

**EPISODE 1034****[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]**

**0:00:01.7 WS:** This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today our guest is Nick Legamaro. Nick is a Managing Director of USA note pro dot com, also known as Nick, the note guy you created, bought and sold over 700 mortgage notes in 21 states. He also built and sold creative financing note business to a 100-plus-year-old bank. NIC goes into detail today about notes and why maybe you even as a passive investor in syndication, so why you should consider maybe being the bank having some notes as part of your portfolio. I hope you learn a lot and enjoy the show. Nick, welcome to the show. Give us a little more about your business model, who you are, how you got there.

**0:01:07.5 NL:** Well, first, thanks for having me on, I'm excited to be here and hopefully we can shed a little light on what we do, and primarily, I've been in real estate, I stopped counting... Actually, I stopped counting number deals, still counting a lot of things is you get all the... Doesn't mean as much anymore. But I started in early 2000, I went to the 2008 debacle live to talk about it. I am today, a lot of my friends and associates did not, so I feel like I can speak from a little bit of a position of experience, I wouldn't say it's not all positive or negative, but I think it really taught me a lot of where we are today, coming out of covid on where we can be really focused instruction, but it's an entirely different monster and animal today than it was there, and we might drive in it a little bit, but my main business today is really on how to be the bank and what that means is how to act like a bank and how to invest in high-yield loan risk mortgage notes that are secured by properties, and so what banks do...

**0:02:05.5 NL:** It's funny, 'cause banks tell you what to do with your money, but they don't do anything like they tell you to do it or do as I say, not as I do, and if everybody did what the banks did, they would be making a heck of a lot more than a 2% or less return on a CD or idle cash sitting in an IRA account that didn't even know they could actually be the bank. So that's what we do, and we focus a lot on the creative financing aspect of that, on how to create the nodes, we talk about how to buy notes, and basically how to just leverage in a portfolio and whatever your investment strategy is, and really just educating on how to be a lean more, not necessarily a landlord, or there's nothing wrong, or being a landlord, in my opinion, has shifted quite a bit, if you wanna do... My opinion in the last several months, just because of the way crisis have escalated on properties and rents are gonna go up, but there's a time and place for everything, I think it's just very prudent to be diversified in whatever, you shouldn't be just a fix and investor are just a multi-family apartment syndicate or any of that stuff, because I think it's really, really dangerous.

**0:03:06.1 NL:** I'll put all your eggs in one basket. No.

**0:03:09.3 WS:** There's probably listeners that are thinking, Well, wait a minute, be the bank. How can I be the bank? That's one of the banks. The bank. How can I even think about doing something like that?

**0:03:17.4 NL:** What does that mean exactly? Well, really, it's no different than instead of allowing a property, most people understand what buy and hold is that are in the real estate, whether it's a buying hold of a commercial building, an apartment complex or a single family home that they turn into a rental property for cash flow, right? So I'm holding a note and being a bank... Well, let's just talk about this role basically, do you have a mortgage or you ever had a mortgage on a home... Of course, most people have, right, and let's just say that was with Bank of America, right? As you own the house, the bank owns the note, you have an agreement to pay the bank for a lemon, you pay the bank on interest rate, which is amortized, which is... I don't know how they've got that in the past, whenever that was 50 years ago, but it's a beautiful thing to understand a version... So my question you in is how many times have you ever called the bank, first of all, that's my first question. Or anything? Not very often. Not very often. Not about the mortgage, not about the mortgage, probably don't call them out the room and starts the leaking,

you don't call them about the HVAC unit, no longer work, you don't call them about the plumbing or the foundation or any of that stuff.

**0:04:27.5 NL:** Right. They don't care, you're the owner of the house, whereas if that's the Lean lower, right, they control the lean, they have to lean on your property and if you don't perform, what do they do? They come out and come back and get the property, maybe they do a loan modification or they do, but their investment is extremely well-protected, would you not agree because they have the property as collateral, that's why we do it, and when you have that as collateral, which is different than being a landlord, 'cause it's a landlord, and there's a lot of more trams on evictions right now, depending on what part of the country you're in, and we're not getting too much detail, and now I think we all understand what that is. But as a landlord, you're not protected, you're not protecting in that stake, if the tenant doesn't pay you, and the same says they don't have to pay you, and they can pay if they choose or maybe are some work out, you don't have any recourse. But as a lender, let me say this, Banks always get paid, Banks always get paid, they don't... Sometimes get paid, they don't...

**0:05:25.7 NL:** Most of the time get paid, they always get paid, and the reason why they get paid is because they have the secure security of the asset, now they may not get paid today, they might not get paid to moral might take them a year because we're in a forbearance, for example, right now, they're not getting paid, but they're accruing an interest on that property, and if you decide not, depending at whatever point in time, that's what they're gonna come and take that property back, or they're gonna do something to get... To protect their investment, that's what banks do, and there's no reason why individuals cannot be the bank, and the way you do that is just like you would go on and find a property to buy, how are you go about doing it with your life in or through a wholesaler or whatever, that note on the market and available for consumption, just like real estate is the only difference is it's a piece of paper that's secured by the property versus the property itself, I think most just aren't aware of that. Like posts, don't know that that's an option for you to get into real estate that way.

**0:06:19.4 NL:** It's a huge option. And so the real challenge on the notes is the due diligence, and so what I mean by that is, how is the paper stack... So let's go back to your example. When you apply for a mortgage with the bank, you gotta go and get an underwriting, you had to provide tax

returns, you now to provide proof of employment, all of these things, they look at your debt-to-income ratio

**0:06:38.8 WS:** Is much more difficult to get that home mortgages and it is to get a 3050 milliner property.

**0:06:44.8 NL:** There is no job at... Look, I'm a perfect example, this and I have no problem, so I cannot go down to any tradition from banning age. It's not because I'm a bad Dutt, don't pay my bills. It's because I am self-complied, I have multiple companies, I get paid dividends, I don't even get 1099. My employee is that I could have five times the amount of cash in the bank to go purchase an asset, and they still don't give me the no, they still wanna give me a lot, it's crazy, but don't give somebody else that is not nearly as qualify on paper, because that's just the compliance in the box that they play in, so here's the funny part about it. And we go talk about this, and this is where I think the opportunity is, it's all in the stacking of the file, what that means is when you underwrite a barrow or there's two ways to participate in a mortgage down, one, you can go create the note yourself, and we work with landlords all over the country that are tired of being landlords that or don't wanna deal with the renter mentality any morning and say, you know what, I still like cash flow, but I'm willing to do that in the form of a note, and so when they take that rental property and may convert it to an honor finance, and they go find a buyer and they get to be the bank that's number one.

**0:07:52.4 NL:** And so with that, there's a little bit of risk, and it's more education and as anything else, and you have to underwrite that borrower correctly. And what I mean by that, you need to take a application, you need to verify they are who they say they are, you wanna make sure they have employment, they can really under Dodd-Frank, and when do we get the weeds on this, but there's really only two things that you need to do as a small cap under which most of these people are on, you're gonna prove that the borrowers who they say they are, and number two, you have to prove that they have the financial capacity to make the payment... That's it. Credit score, not to have any bearing on whether you wanna underwrite that bar or not, the DTI that I think it doesn't matter. They're self-employed or not. Doesn't matter, it's just something to take into consideration, so we work a lot of investors that wanna be in the bank and they wanna create their own mortgage note, and they do it. Now, what I will say is, a lot of people don't do that

correctly, and here's the thing, it's like anything else, it's only a problem if it becomes a problem, as long as that borrower pays you, it doesn't matter, but if the part was been paying you in 100 bills for the last 12 months, and now stopping you and you're not having its service and you didn't do a lot of things, or now you need to up some of cash, the note is a very sellable piece of...

**0:09:06.0 NL:** It's an asset, right? They're very easy to go sell, and it's not like you're selling a stock that you can do it in hours, but I can take a mortgage note that has to say, a 100000 unpaid balance, I can turn on and sell that and cash out of it in 7 to 10 days. It's fairly liquid, right? And what's gonna determine what I can sell that for? Is that stack file, that underwriting file, which is everything we were talking about, which is all those five, because it's a note buyer such as myself or maybe somebody that wants to become a no-buyer, 'cause you can either create an order, you can buy it. So regardless, if you're creating, they're buying it, you still want that borrow lobe stack as good as possible because that's how you assess the risk on what it is, and if you don't have all the documentation that goes along with it, it's really hard to assess the real true value of that property.

**0:09:54.4 WS:** Interesting to think about the values in the underwriting file, like what was done to underwrite this, how much do you know...

**0:10:01.4 NL:** So I'm gonna go back to my 4150 example here in a second, but I just wanna explain how big... Some men go back, I met two stats. I wanna say, first of all, mortgage rates are historically low right now, that's probably not gonna change and they could actually go down to zero, I mean, I don't know what way this government is gonna decide to play this either way is probably the best picker poison right? But right now, mortgage trains are historically low, however, the ability for a borrower to get qualified is extremely difficult, and that's what people don't hear and what they don't say... Here's a perfect example, in March of 2020, right? When covid was hitting, there was 100 borrowers that have been pre-qualified for a mortgage note made through a traditional lender like Wells Fargo, Bank of America, Chase, whoever, they were, W2 employees and checked all the boxes, they were approved a fast forward at the August of 2020, that same 100 borrowers, only about 60, maybe 65% would actually qualify. Nothing's changing the profile on the barrow or the job in change, the earnings didn't change, the data didn't... Nothing changed.

**0:11:08.5 NL:** So what changed, what changes how the banks evaluate risk and how they determine what the risk is of that borrower, so that the guidelines get tighter and tighter and tighter. Well, let's be honest, that's not the make-up of America, make couple of America is people that live more in a... We're coming out of covid, a lot of people have been out of work, and first of all, or they had to do a career change or whatever... Banks don't like any of that. Right, so right now, depending on what number you look at, about 16, maybe even as high as 70% of the general population cannot go get a traditional mortgage, 'cause they don't check all the boxes... Well, that's a huge number. So what do those people go to... Well, thank God I go to owner finance at Seller carry back.

**0:11:52.9 WS:** How do you make that connection?

**0:11:54.2 NL:** How do they find somebody like yourself, or how do you find them, you gotta make them aware that you're there, like you go open a brand new Italian restaurant, you might be the the best Italian food in the world, you don't get that message out that you're there you're gonna go out of business real quick, 'cause no one's gonna come in to buy your food, for sure. So the seller carry bag market, and this is really, I think, really an important number, the celery market has continued to go up year after year, and what I mean by selling caring market, owner financing private lending, and this is all mortgage notes that are created each year that are not written by Chase Fargo, Bank America. Take a guess on how big that market is, just take a swag, not those people down, and I would argue you're fairly sophisticated and knowledgeable individual, and most of the people listening are far better off than people that don't listen. It's about a 25 billion industry. Wow, I like billion dollars on the... Boy, don't you know how many zeros are in a billion, to be quite honest, it... It's a big number, okay.

**0:12:56.4 NL:** That's all the notes that are written every year by what I would call Mom and Pop, they go on and create their own financing, they're just tired Lonestar people that moved out of their house and Lin downsize and now they made the property available for selatan back maybe they couldn't sell it at one time, maybe I needed repairs and they had to do it so that the tenant... Or not the tenant, maybe the tenant bought it, like the new owner was gonna do some sweat equity and making it 25 billion. So what happens... So that's the other way that we make the

notes available for consumption as we go and buy those notes, for example, and then we gotta go back and fix something just like he would fix a property and you gotta fix something, you gotta bring them in-house and you gotta make sure they're stack correctly and I don't wanna go back to my 4150 example. Somites I don't drive a truck anymore, I don't really... That was when I was doing construction. But you could have two identical Ford F-150 pick-up trucks that are both 2015, they both have 50000 miles of both white with tan interior, but the difference between the two trucks, one has been beat up 'cause I've been used every day on the word the pain is all scratch up, there's boardings all over it.

**0:14:03.1 NL:** The kids have drawn with crayons or markers on the back seat of the car, it's never had an oil change, and that's it. The other one is pristine, and it's a maintenance every day, it's been well captive, it's been kept in the garage, there's no scratches in our games, same truck, different outcome a mortgage. Notes are no different. They're no different. So you got people go, how much were you pay for you... How much is a note work... Well, it depends, it depends on what condition is the note in, is there a lot of scratches events, it It... Was there an application taken, for example, was it serviced by a third-party service and Company, was it underwritten by mortgage arrigo or was there actually a contract, is it a contract reemerged, detest? Those are all factors that you need it, they can consider when you're looking to buy now, but here's the best part of it, you don't need to know any of that stuff, you just need to know that somebody needs to look at that. I'm gonna make sure that file is to correctly, you look at very few of these files myself, personally, I used to do it done hundreds and hundreds of these, but now you can have that outsource and make sure that that's that correctly.

**0:15:07.7 NL:** Just like you would go and do anything else, so... Yeah.

**0:15:10.2 WS:** I would say in many listeners are thinking away, man, there's no way I can figure all that out or do the underwriting or whatnot, it's interesting to talk about, there's a third party that you can even hire to do that for you, but I wanted to ask you to speak to the investor, the passive investor that's listening right now, I'm thinking, You know what, this may be a good way for me to diversify a little bit, what are some expected returns that an investor should expect? And how do they get paid? When do they get paid? What's the time for the whole period? Things like that.

**0:15:36.9 NL:** So it depends, which is a very vague answer, and it really depends on what the... Look, an asset or a property in Dallas, Texas is not the same as Cleveland, Ohio. I don't care if they're old, 100000, a contract for-deed is not the same as a date of trust, the borrower under win file is a big factor of how long as the mortgage been in place. For example, what is the true value of the property? What's the loan value that the borrower has the investment... The value to buy. So those are all kinds of factors that mean to look into consideration, and the other thing is you gotta really keep in mind is that you're buying this at a discount relative to the value of the property, so you may be... Let's just say the note is worth 100000, that's the unpaid principal balance. The properties were 150. So even if you're buying that note at say 90% or 95% of up, say you buy it at 95000, 'cause you get a little bit of gusto and the discount is really intricate on how much the interest expenses, if somebody wrote the note at 3%, that discount is gonna be really a lot because we wanna get that yield up in the six to seven minimum, and it could go as high as 10 or 12, just depends on in the asset and how it's written.

**0:16:52.2 NL:** Most stuff that we write when we sell is in that and that 68%, but it's a really good secured asset, because remember, the difference between this investment and buying the stocks or anything else, it's secured, it's a cure by... They ask that, I don't know how some people perceive that for me, it's all about capital preservation for me, that's right. Is more sourcing, obviously, extremely knowledge, but when it comes to mortgage domes, but for me, I look at this in the same category as a bond or a CD or something like that, because those are pretty much guaranteed returned... Right, and this is too... Because like I said, you may not get paid it today, you might not get paid tomorrow, but you will get paid, and that's why having a servicing company, let's go back on how you get paid on this, so we always want our notes to be serviced by a third party servicing company, and all of their pre-servicing company is, is where the borrower makes the payment, they make the pay... We talked about the mortgage that you had with whoever, like I used to have a bank for American note and in my note got sold multiple times, and you get a hello good-bye letter in the mail, and what that means is, Hello, I am a FCI or August REI or whoever the servicer is, when you're now servicing your...

**0:18:06.7 NL:** Now, because it came over from Chase, 'cause chassis that goes into the service, now you make that payment instead of making the cheese, you're making it say August REI. So now what happens is, and this is where the buyer and the note investor, the bar, or I should say in



the note by or coming to play. So the bar were makes that payment of the pit, which is the principal interest, taxes and insurance into the servicing company, the servicing company clicks... Let's say it's 1000. Okay, and I'm just gonna use round numbers. Let's say 1000 gets asked for taxes and a 1000 good tax crowd for insurance. Okay, that leads 800. So the third party processor collects the money, they escrow to the 200, the other remaining 80 goes to the bank or the lender, which is me or you, whoever it has a note and that money gets transferred into their account, and it's all... There's no checks, there's not just managed to an online lender portal, you can see all that, and then what the cool part about it is that when that note goes into a default status, if it does, maybe it's a slow pay, maybe it's LA page that's when the service comes in and step in and act on behalf of the lender to try to get that back to performing status.

**0:19:22.5 WS:** Okay, yeah, no, that's very good information, I wanted to talk to the past investor who's thinking, I still don't think I can figure all this out, or I wanna be completely passive. Are you syndicating deals like this, Are there operators that are syndicating notes or can you invest with other people that are doing this... What does that look like?

**0:19:41.3 NL:** The short answer is yes, we don't do it very often, because here's the thing about it, is that all the notes are independent of each other, so it's like we go build a fund to say a million dollars and you invest in the fund and you have a fraction, Alice. Piece of that note, right? So the mortgage note is the individuals, they own 100% of it, so if I have a 100000 note and you wanna be the buyer of a, we agree to sell ACE from the 95000, then there's a purchase sale agreement and you get the notes and you get arcola era assignment, we notify the thing, and now you get the original documents and now you're getting paid on it, your asset at that point in time, so it can be done. We don't do a lot of it, we just work with people that wanna play notes all the time, and we wanna find out, 'cause it was challenges that everybody's got a different appetite for risk... Let's be honest, some people wanna say... I just wanna preserve, I was just in a meeting in Florida last week, and I was speaking at a conference, and the lady came up to me afterward and says, We got a million dollars sitting in the bank right now, and we don't know what to do with it...

**0:20:44.5 NL:** And I don't know if he said it came from me, that it was forgiven or something, it's like... Okay, so I was at a high risk. You want high risk and you want low risk, you want capital preservation, or you really wanna just roll the dice and see if you can double the money, and you

gotta answer those questions for yourself, but the mortgage knows from me, here's where I think the two biggest opportunities are for a potential passive investor, right? One is an IRA account, self-directed IRAS, Sandra's rots, whatever they are, maybe there are HSA towns because that money is just sitting there idle for the most part, and that's a great investment opportunity because you don't necessarily need the cash today. That's number one. The other two is that we do with landlords that like cash flow, but just don't have the bandwidth to manage a tenant because they're too small, they only have one, maybe two properties, and unless you have a lot of properties is really, really hard to be efficient and scale and efficiency. If you only have a couple of rentals. That's my experience. I personally don't have rentals...

**0:21:49.7 NL:** Not by choice. Yeah.

**0:21:52.3 WS:** Speak to how, let's say real estate prices, interest rates, things like that going up, how does that affect this type of business model? What do you see happening over the next six to 12 months in the note buying business?

**0:22:03.6 NL:** Well, I just saw futures, a number that's coming down, so I don't know where that's gonna take things hopefully that don't keep prices level, it's just, it's a weird thing right now because the inventory is perceived to be low, it probably is low to a certain extent, this inflation that we're getting ready to go through, and it's just driving all these prices up, what's gonna happen is that if prices are gonna go up, but it's not, doesn't mean that everybody's gonna be all to afford to buy. So what goes up comes a... I've been doing this too long. Now, I don't get... Here's how I would say this. If you're in real estate, it doesn't matter what the market is, really. Because if it's a buyer's market and you're a buyer, that's great, but if you're a seller, it's not good, if it's a seller's market in your cell, that's great, but if you're gonna buy... It's not so good. Well, I don't know how many people are in rentals Day and that are specifically... Sellers are specifically buyers, but I do both. Most people do both. I have to buy before I can sell, I have to sell before I can go buy again...

**0:23:02.1 NL:** Right. So you're on both sides of the fence. Anyway, it just... Something might be a little bit easier as a result, I just... We're coming out of forbearance right now, and there's gonna be opportunity to help people out, I don't know, I just continue just to look at things in a very small

window, in a 60-90 day window and not get too carried away on what happened in the past and where we're going in the future and know that there's a way to solve that problem or a quick vision at that particular point in time, and not only that these numbers that we see, everything is nationalized, everything is a national number. Well, the problem with that is it's not national, and now it's not even state anymore, it's a local... It's almost down to the zip code level, so some Simcoe can be doing really, really good notes, coach could be doing really, really bad, but it could be in a good state, so I just think you just gonna really understand your numbers and know where you wanna go with it and just heat that morning, if you want...

**0:23:57.6 WS:** Yeah, it no doubt. And definitely a topic we could probably talk about all day, but tell us, how do you like to give back?

**0:24:04.1 NL:** Well, I'd like to get back, I'm all about collaboration, not competition, so I like sharing what we're talking now, people be able to reach out to me and to us with us, no pro, if they have a note they wanna buy or they wanna learn how to sell, or create... We have a lot of educational material out there, I do a lot of stuff, and we're trying to do more on some of our social media, really just to get involved, it's really about education and then... For me, that's probably the biggest thing I can tell people is that don't be cheap with your education... Well, when I started in 2000, there was none of this. There was no podcast, there was no YouTube, there was no data that you could go buy that help facilitate and speed up the process, you had to go down to the courthouse to get any information, the foreclosure list, if you did, it came on a print out... Right? Now you have all this opportunity, and I always tell people, don't learn from your mistakes, that's stupid. Learn from other people's mistakes, and use that as a way to get your self further.

**0:25:03.3 NL:** I spend hundreds of thousands of dollars a year on my education, and I would say that I'm a fairly seasoned real estate investor, creating over 700 mortgage notes myself, I've done over 1100 transactions, and I still to this day, go to masterminds and I educate and I listen to what other people... Because that is the beauty of where we are in this technology phase of what we're in, and there's so much that's available for no cost, you don't try it for our podcast, you can go on YouTube right now and look up kind of buy a mortgage now or how to sell a more dot no down.

**0:25:37.1 WS:** Definitely tons of places to get some free resources, we all need plenty of mentors as well, Nick, how can people get in touch with you specifically and learn more about you...

**0:25:45.0 NL:** Yeah, so they can go to USA, no pro dotcom, USA Note pro dot com, that's our main website that funnels to a couple of other things, but it's mainly for nodes and mining was... Well, look at by notes, when we look to sell notes, we create knowns, we put modeling up there of deals and no deals, something like in a post and probably this podcast on there so they can go back and review. And some of the stuff that we've done before in as guest on other shows, and then we have some e-books on her, they can go and download and just really just reach out and just... If they want to be an investor, we can help with that, that they wanna look at, just create their own... 'cause they have a property. We can do that too. I mean, at this stage of my career, it's all about giving back and helping... It just tickle me when I've talked to so many brilliant minds that have no idea that what it being the bank is and what a mortgage note is and how that works, and when you really run the numbers, it's hard to compare apples to oranges sometimes because cash flows on all the cash flow.

**0:26:47.1 NL:** I don't get depreciation. I know that's the biggest Arguello, don't get depreciation. Well, you're right, thanks, don't get depreciation either, and I don't think they give a rip about it, let's be honest, and depreciation doesn't last forever, and you gotta forget what to do in that when it runs out. So it's not all rainbows and butterflies. And you gotta feel to solve those problems and Reasoner and help other people learn and be successful in holding... It's really truly passive. It's about as passive as you're gonna get.

**0:27:18.0 WS:** Sounds very passive. Just the example I thought of you asking How many times if I called the bank, I think that's a great example. Just to think through that a little bit, and I hope people reach out to UNIA, thank you for being a guest on the show and helping us think they're maybe adding notes to our portfolio again, I think raising awareness is a big thing.

**[0:30:59.1] ANNOUNCER:** Thank you for listening to The Real Estate Syndication Show, brought to you by Lifebridge Capital. Lifebridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption.

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