Build a Portfolio of Seller Financing Cash Flow with Nick Disney

Dan Breslin: Nick Disney. Welcome to the Rei Diamond! Show how you doing today.

Nick Disney: Doing. Great man, appreciate you having me.

Dan Breslin: Yeah, for sure. So I'm in Chicago. I'll be heading to Florida in January just got back from the Bahamas. The cold weather is here now in Chicago.

Dan Breslin: but just just location, stamping for the listener. Where are you abouts right now?

Nick Disney: San Antonio, Texas. So we don't do cold weather. We do. We just shut down the whole city. We're like, yeah, we're not built for it. But it's nice here right now. It's down to like 60 today. So we're pretty chilly.

Dan Breslin: Cool. So for the listeners who may not know who you are. You have a pretty strong, I think. Instagram following, put out a lot of content there. So listeners may want to check that out. But would you mind kind of giving us a short synopsis of the development of your career. And then what the business model looks like today.

Nick Disney: Perfect. I'm a single family real estate investor in San Antonio, Texas. So that's 99% of our business, you know, started

Nick Disney: buying wholesaling. Some flips started with building the rental portfolio. Now, it's really transitioned into buying, rehabbing, and selling with owner finance. And so we want to sell the property create a promissory note, which is our preferred method to produce long term cash flow. And so now we create notes. We keep some of them, and we sell some of those notes to other folks who just want to buy

Nick Disney: the payment stream on the back end.

Dan Breslin: Yeah, so I have. I have a friend. Actually, he was a guest on the show, like 5 years ago, maybe before he even started doing this. Dan Zatowski. He's out of Delaware. A lot of listeners, local in Philly probably know the name.

Dan Breslin: and he put this business model together. I never took his course, never went to his like a networking event or his little seminars. He did, and I think he's moved on to like developing resorts or something like that at this point. But the basis of his strategy seemed sound to me. I'm like, Wow! That would be great, you know. Sell it off and hold the note.

Dan Breslin: And here's where I always got stumped, and I'm hoping you can just get this cleared off the table right from the beginning. Is the mortgage lending laws. So selling it on, and I held paper on. 2 deals

Dan Breslin: had to foreclose on. Both of them. Got a pretty big payout in terms of the size of the loan from bailouts.

Dan Breslin: So it was like foreclosure bailout grants they got, and I'm like, Hey, that was enough. I'm not even going to bother chasing them for the other 5,000 bucks, or whatever they owe me like. If they call one day, I'll give them a payoff and release it. If not, it is what it is. But the thing that had me worried or I would lose sleep at night is I don't want to violate.

Dan Breslin: You know Federal mortgage laws by creating too many notes. Maybe you have some insight

Dan Breslin: on what those guidelines are, and maybe how you could get around that.

Nick Disney: Sure. And and they do change. And there's, you know, like your national law. And there's some State laws, but the

Nick Disney: the biggest key that I would tell anybody to getting started is we run everything through an Rmlo residential mortgage loan originator. We have one, and I'm sure there's 1 local to wherever you're at. They specialize in creating seller finance notes. Well, they're all licensed, and they know all of the rules, and they are very good at helping you follow all the rules. And so, if you follow all the rules and you document everything appropriately and really just operate your business like.

Nick Disney: you know, you should operate it.

Nick Disney: It has not been an issue for us at all.

Nick Disney: Settle fence is probably more popular in Texas than almost any other State. But there's definitely people that do it all over

Nick Disney: and so creating too many hasn't been a problem

Nick Disney: where people have run into problems is when they were doing different than directly selling it. So if we sell a house, Dan, you come buy it. We're going to give you, you know, to. We're going to have a mortgage note deed of trust. We're going to give you the deed. You own it. We don't do lease option. We don't do rent to own we don't do any of those types of creative strategies not to say that

Nick Disney: there's anything wrong with it.

Nick Disney: We directly sell them. And then we're just collecting a principal and interest payment.

Nick Disney: and so

Nick Disney: I would not let that deter you

Nick Disney: from, you know, or any of the listeners from doing it. If if that's what they want to go. Just make sure that you have the right people watching out for you.

Dan Breslin: So basically, you Google,

Dan Breslin: RLMO.

Nick Disney: RMRM LO, yep.

Dan Breslin: Mortgage loan. Okay, RMLO. And there's like a What are they like? Servicing companies? Nick.

Nick Disney: So that's not really the servicing company. So a residential mortgage loan originator. So any bank that you went and got a loan

Nick Disney: from is going to have an Rmlo in there. You just didn't know. That's what it is right. And so this company. So if we take ours, for example, right. We're going to sell this house to Jimmy. He's going to come, buy it.

Nick Disney: We're going to put together his file and his paperwork. There's certain things that you have to document. We have to have a sales contract. We have to proof of income we have to do. If they have tax returns, bank statements, all these things that will go in there. They will run them. They will show their ability to repay.

Nick Disney: They will also create our disclosures. So anybody that's got a

Nick Disney: ever got a mortgage, you know. You'll get your initial disclosures that you have to sign, and then you'll have final disclosures that you have to sign. Later they will produce all those for us, and make sure that everything is done appropriately, that we have correct debt to income for our borrowers, and that we don't go outside of any of the rules. And there's also certain

Nick Disney: timelines you have to follow. You can't just send the the final disclosures 10 min before they close, you know. And that will really protect you from, and most of them would be honest mistakes, but they would really help protect you and make sure you do things the right way. So that is where I would tell people to start. And if there's anybody in your local area that's doing a lot of owner finance. They they probably have somebody that they could refer you to.

Dan Breslin: Yeah, it's interesting. I didn't know they existed, and I didn't do all this stuff.

Dan Breslin: So when I'm talking about, you know, there was some loan, or you could do one loan. But if you did more than one loan you got in trouble. Does that mean like if I did that? And I did the paperwork on my own and didn't get all the disclosures and everything. I just did one.

Dan Breslin: I'm okay. But if I started doing 5 or 10 of them. I'm not, or I mean, you're not a lawyer, right? So we're just.

Nick Disney: Right? So right we're not. But I could give you the general idea. And so it also depends on who you do that loan to. So I'm an investor. If you did a loan to me, you could probably write just about anything you wanted in there, but most of ours are to owner occupants. So there is a different set of rules there for the owner occupant. They're meant to protect families, protect predatory lending and things like that.

Nick Disney: And

Nick Disney: I would, of course, check with your attorney, but it was 3 or more in a 12 month year, so if you did

Nick Disney: one or 2,

Nick Disney: hey? It was no problem. You still would want to follow the rules. But once you did that 3, rd you fell into a different set of rules, and

Nick Disney: it would impact things like we don't do balloon payments, but putting balloon payments and then terms. And there's another set of rules you'd want to make sure that you followed.

Nick Disney: and so

Nick Disney: my advice would it?

Nick Disney: It's not that hard to just do it right from the 1st one. If you're going to do it.

Nick Disney: So start the right way with the 1st one. So that way, if you got to more than the limit, you'd still be okay.

Dan Breslin: Okay. So

Dan Breslin: for the sake of a linear conversation, let's go through an example. Maybe it's a real one that you did in the last 6 months like purchase price rehab. Let's go through all the numbers, all the details, and then we'll talk about the sale, and like, Who's the bar buyer avatar on that actual deal, you know. Was there an application process down payment, etc. So if we could start with the numbers of the deal.

Dan Breslin: buy, rehab, renovate, and then kind of go through the rest of the transaction just to give listeners.

Nick Disney: For sure. Yeah, yeah, for sure. I think it's a great idea. So we're in San Antonio. So that is a lower price point. You market just in general, if you're looking at the Us. But one that we are closing right now. We bought it for $90,000.

Nick Disney: It needed a little, you know, needed some work, so we bought it for 90. We had to put in right about 25, but for sake of round numbers. Let's call it 25,000. So you've got 115 in this property.

Nick Disney: this is in a an area where we have owner financed a lot.

Nick Disney: That's typically a blue collar neighborhood. We have a good quality product. They're safe neighborhoods. They may not be the fanciest neighborhoods, but we sold the property, or we have it on contract right now. Sold for 165,000.

Nick Disney: The

Nick Disney: borrower is bringing 25,000 total. So that's not just $25,000 down payment that way, that 25,000 includes his down payment closing cost. And we do have everybody prepay escrows. So taxes and insurance.

Nick Disney: And so that's a total 25,000

Nick Disney: dollar financial commitment from the person who wants to buy the house.

Nick Disney: We're going to finance it for 30 years.

Nick Disney: and so

Nick Disney: We had it rehabbed. We have a sales, Guy. He was showing the property, most of them. We don't sell on the Mls, we're typically going to have signs in the yard.

Nick Disney: Facebook marketplace and just some in our network

Nick Disney: and reached out wants to buy. Wants to own a home

Nick Disney: got a good job. Guy makes good money. He saved $25,000, which is not the easiest thing in the world to do.

Nick Disney: but he is a contractor. He doesn't have traditional paycheck stubs. He doesn't have

Nick Disney: probably the greatest documentation of his financial history.

Nick Disney: but he's worked for a long time as a contractor, and he makes good money, and he can show that he makes his money consistently over a long period of time.

Nick Disney: So when you start to put all that together. We still have the same state sales contract. We still have the same owner. Finance addendum we still have. We're still going to collect everything to document that he does make this much money has the ability to repay it.

Nick Disney: Once we take that we will send all that to the Rmlo.

Nick Disney: All right. And they're going to say, Okay, well, we need this. We need his Ids. We need any bank statements, any tax returns.

Nick Disney: any financial documentation we can use.

Nick Disney: They will send us back a report, hey, Mr. So? And so we've got his report back. We show his debt to income looks good. I remember it because I looked at it. I think yesterday is like 14%.

Nick Disney: Here's 1 of the key factors that we focus on

Nick Disney: own owner finance. It doesn't mean this person has bad credit

Nick Disney: doesn't mean that at all.

Nick Disney: but it could very well mean that they have no credit.

Nick Disney: This gentleman

Nick Disney: paid cash for his truck. He has 2 of them. He paid cash for both of them. He has no credit cards. He's never had a credit card

Nick Disney: he doesn't use.

Nick Disney: I guess our Us. Financial system, the way a lot of people do. There's not a lot of credit history.

Nick Disney: So his credit score is not good, but it's not because of negatives, it's because it there's not, doesn't really exist. But he has basically no other fixed debt than our mortgage.

Nick Disney: no other fixed set payments. So his Dti is really low. So someone like that

Nick Disney: has a lot of success in our model of consistently making their payment. They get to own a home, and we get the cash flow.

Nick Disney: So

Nick Disney: we approved him. And the Rmo. Will send the initial disclosures. So

Nick Disney: for folks that don't know the initial disclosure is basically breaking down. It's like his closing disclosure, but it's breaking down what his payment's gonna look like over time. What his closing costs, you know his estimated closing costs are going to be.

Nick Disney: He signed those we've got him set up with a closing closing date at the title company. We do have everybody close with title, even if they don't want to. I do recommend it. It's just a better process helps protect them. And and you.

Nick Disney: And so 3 days before he'll get his final disclosures, which will have his final numbers of exactly what all his costs are.

Nick Disney: and we'll close them at the title company. And then one thing that we do is we do always use a 3rd party note servicer.

Nick Disney: So that's the person that will collect the payments.

Nick Disney: and he'll make his payments directly to them.

Nick Disney: They will then send us the principal and interest portion of it.

Nick Disney: and they will also. We do require everybody escrows so they will hold the escrow accounts for taxes and insurance. Make sure they're paid out the end of the year similar to

Nick Disney: mortgage that you know anyone else has had.

Dan Breslin: What kind of an interest rate does he have on this one.

Nick Disney: We're typically at 10.9%.

Dan Breslin: Okay? And is there like, is that a legal limit based on something? Or you're allowed to select the interest rate.

Nick Disney: We are allowed to select it. Up to a certain point. The limit is

Nick Disney: the limit right now is somewhere around.

Nick Disney: probably 1819%. We we yeah, we don't need to go that high. We wouldn't go that high.

Nick Disney: It really, would it?

Nick Disney: Even if you could.

Nick Disney: you could charge it. I'm telling you it'd be a bad idea, because you're just going to set that person up for failure, and you're going to create more headaches. And and that's not our business model. And at 10.9% we do make good return. But it also allows them to make their payment. And

Nick Disney: really, we're trying to set up long term payments where they just pay every month

Nick Disney: 15 or 30 years and just, and we'll make plenty of money like that we don't need to charge them

Nick Disney: a ridiculous interest rate.

Dan Breslin: So what is the payment?

Nick Disney: his payment, I would have to pull it up. But it's principal, and interest is going to be right

Nick Disney: right around 1420 a month.

Dan Breslin: Are you typically like selling to this client? You know, there's like a sign in the loan that says, Buy this home for 1,420 a month like? Is this a payment driven kind of transaction for him, or is it Price?

Dan Breslin: Or maybe most of them.

Nick Disney: Yeah, so it

Nick Disney: we can't put the actual payment on the sign. You can't say, Hey, for this much. But

Nick Disney: typically our person that buys a house are their financial concerns are, how much is the down payment? We do charge more than than typical in our in our business? But we

Nick Disney: have a lower default rate as well. So they want to know that. And then they want to know what their monthly payment is. That's typically where they're driven. After that the actual sales price of the house is usually like a 3rd question.

Nick Disney: That's their concern most of the time.

Nick Disney: And so if we can keep

Nick Disney: that principal and interest similar to what the rents are around there.

Nick Disney: It. It makes a lot of of sense to them. They will have taxes and insurance on top of that, but they can see that they're owning the home.

Nick Disney: and so down payment, monthly payment and opportunity to own a home is probably the biggest driver.

Dan Breslin: Yeah. And you, I mean.

Dan Breslin: are you not allowed to put the down payment in a monthly payment like in your Facebook ads? It's not allowed to go on the sign. What's where the.

Nick Disney: Yeah, you can't put the monthly payment. You can't say the what the monthly payment is, and that it would vary. Anyway, you can advertise the down payment that you're asking. That'll typically be in our ads, you know.

Nick Disney: 25,000 down is is

Nick Disney: pretty much our standard. That varies. Obviously, we can, you know, run our business and and but it's not uncommon that we get 30 or $35,000 that people bring to the table.

Dan Breslin: So out of the 25 are we talking about 5 or 10,000 for prepaid escrow and the closing costs.

Nick Disney: It'll so it'll vary depending on the time of year. But you're probably 7,500,

Nick Disney: 7,500 is going to go to closing costs and their prepaid escrows.

Nick Disney: because they're going to fund taxes which

Nick Disney: Texas we, our property tax, is a little higher than some other places. And so they're going to fund that the interest and then their closing cost.

Dan Breslin: All right. So you got 17 5 coming out of your 1, 65 purchase price. You don't have to typically pay an agent

Dan Breslin: because you're selling them direct or.

Nick Disney: We are. We have a guy that works for us, so we do pay him. You know, per house.

Nick Disney: but yes, we're not. We're not selling like 3% for our agent, 3% for theirs.

Dan Breslin: Okay, so you're left with, we'll we'll just keep the commissions out of the math for the sake of the example. 1, 47, 5 is the note.

Dan Breslin: and he's paying 1,420 a month. So you have this principal balance of 1, 47, 5.

Dan Breslin: That's written to produce 10% interest. That alone's pretty good. But now let's talk about how you're financing that stack. Right? Is Nick Disney just got 440 or well, you're in there for 100 and

Dan Breslin: 15. So you got some upside in the profit there. But are you leaving that 90 grand, 100,110 sort of like your own cash is in the deal. Or

Dan Breslin: are you now selling that off like? What's the exit to? Maybe clean up your books and get to the final profit, if you will. On this deal.

Nick Disney: Yeah, so it's a combination. We we do sell a lot of them. Right? This one we will sell because I already have someone that that wants to buy it, and

Nick Disney: so if they buy it, we sell ours at unpaid principal balance. So if it's 147, 5, that's the.

Dan Breslin: Space.

Nick Disney: 47, 5,

Dan Breslin: And will it have to be like seasoned for 6 months before that person steps in, or your brand is kind of strong enough with this buyer we're like, Hey, give me to 10.9.

Nick Disney: That's exactly what it is. It's it's the relationship. It's not the 1st note that he's bought. And so it's the relationship and the

Nick Disney: just the product that you put out. So

Nick Disney: now he'll buy it

Nick Disney: right after.

Dan Breslin: Okay, so 17, we're talking about a 10% down mortgage

Dan Breslin: for this buyer.

Dan Breslin: I don't. I don't feel like it's totally unreasonable to pay 10.9%

Dan Breslin: based on the risk. Profile borrower has no credit history. They can't go get, you know, 6 and a half 7% mortgage that's out there in the market now.

Dan Breslin: and they're only putting 10% down. There's no Pmi.

Dan Breslin: So it's a good deal. It's a fair deal right.

Nick Disney: I really believe it is

Dan Breslin: Yeah, yeah.

Dan Breslin: interesting.

Dan Breslin: So how many of these notes have you originated and sold? Do you know, Nick.

Nick Disney: I don't. It's

Nick Disney: I mean, it's in the hundreds. I wouldn't.

Nick Disney: It's somewhere in there.

Nick Disney: Okay.

Dan Breslin: Do you know if any of those have defaulted.

Nick Disney: For sure. Absolutely there is no perfect system. We're really really good. But we have an incredibly low default rate.

Nick Disney: we may have one or 2 a year.

Nick Disney: but we've learned a lot over a long period of time, and when I say, like, we don't do bad credit.

Nick Disney: because if you do, you're going to have more defaults.

Nick Disney: Someone that brings had a saved $25,000 worked hard to save that most of the time. It's not easy for

Nick Disney: a person to do. They're really committed.

Nick Disney: but things happen. So we'll do that, and

Nick Disney: it's very rare that we have one default out of the gate, and if we do that, then we'll just

Nick Disney: we'll remedy that for the investor, because that's also part of the relationship.

Nick Disney: You know.

Dan Breslin: What do you mean by remedy? It? Is it like working it out with the buyer? Some combination.

Nick Disney: It's usually a combination, so we'll always work it out right. So if Dan bought the note, hey, hey, Nick, man, I didn't get paid. Well, that's not good, right? And so one, hey? You know

Nick Disney: we have to get your permission, but we'll reach out on your behalf, and we've already met them. So we'll talk to them. See if we can get it worked out if we can't. And it's right out of the gate. I mean, typically, we just say, Hey.

Nick Disney: that's our fault. How about I give you another one, and we trade it out so I can. I could give you one and buy back the problem. And if I buy back the problem from you.

Nick Disney: then you don't have any problems. And then you go tell everybody that I'm a great guy, and I fixed them all so it really does work out for both of us, and it's easier for us to fix it.

Dan Breslin: Is that, like a written guarantee for your investor at all.

Nick Disney: There's no way to write it. There's no way for me to write it in there, not.

Dan Breslin: Legally, right.

Nick Disney: No

Nick Disney: I asked about it. Other people have asked me about it, which is why I asked the attorney about it, and so it's not, but

Nick Disney: it's also

Nick Disney: I mean, you've been doing this a long time right. If if you help someone, and you make sure that they don't lose any money. They will go tell everybody else that you made sure. And it's gonna help your business in the long run.

Nick Disney: and it's much easier for us to fix the issue with a note than most other people, because that's our whole business model, and we're doing it every day. We just put it right back in the system.

Dan Breslin: Yeah. And that's the other thing. It's like, if I'm sitting here in Chicago and I buy this note in San Antonio, and then it goes bad, I'm like, Oh, man! Now I'm hunting around for the foreclosure attorney. I'm figuring out how to get it back through the sheriff sale, or whatever it is that goes on there. It's fast. In Texas. The laws are favorable for lenders in Texas, so it makes sense to have notes that are in Texas. It's probably part of the reason

Dan Breslin: why an at par $147,500 note

Dan Breslin: can transact is because there's a certain security that comes with being in Texas

Dan Breslin: with the way the laws work there.

Dan Breslin: And then, if it's if it's torn up at all and needs another paint job. It's like I'm sitting here in Chicago, having to figure out who can paint my house? Who can put the lockbox on there? Who can come in and fix the broken pipe, or whatever else is going on right. That sounds like a big nightmare, but like at least some verbal.

Dan Breslin: you know, willingness to jump in there and kind of swap that out on your behalf

Dan Breslin: would make me feel a little better about

Dan Breslin: plunging in and earning my 10.9%. So if if a note goes bad, what's your action? Item? Are you doing an attempt for cash for keys? And then the backup plan is like taking it to the courthouse steps.

Nick Disney: So rarely do we have to go to the courthouse steps. 1st thing that we do, whether it's my note or somebody else's is, we will contact them. So we make everyone come to the office. They have to sit down with us. If they want to buy a house from us, one, we get to interview them in person, but 2. They know us, so if we call, they know who's calling, they know there's a problem, even if we sold it. It does help. We will go talk to them. We'll knock on the door

Nick Disney: most of the time, if it's 1 payment.

Nick Disney: a. The conversation is, hey? I'm really sorry we didn't have as much work. I'll make 2 payments next month. It's not a problem, right? You get the same amount of money if they can't, and they can't make it up, and it has to go through

Nick Disney: like. I don't go down and do the foreclosure. I would give anybody our foreclosure attorney.

Nick Disney: We're gonna send him an email. He's gonna start the process. And then if it goes all the way and they don't catch up, which is very rare. He's gonna send a second email saying, Hey, what's the opening bid from the lender? Which, if you own the note, you know you would have your opening bid what you feel like your costs are.

Nick Disney: and then the foreclosure. It's

Nick Disney: pretty simple and straightforward in Texas.

Nick Disney: But again, we do everything we can to try to avoid that.

Nick Disney: It's just less headaches, and it's a lot smoother.

Dan Breslin: Do you know how many have made it to that extreme end of the process?

Nick Disney: When I 1st started more. They were my notes, you know, because I made a lot, you know, I made a fair amount of mistakes, and

Nick Disney: I don't know the number. I mean, it's less than

Nick Disney: that have gone all the way to foreclosure. It's less than 20.

Dan Breslin: Okay.

Nick Disney: Yeah, it's not many.

Dan Breslin: Out of 100 200,

Dan Breslin: 300.

Nick Disney: More than 300. It's in the.

Dan Breslin: Okay. All right.

Nick Disney: I don't know.

Nick Disney: 4, 5, I mean, okay, very low. But but you gotta follow the process, because if you don't, if you just Wild West it and you're gonna give yourself headaches.

Dan Breslin: Yeah, I cringe at the thought of trying to duplicate this system in.

Dan Breslin: I've been in foreclosure in Chicago and in the Philadelphia region. We have a judicial system which means there's like a year to 2 year or 3 year court process

Dan Breslin: before you get a judgment. And then the judgment then goes to the sheriff's sale to be scheduled, and that could be anywhere from like one to 6 months to get to the steps. So you're talking, you know, it's like 3 years. You're like, Wow, that property. I'm over here having to pay property taxes to protect my mortgage for.

Nick Disney: To, the.

Dan Breslin: Years

Dan Breslin: now.

Dan Breslin: we don't know that. Yeah, I cringe at picking the wrong state and not having somebody who's like a 3rd party kind of handling that stuff.

Dan Breslin: Yeah. So it's that's good that you have the volume there.

Dan Breslin: So 20 out of like 500, it's probably 2 or 3% default rate in the whole country. That's probably about

Dan Breslin: average with, you know, Fannie, Freddie and conventional mortgages. We're probably in the 2 to 4% range anytime. If the market's like in a state of crashing, we're probably 3 to 6%

Dan Breslin: or higher, like when we came through 2,008, 9, 10, you know, recently, if I had to guess, and I haven't checked in like 6 to 9 months. But I think we're at like 2 to 3% default rate. Now that default rate wasn't that they made it all the way through the process. That was foreclosure filings that I was tracking. So those were the default rates on that.

Dan Breslin: Okay?

Dan Breslin: So your model is to cycle the cash back out. You've made 17 5, you know. It's just like flipping house without the cost of the

Dan Breslin: real estate agent. So you've like kind of chiseled down that expense to whatever it is. You're paying your internal sales, Guy.

Dan Breslin: and then you're all in for 115. So your net profits kind of like a clean 40 to 50,000 on a deal like this.

Nick Disney: Yes.

Dan Breslin: And do you think if you took it to the open market, you know, it would have been more like, Oh, we'll give you 1, 55, with a $5,000 assist and plus the.

Dan Breslin: you know. Are you kind of able to like get like a market value without quite as hard of a negotiation. Maybe if you were to go to market.

Nick Disney: no, I mean, we we sell ours at market value, you know. We'll run. We sell them at value, and so we don't get a lot of pushback on the price. So we're getting that we do have a couple extra steps. But we do control more of the steps, and it's more predictable in our model, and we have less people, you know, as far as the buyer buyer's agent, other issues coming through. So it does allow us to be very smooth. We're

Nick Disney: pretty dialed in and are buy, rehab, sell, and then either sell the note, or I mean, there's other options like, sometimes we'll refine. You can refinance a note just like you can a house as well. So

Nick Disney: That's

Nick Disney: that's something that more people should do.

Dan Breslin: Okay, let's let's go on that thread, then. So

Dan Breslin: we ran through the example of selling the note and getting your cash back out.

Dan Breslin: So how does the refinance work.

Nick Disney: So it's going to work very similar to the way you'd refinance a rental property. I relate it to that because many people have done that.

Nick Disney: But you're not refinancing the property because you don't own it. What you own or what you have is this note and deed of trust? You have this income stream or a note receivable.

Nick Disney: Well, you can take that and pledge that as your collateral to the bank.

Nick Disney: Now, you are not just going to walk into any old bank and do this. Okay, it's just not going to happen. One. You probably need to have an established relationship with them. They don't tend to open this up to anyone. And they're typically going to be one of your local banks who understands real estate. And you've built a relationship with them.

Nick Disney: But once you have done that.

Nick Disney: if

Nick Disney: you have this note, you can go in and

Nick Disney: refinance it very similar to the way you would refinance your rental property, and you'll pull back a bunch of that capital. So let's say, Dan had a really good deal went through our entire process. He's 1 15 in, but he has a note, and he can refinance and get most of his 1 15 back out

Nick Disney: right then he doesn't have near as much money left in this deal.

Nick Disney: but he's he still is collecting the payment he just has a payment to make to his bank, for

Nick Disney: you know

Nick Disney: his cash out refi on the note.

Dan Breslin: Is there a small spread there like what do you think that you know? A note, you actually know was refinanced in the last 6 months. What was the interest they were paying to the bank.

Nick Disney: 7 and a half percent.

Dan Breslin: So you're making the 7 and a half to the 10.9. So like a 3%

Dan Breslin: spread on the interest, that's the goal is that the standard sorta or.

Nick Disney: It would be hard to say that's a standard, because it really really varies. I don't even know if there is a standard where what worked for us, especially when money was a little cheaper and interest rates would go down.

Nick Disney: is if we had a 30 year at 10.9. And so this payment is is X, and we would go back and get a 10 or 15 from the bank at a little bit lower interest rate, and if you could wash those out.

Nick Disney: really, you would just give up those 1st few payments. But you have all of your money back. You get all your money back, and you still have, even if the payment the cash flow is not very much. Once you pay off, because the one you get is going to be shorter. It's not going to be a 30 year. Note. It's going to be a shorter note you basically have. If it's a 1020 years of gravy or 1515 years of gravy left over, and so that

Nick Disney: allowed for growth because we were really using the same capital more than once, right.

Dan Breslin: Hmm!

Dan Breslin: At that point in time, Nick, was it more advantageous for you to not ever sell off any notes

Dan Breslin: like it almost feels like it would be right like, why bother the headache of having to guarantee verbally these notes and deal with investor calls when the payments stop like? Why bother with all that headache. Why not just refinance every one of them out.

Nick Disney: Because they do 2 different things when you refinance them out

Nick Disney: right. You're you're hanging on to them, and it is simpler and save some steps, and you'll get those back end payments, which is great. But when you sell them you're getting cash in your business, and any business that needs to recoup capital and put cash in because you're still gonna have other expenses. And so when you sell them, you're putting cash back in, and when you're hanging on to them. You're creating long term cash flow.

Dan Breslin: You're leaving some of that cash every time you refi in the deal. In a sense.

Nick Disney: Typically typically you are.

Dan Breslin: How much is it? 10 grand, 20 grand on each one? What is it? 115. Note.

Dan Breslin: What is they? What are they going to give you on a refi.

Nick Disney: on a

Nick Disney: 7, 5. We use that one we use as an example.

Nick Disney: So 103, 2, 50. So there you're leaving 12,000 in it.

Nick Disney: Some were, some were less, you know, when

Nick Disney: depending on how, when you have a really good deal, you know, those are the great ones to refi, because then, you know, you can get all your money out. So say we had bought that, you know 10 or $12,000 less. Then you get all of your money back out, and you really don't have anything left in. Those are great to refi. But your business needs capital. You know, you have

Nick Disney: people to pay, and

Nick Disney: it's it's a balance of the long term, and the short-term win and the business needs both. So

Nick Disney: that's why we would use both.

Dan Breslin: And is the 103, 250 that's not based on the principal balance of the note. It must be based on what? Either a desktop or drive by, or an actual appraisal of the property. And then an Ltv. From there is that kind of the metric the bank is using.

Nick Disney: Exactly so, it typically won't be a full appraisal. It'll typically be a drive by. And it'll be.

Nick Disney: Say, I mean, it's depends on the bank. But typically we were at 70%. So it'll be 70% of the appraisal value or the unpaid principal balance, whichever is lower. So they're going to take the lower number. And they're going to give you 70. You know, 70% of that.

Dan Breslin: 70% of the unpaid balance.

Nick Disney: Right. So

Nick Disney: if they would do an appraisal on the property well, it's going to come in at 1, 65, right?

Nick Disney: And so they, you could refi up to 70% of

Nick Disney: the

Nick Disney: 70% of the 1 65

Nick Disney: up to the unpaid principal balance. They're not going to give you more.

Dan Breslin: Okay.

Nick Disney: Notice right

Dan Breslin: But then the other one was 70%, and it was the lower number. So what was the lower number? You said.

Nick Disney: The lower number that I said.

Dan Breslin: I don't know. I may have missed I may. My mind is blown right now, because I'm like holy shit. I can't believe I know, like how many of these could I get like I'm gonna fly down to Texas and like, see this banker. So I could set up like a few 1 million bucks worth of these.

Nick Disney: I I know some people that have them.

Nick Disney: And

Nick Disney: there are banks that will do millions.

Nick Disney: So

Nick Disney: it's in the cards for you.

Dan Breslin: So so yeah, you said, 70% of

Dan Breslin: the appraised value. So if that 1, 65 example, I'll do the math

Dan Breslin: times point 7. That's 1 15. They'll give you on that loan.

Nick Disney: Right, and they would give you

Nick Disney: that. But it they won't give you more than what the unpaid principal balance is right. So whichever one's less so.

Dan Breslin: So on that one he! He owes us 147. So like if I bought the note for 1, 47, I'm getting 1, 15, 5 back.

Dan Breslin: 1, 47, 5,

Dan Breslin: and I would have 32 grand in the deal. In that instance.

Nick Disney: In that instance you would.

Dan Breslin: Yeah. So in those instances I get it. That makes sense. Why, you would sell cause how many of these

Dan Breslin: $32,000,

Dan Breslin: you know, long term, 30 year investments. Do you want to have sitting there as a as a business owner like I totally get it in that instance right?

Dan Breslin: Are there times? Are there times where someone instead? I imagine San Antonio houses had a little appreciation over the last couple years.

Dan Breslin: So you bought 2 years ago. There's a little bit of mortgage pay down, but the house traded at 135, 2 years ago, and now it's at 1 55, 160. So it made sense to season your note for a year or 2 before you do the Refi. Is that like maybe a strategy, too.

Nick Disney: We don't.

Nick Disney: It's it's a pretty good strategy. I never thought about it. We never used it like that. It makes a lot of sense.

Nick Disney: You can do that. It's always easier, for if you don't have

Nick Disney: the reputation or relationships to season your note for a few years, because you, if you if you want to sell it

Nick Disney: or refi it. I guess you know, because you're going to get higher appraisal. But if you go to sell it and somebody you can show good pay history, hey? This guy's never missed a payment in 2 years.

Nick Disney: That shows a lot of confidence, and so you'll probably get a higher value.

Nick Disney: For selling a longer season. Note

Nick Disney: So there's always reasons to hang on to them.

Nick Disney: If you're a business owner and you're continually turning, then to your point, sometimes you're gonna want to. You're not going to want to leave that money in there.

Nick Disney: A lot of people that buy them are not

Nick Disney: the majority of people that buy notes are not

Nick Disney: full time real estate investors who are actively investing.

Nick Disney: They understand real estate, they like it. They want the cash flow, and they don't want

Nick Disney: the headache of, say, rentals or running a business. And so for them, they're like, you know, I want to put this here, and I want to get paid every month.

Nick Disney: They're not looking to be active into, you know. They're not running the business that you're running. So they I guess they have different.

Nick Disney: different goals.

Dan Breslin: Yeah, it makes sense.

Dan Breslin: Yeah, there's 2 ways that anyone listening could kind of go about it. And there's people doing this kind of a business model like, I know someone in Minneapolis doing this exact business model.

Dan Breslin: and I'm looking from the outside. I know he has a few, a few bucks in the bank, so he might be keeping the money in there. He's probably got this refi thing set up, and I never like. There's no way I'm going to hold paper on a flip house and then hold paper and then wait for the money. I thought. That's kind of what he was doing, like no way.

Dan Breslin: But if you can refinance back out and sort of set them up for the long term.

Dan Breslin: it starts to make a lot more sense how something like that would scale. But the listener could kind of like, do this type of deal in this strategy on their own, and flip the house and kind of set up the note and work a business model that way. Or maybe there's a listener who has 5 or 10 rental properties, or maybe even more, and is kind of feeling the way that I am where I'm

Dan Breslin: and probably the other clients where it's like, you know, the tenants and the toilets and the eviction going on. It's like I've lost quite a lot of sleep

Dan Breslin: from rental properties over the past 7 years since I started buying them and owning them. Then I'm kind of whittling them down as we speak for that reason. But yeah, a note that's actually paying set up property with the Rmlo in place and the servicer in place. I didn't have either of those on any of the notes that I've done. I can see the attraction for a more passive real estate investment, and at 10.9% right? It's like, you know.

Dan Breslin: if it's 6 and a half, it doesn't seem worth the effort.

Dan Breslin: At 10.9 you're you're starting to get into the okay. Maybe it's maybe it's worth the effort to figure this out.

Nick Disney: Yeah. And it's 10.9 if it's passive. And it's written down. And it's people that transition from rentals to buying notes are typically doing a because it's passive. They don't have to do anything they like real estate in general, and they get to keep it as the collateral. And then it's very predictable. We don't have the swings of, say, like the up and down that you see in the stock market. It's just 10.9. That's what it is. It's not.

Nick Disney: It's very predictable. So

Nick Disney: for people that want that. It's a great fit, you know, if you're looking for something else, then there's probably something else that's a better fit.

Dan Breslin: Are there any avatars that you have where they were in the rental business?

Dan Breslin: And you guys connected a few years ago? And now they're kind of transitioned, and they're doing mortgage notes. Maybe you could, without naming names, you know. Tell the story a little bit.

Nick Disney: I I have several, but one that comes to mind he was

Nick Disney: He'd owned several rental properties. I think he still has one. He was also a short term private lender for us for a long time. It's a great guy.

Nick Disney: and he saw what we were doing, and then

Nick Disney: but he was just committed to for the longest time manium. And then he he sold a rental. And he's like, Well, I want one of these notes.

Nick Disney: Yeah, okay. So we built you one. And then he kept him, and then he'd sell one like every other year, and we've probably worked with him for 10 or 12 years now, and I think he's got one left, and he's like, I don't ever want to know anything else.

Nick Disney: Just give me these notes. Just let me get paid, and I'm going to travel. That's his vision.

Dan Breslin: Yeah.

Nick Disney: You know, that's his. That's what he wants to do. And it's a win-win. But

Nick Disney: a lot of people will

Nick Disney: also

Nick Disney: a combination like using the rentals for

Nick Disney: the equity, and they're they're really easy to leverage, you know.

Nick Disney: in comparison. And then owning the notes. If you have liquid, especially if you're further on for the pure cash flow, because they're going to give you more cash flow, and it's more predictable. And so sometimes, having that balance, we see that a lot and a lot of people have a lot of success. That's our business model. We have a balance

Nick Disney: of having both and using each one for what they do well, and not trying to make

Nick Disney: like a rental. Be your primary cash flow, driver, when something else might be better.

Dan Breslin: Yeah. And what do you think

Dan Breslin: someone's got? 20 rental properties? If you had 20 rental properties right now, and you weren't sitting in your seat, but you were in my seat, let's say, having the conversation with you.

Dan Breslin: What would be the balance, I mean? Is it done in like dollar amount, not really number of properties. Right?

Dan Breslin: 50, 50,

Dan Breslin: 60, 40. And you you love them so like, maybe yours is like dude. I'd be like a hundred percent, you know, and get rid of all 20. I don't know. I think.

Nick Disney: As I'm as I'm transitioning, I'm probably getting more. I don't know that I'd get rid of them all at once, but

Nick Disney: the conversation that I often have with people is

Nick Disney: what's your goal, or what's your number? And if there's a cash flow number

Nick Disney: that would, let's say our average note pays $1,500 a month. If your cash flow number is

Nick Disney: 6,000 a month, and then that pays all your bills.

Nick Disney: we'll use easy math here right

Nick Disney: then, getting to the 1st 4 notes is huge, because

Nick Disney: you can see then, the advantage of having $1,500 a month, times 4. You've got your 6,000 on 30 year notes depending on where you're at. If that was covered for the next 30 years, that was all your bills.

Nick Disney: You just get a lot of freedom, and for each person that number is going to be different. But that is a way that I would

Nick Disney: encourage someone to look at it because they might be like man. I want to hang on to these rentals, but

Nick Disney: I also want to have the protection of this cash flow. Maybe I sell

Nick Disney: 3, 6, 8, and keep the others. And what could I turn that into

Nick Disney: for long-term cash flow? That is really how I would look at it, and for me you're correct.

Nick Disney: Sell them off as I go along, and turn them into notes, and then, you know, I don't know.

Nick Disney: Do whatever I feel like doing.

Dan Breslin: And I guess the only thing that probably is unsettling to the person with the 20 rentals is the 20 rentals are hopefully staying, at least at their current value, and producing the rent, the return.

Dan Breslin: they come with the chiseling away of the turnover expenses and the repairs, so that has to be accounted for. The growing taxes on the properties are going to chisel away

Dan Breslin: at the cash flow. So you have a lot of things eating at sort of your principal balance in a rental portfolio. As time goes on. Ideally, your equity spread grows. So you kind of have a larger pile with rental properties.

Dan Breslin: But you do have the monthly payment chiseling away at your principal balance in the. So yeah, that might be the only other kind of negative side of the coin would be seeing the the principal balances go down hopefully. You have another method of running your business or running your life where you're able to continue to kind of replenish the note supply, as it were.

Nick Disney: You're you're right, but they're amortized like any other loan. So it's also not like you get that 1st $1,500 payment, and the

Nick Disney: the balance went down by 1,500 bucks. You get a $1,500 payment. The balance went by down by like $7 or something, you know, cause all that interest is paid up front. So I would definitely to your point, encourage people to

Nick Disney: maybe save some of that, so they can buy another one, and then you can really kind of have it replenish itself and make it last an incredibly incredibly long time.

Dan Breslin: Yeah, I love it. What are the things I maybe forget to ask that are probably pertinent for the listener right now.

Nick Disney: I think.

Nick Disney: for all the listeners step back, know really what your goal is, and whatever product you're going to buy, if it's if it's rentals, flips, owner, finance, self storage, commercial, does it truly accomplish what you're trying to do? Because

Nick Disney: I have made those mistakes. You buy certain things, and they're really not going to give you reach your goals.

Nick Disney: and I think if they know that, then they should definitely at a minimum learn about notes. It's much easier to own them than typically people think.

Nick Disney: If you have capital, you can. You could buy one tomorrow and so know what that is. How would that balance your portfolio? And if it would add to it, I would encourage you. Looking at it

Nick Disney: from my experience. The notes are typically

Nick Disney: more cash flow. That's more predictable.

Nick Disney: and so

Nick Disney: balance that with what your goals are. And you know everybody's got to set up the best thing for them.

Dan Breslin: Cool. Love it, Nick, are there one or 2 book recommendations you would have that have been impactful in your 15 year. Real estate career.

Nick Disney: The one that I throw out there. It's it's not even

Nick Disney: eat. That frog has helped me a lot, and I'd like to use it. I mean, obviously rich, dad. Poor Dad was where I got my start like any of us. But eat that frog. It really just the idea is, just do the hardest thing 1st and get it out of the way makes everything else easier to do. It's very short. It's very easy to read, and I still say it to myself, you know. So

Nick Disney: I like that one for anybody else and

Nick Disney: and that's the one that stands out.

Dan Breslin: Cool crown jewel of wisdom. So you've been at it 15 years, where it's just kind of a setup, because you've already talked about transitioning. But if you were going to go back and tell yourself what the Crown Jewel of Wisdom is, knowing everything, you know. Now, back, 15 years ago, when you were 1st starting in the business. What would that be?

Nick Disney: Build the best relationships you can now, and take care of them, and the money will take care of itself.

Nick Disney: Because now that I've I've done this long enough. I've had relationships for years and years and years, and they may not have made a lot of money upfront, or you know maybe you didn't maximize every single dollar out of the gate, but building the relationships with the right people, both of you will make

Nick Disney: so much more over the long term. And

Nick Disney: that's really what

Nick Disney: what I would go back day one focus on. And

Nick Disney: I think

Nick Disney: be great for anybody getting started.

Dan Breslin: Cool. Is there somewhere before I ask my final question? Is there somewhere? Listeners can go to get more? Nick Disney.

Nick Disney: So you definitely find me on Instagram real estate underscore Nick, and then the number one. We put a lot of content on there and feel free to reach out to me there or send me an email. I love to connect with people. If we can work together if I can help you if you can help me. Whatever it is. Nick, NICK. At. And it's our website, sellmysantantiohouse.com nick at sellmysantoniohouse.com and yeah, I'd love. I like to talk to people. I love real estate. So if we can connect and do something, I'm happy to do it.

Dan Breslin: Nice, Nick, my final question, what is the kindest thing anyone has ever done for you?

Dan Breslin: Done.

Nick Disney: The kindest thing anyone has ever done for me.

Nick Disney: Real estate, related or just in general.

Dan Breslin: Hey? You answered, how you want.

Nick Disney: man, I'm gonna keep it. Real estate related. So you don't pull up my heartstrings here. But when I when when I started there was a guy who no like. I had no money, and no one would lend me any money, and he lent me money on these deals, which he probably shouldn't have. I probably wouldn't have.

Nick Disney: And but it he it allowed me to really get started on several of these initial deals, and.

Nick Disney: as you know, getting through those 1st few is such a game changer, it just mentally knowing that you can do it. It doesn't matter really how much money you make, but without him taking a chance on me because he believed that I could do it. For whatever reason.

Nick Disney: I'm super thankful it was super kind, and it was definitely something they didn't have to do, and it made a huge impact for me.

Dan Breslin: Yeah, I could answer with a very similar situation. Early on myself

Dan Breslin: I get that. I remember he gave me like a $10,000 construction, draw my 1st lender.

Nick Disney: Good luck!

Dan Breslin: My credit was terrible

Dan Breslin: like, you know the scenario. I wouldn't have lent myself like, and he just gave me the 10 grand like, wow! 10 grand! This is amazing, and he's still. He's still a business partner to this day. So he I guess he made the right choice, and I paid him back his money with interest.

Nick Disney: There you go! There you go! Oh.

Dan Breslin: Cool, Nick, I had a blast. I got pages of notes. My mind is blown. I can't believe

Dan Breslin: that you can refi these notes. I mean, this just just opens up a whole

Dan Breslin: sky blue ocean out here of a new asset class in my mind. So I appreciate you reaching out and getting us connected here so that we could have the show.

Nick Disney: Thanks for having me. I enjoyed it. Yeah, let's stay in touch.