, you know, which is at the time was they wanted a three-bedroom, two bath, 1985 or newer. Okay, well then, I'm not going to look at anything newer than 1985 or you know, I'll look stuff that's got one bath instead of, you know, two, and maybe it's whatever. And that's what you have to do. So, you have to take advantage of these opportunities. You can make a lot of money just hitting singles, you know, you're a big baseball fan and you know, you know, I think people get too enamored by the fact that...

Nick: You know, I was just reading a report. The average fix and flip yields about $60,000 I think that's roughly numbers down a few bucks. That's great. Okay. But if it takes you 180 days to do it, you know, that's where you can go do a, you know, something else and make five or $10,000 in five or six days. The velocity is just so much greater. But more importantly, you gotta capitalize on deals that are what most people think are marginal because there's profit and there's money to be made in that stuff. You got to stop looking, trying to get the home run and looking for the $10k, $20k, $30,000 paydays and missing all the opportunities to do a little, a little, you know, $2k or $3,000 transaction that falls right into your lap. And that's the, that's the name of this game.

Joe: I just did a search on Redfin in the Dallas Fort Worth area and it's a big area, very competitive, super competitive, right? Just searched here for homes between a hundred and $175,000 three plus bedroom houses only. All right. That have been on the market over 90 days. Now Dallas is a hot market, right? Look at, there's 242 homes right now in the market that have been on the market in that price range for over 90 days. Do you think maybe you could find one or two deals here from a seller that might be getting a little motivated that you could buy at 85, 80, 85 cents on the dollar with some creative financing?

Nick: Absolutely. You may even be able to pay them closer to their asking price if you get the right terms.

Joe: I mean, this is a nice house here, Bowie, Texas. I'm not afraid of the small towns. I love the small towns, by the way. And in fact, I would say that there's more opportunity in small towns because there's less competition. I mean, this is a real nice house, right? It's been on the market for 90 days. Who knows what's going on? Why hasn't it sold yet? It's probably maybe either needs a little bit too much work or it's overpriced or whatever. Right? This type of a house that's been on the market now for three, four months. What, you approach the realtor of this property? What do you tell them?

Nick: Well, I mean, I think you come in and you, you know, and you just tell them exactly, be as transparent as you need to be to say, I can buy this. I'm willing to buy this property, but I need, I need, I need some terms on it. You got to remember that not all sellers need cash or want cash. I mean, I think that's a big thing. That's probably the biggest thing that people have to understand is one of the biggest things is that not everybody wants cash. This guy is asking $149k, what's the price on this one? I'm just looking, so why is he asking the $149k? Well, you know, uh, is it because he owes $147k and he needs $2,000 to go move? Is it because, you know, it was an investment property and he's trying to get cash?

Nick: I mean, they're, all deals are different. You don't know if, you need to know the motivation of it, but you can offer full, you can get close to full asking price. Look, if this seller would carry that term for one year at, you know, no interest or low interest, which I'm telling you right now, people will agree to it. You think not, just ask. I can't say it clearer than that. You just got to ask.

Joe: This is why the house hasn't sold yet. You know the toilets in the tub, right?

Nick: That's multitasking, Joe. Isn't that multitasking?

Joe: You can take a shower while you're sitting on the toilet. I love it.

Nick: You've seen out there, we already started doing some work there. You see a paint can. To your point, this is probably, I don't know if it shows a value on it, but they are probably asking fairly close to retail.

Joe: So, what if you offered them retail, right? And you said, listen, maybe I can get you the $149,500 that you need for this house, if you'd be willing to owner finance, right?

Nick: Absolutely.

Joe: You could offer them, offer them their price on your terms, you could say, and this is crazy, Nick, that I've done before, it works really, really well. We actually, I sent out letters to, in one zip code to free and clear homes. Did you know one third of all homes in the United States are free and clear, do not have a mortgage. I sent out a letter saying, Hey, listen, we, this is a letter of intent. I know this is out of the blue, but I'd like to buy your property. I'm an investor buying more properties in the area and I will make you a full priced offer if you're willing to do owner financing.

Joe: And what I did is I attached the letter of intent that had the Zillow value. I said, I'll buy your house at Zillow value minus any repairs and I'll pay you. Um, well, I took the Zestimate rent and I cut that in half. So, if the property, just round numbers, if the property rented for $1,000 the estimate said, I told them I'll pay you $500 a month until paid, principle only payments. But I'll offer you, if Zillow says it's worth $150,000, I'll give you $150,000 minus repairs. And I was shocked at how many responses I got back. I got a lot of angry responses. People really, really mad for whatever reason.

Joe: But I'm giving them full price, why would they be upset with that? But I was shocked at how many people called me and said, you know what? This is really interesting. I've never thought of this. You mean like I don't have to go in and fix it up. I don't have to go and clean it and list it with a realtor? And I said, no, come on. That was just, let's just do it.

Nick: That's what the eye buyers you're trying to do. So, I'm gonna, I'm gonna, I'm going to quiz you here Joe, cause I, I should've probably said this in the first 10 minutes, you know, whatever. You go, you get, as you finish up talking about creative deals, structuring and seller financing and stuff like that... I'm going to put a steak dinner on the line here, okay, if you're within 10% of this number, I'll give you 10%.

Nick: In 2018, what's the dollar amount of seller financing that was done in the United States? Now that's non-bank, non-bank, non-bank loans. Seller financing. Take a swag of what the United States number is. Seller financing for houses, seller financing. That could be anything seller financed. It could be single family, it could be a land, it could be business. Okay. A lot of businesses are sold seller financing on terms too, but just take a swag at the total cause there's money in all that stuff. I mean there's money in seller financing and land. And land, there's no different than a house. The same process on buying it to sell it or flipping it or any of that stuff. My guys made a lot of money doing land with a lot less headache, by the way. But just take a swag on what do you think, how much was done in 2018?

Joe: I have no idea. 500 million.

Nick: 500 million. Wow. Okay. You're wrong. I'll tell you that. $26 billion. Billion with a B. $26 billion. You know what? I tried to put $26 million on my calculator and I was two or three zeros short. I couldn't do it. I had asked Siri to calculate that equation for me because there wasn't. It's a huge, huge piece of this business that no one knows about. How many HD TV shows do you see talking about seller, seller financing, creative deal structuring? It doesn't exist. It's just not sexy, but there's more money to be made doing this and that's exactly why we do it. The numbers only going to go up. Here's the other, here's another thing. When you write a note, even 15-year note, okay, maybe it's 28 or it's 30, okay. In the last five years, five years, there's been over a hundred billion, $100 billion, in seller created paper that's out there right now.

Nick: So, there's a huge market and that's why there's a play on it and there's buyers for that paper. And that's, and I'm a buyer. That's why we teach and we do what we do because now I can scale this and now, I can go out and buy paper anywhere in the United States. I don't have to get in, you know, deal with it on a local level and necessarily have to go and find a property, fix a property, find the buyer, sell it and get the same thing... I can get, I can scale them. So that's a huge, huge number. And I think it's for anybody that... It's a huge, it's a huge number and that's all I gotta say on that. So cool. The one other thing I want to bring up, I don't know if you've talked about this in the past and this is something I don't do a lot of wholesaling, but I tell you what, there is, there is a pause for concern in the wholesaling moving forward that I think people need to really start being prepared for and be cognizant of what's coming down the pike.

Nick: The state of Illinois just recently had some new legislation passed which basically prohibits wholesaling period. You know, there's, I mean there's, it's really now, look, it's Illinois. Let's be honest. I mean Illinois is not Texas or Georgia or North Carolina or even...

Joe: Who would want to live there anyway?

Nick: Well, no, but you know, it's corrupted in a lot of different ways, but not, not saying this is corrupt, but let's, what I'm saying is the reason why, the reason why they're doing it is cause they're trying to protect the buyer. But you know what, that's what they tried to do with Dodd-Frank also. Let's be honest with you, it didn't really do that much for the buyer because at the end of the day they're the ones who didn't have to pay in for all this underwriting and all this RMLO and all this stuff that goes along with it.

Nick: So, but it doesn't matter the reason why or the validity of it. But you're going to be required to become a realtor in the state of Illinois if you want to do more than one transaction a year. So will all states follow trend, probably not. But where I'm going with this, I've already seen a number of States and you'd probably as well, the ability to be able to wholesale and flip a contract without taking it down is becoming extremely difficult, more difficult in most states without getting caught. I mean we can, we can go fix and flip a house and not get a permit and get away with it. But to continue to do it over and over again, you're playing with fire. So I just think, you know, for the buyers that are out there that are looking at stuff that are limited on cash, you know, I think things like private money is going to be a, a real integral part of being able to do deals because I think it's going to be critical that you're able to take deals down with cash either through a transactional funding. I know, you know, Matt Bell and Matt Bell is a friend of mine too, and they had a good transactional funding that just went nationwide.

Joe: He just said, here it is. Look at this. "What's up dudes, bringing the thunder today... get it done."

Nick: Yeah, I know there there's a, you know, easy button lending and it's gonna be a transaction, primarily transactional funding, but some other stuff, they also do all kinds of other lending on a nationwide, on the nationwide platform. But it doesn't, you need to look at stuff on a transactional basis because as things... You got to look to the future, not the past. I mean that's how all businesses are evaluated. They look at what your future opportunity is, not what the past performance necessarily it. And you really got to start doing this kind of stuff unless you're sitting on a big stack of cash and you're a major, major wholesaler, even the major wholesalers, you want... Here's the other reason why double closing, I think, is of extreme value because it takes the transparency out of the equation, right?

Nick: It isn't really anybody's business how much you're making on a deal, right? If it works for the seller and it works for the buyer, they shouldn't give two rips of what you're making on it. I never care. But a lot of people get, get, you know, sideways by that and there's a lot of deals that are lost. And is it really worth a couple of couple bucks, couple of grand, you know, to leave a $20k, $30,000 deal? I don't think so. But anyway, I just, I only, I just was reading the article on the state of Illinois in the state of Illinois and I just think that, you know, go Google it. Go look it up. We can, you know, you know, wholesaling, you know, in Illinois and it's like 190-page report but there's only really like one page or one paragraph that really says what you can and can't do. So anyway. Yeah. Just fyi.

Joe: Excellent. All right, so let's, we got to wrap this up, Nick. How can people get a hold of you? You just mentioned something about a book you have, right?

Nick: Yeah. So, you know, for anybody, we're still, we're still finishing up the final edits but anybody that is interested in either our passive note investing, I just have, I think education is critical in this space. I mean, the ability to go out and learn. The beauty of what we do is there's so much information, there's, you know, there's guys like yourself, Joe, that provide a great service from an educational piece to your audience. I mean, there's stuff on YouTube.

Nick: There's, you know, when I started in real estate almost 20 years ago, there wasn't, there wasn't gurus around and it just wasn't, and there surely wasn't REI clubs. And there wasn't, you know, programs... You sort of did it by the seat of your pants and hoped that you got it right. And you know, a lot of times a lot of people didn't get it right and they, they lost a lot of a lot of money and time and stuff. So, the best thing to do is send an email to support, which is just like, it sounds: support@usanotepro.com. So support@usanotepro.com... Just like it sounds and just, yep, that's it. Send it, send a request there. We can send you an eBook on the passive, on our passive note investing. I think that's of value. I'll give them to you so if you want to post them on your site and charge anything from these... I am, I'm a firm believer of education.

Nick: I can help educate people just like yourself and help them not make the mistakes or prevent them from making mistakes that I've made or seen other people make, it's going to come back to me in the long-term anyway cause I'm going to get, you know, people are going to bring, Hey, I'm in California, but my brother has got a deal in Texas, you interested? Absolutely. So, I like paying it forward. We have the passive note investing eBook. We'll have the one on seller financing. We also have the one on transactional funding that talked about some of the things we've talked about and we'll probably, we'll make them available on the site and send them all out.

Joe: Are you working with Matt on EasyButtonLending.com?

Nick: We are, we actually are.

Joe: Look at that. EasyButtonLending.com. Matt is a really good guy.

Nick: Good dude, man. So, I think we'll see each other in a week, so whatever so.

Joe: I remember. Okay, Nick, that's so much. Guys, EasyButtonLending.com if you want rental financing for the BRRRR strategy. Transaction. Hard money. What are the, what's the new term for it now? If you need it for like three days?

Nick: That's still transactional funding.

Joe: Just transactional funding? There's another term for it. I forget, like... Anyway, or send an email for this book and the materials that Nick was talking about at support@usanotepro.com. Thanks for being on the show, Nick. Sure, appreciate it. When you're here in St. Louis we'll go to a Cardinals game or a Blues game depending on when you're here. And I have a steak, I guess I owe you a steak because I was so far off.

Nick: You didn't, you didn't theoretically or technically take the bat. I sort of, I sort of suckered you into it. Maybe we'll just do cheeseburger or something.

Joe: I'll eat anything on the Hill. Let's go have dinner on the Hill.

Nick: That's exactly where we're going to go. All right, peace out. Thanks guys.

Joe: Everybody. Thanks a lot. If you want the show notes and the links and everything that we talked about, go to RealEstateInvestingMastery.com. RealEstateInvestingMastery.com to get the show notes and the links and everything we talked about, even the transcription of this podcast. All right, we'll see you guys later. Take care. Bye bye.