

The Paper Source

The News Of The Note Business

March, 2011

Our 24th Year

The federal government says the inflation rate from Sept. 1 -

Dec. 31 was 1.24%. The media dutifully reports this. For example, on Jan. 18 *SmartMoney* magazine claimed, "There's no inflation these days." Really? Here's the CRB Commodity Index. From Sept. 1 - Dec. 31 it rose 29%. And it's still climbing.



Over half the notes that brokers find are not institutional quality (meaning most of the major national investment firms won't touch them). Private

investors will buy some of those. Does that mean you should use private investors? Probably not. It can be very profitable, but there's a serious risk of securities violations. Even if nobody loses any money you can be fined heavily and go to jail. Most note brokers don't know this area of the law. **Stay away from private investors**

In calculating the inflation rate the government doesn't count food and energy prices. An honest report would show inflation is in double digits and every federal office holder would be defeated, if not impeached or impaled first.

unless you know what you are doing.

Consider turning your business cards into "coupons" that can be redeemed for cash (say \$100) when someone brings you a note you broker or buy.

Book of the month: *Defrauding America* by Rodney Stich. It will shock you. rodneystich.com

When sending payors any kind of communication it's always best to be direct. If they're behind, never say you "might" foreclose; always say you *will*. You can always change your mind, and in most states your forbearance will not keep you from future action.

If you can't find enough notes you need to be at *The Paper Source Note Symposium: Finding Notes & Marketing Your Cash Flow Business* April 28-May 1 in Las Vegas. You'll not only get the most advanced cash flow marketing training on the planet, you'll also get one-on-one private consultations with the teachers. www.PaperSourceSeminars.com or call 800-542-2270.

If you intend your letter to be legal notice, make sure that it follows the form specified in the the law and the note documents. I've seen notices voided because of very slight

Cheers,

Bill

W. J. Mencarow

oversights, such as wording that was not exact or failure to itemize fees. A voided notice can allow your payor to thumb his nose at you for several additional months. If you're in doubt, or if you haven't done this in awhile (laws change), it's worth it to have your attorney review notices.



You've heard that a million monkeys at a million keyboards could produce the complete works of Shakespeare.

Now, thanks to the Internet, we now know that's a lie.

Join The 24-Hour Conversation!
www.PaperSourceOnline.com

The Notes Lounge

A Common Mistake

By William Blake

I have several real estate properties which I could use as collateral for created paper, first mortgages of 50-65% loan-to-value. Is this a good idea?

By W. J. Mencarow

wjm@PaperSourceOnline.com

No.

When you create a note on property you own and sell the note, you are borrowing money at an interest rate equivalent to the yield received by the note purchaser.

This is true whether the note is sold at par or is discounted.

If you have to borrow money you are almost always better off going to a commercial lender rather than writing a note against your property and selling it. That's because note investors always demand a higher return than commercial lenders.

Suppose I create a \$10,000 note on my house at 8% with monthly payments of \$121.33. If I sell it for \$10,000 I'm obviously borrowing money at 8%, the purchaser's yield. If I discount it to yield, say, 12% to the investor, I'll sell it for \$8,457. And that would be stupid. I'd still be paying \$121.33 a month but would have only borrowed \$8,457, and that's borrowing money at 12%.

But if I sell the house and take back the note, there's a third party in the transaction: The buyer of my house who is the note payor. He's paying 8% on \$10,000 no matter what the note sells for.

The note seller subsidizes the discount. That's easy to see when there are three parties but often overlooked



when there are just two. If you're both the payor and the note seller you subsidize the discount by paying an interest rate that equals the note buyer's yield.

You can avoid the discount by writing the note at a high rate, but, in addition to the problem I just explained, you're shutting out many potential buyers who will not buy at par no matter how high the interest rate. Why? Because if they spend \$3K in closing costs and buy a note at par and it pays off next week, they are out \$3K!

Another reason most note buyers insist on a discount is that when a note pre-pays the yield -- and profit -- jumps dramatically. For example, I bought a \$22,400 trust deed for \$19,000. Six weeks later the house sold and I got a check for \$22,400.

To Say It Another Way...

From Anonymous

Is it normal for a block of notes (portfolio) to be sold at 100% and above of face value?

By Warren Perry

The pricing of notes is a function of the general interest rate environment, and, as interest rates are quite low, you will from time to time run into situations where premiums are asked (and paid).

One of the big problems with paying a premium is that it does not take into account the risk that the borrower will prepay. If he does, the investor is "out" his premium. We have seen several large situations where premiums are being asked, and we immediately turn away from those situations. At some

point, interest rates will go up, the value of notes will drop and there will be more product on the market at reasonable prices.

Should A Broker Focus On Large Commercial Notes?

From D. Kirby tkdcorp@earthlink.net

I broker primarily real estate and business notes. It has been and is helping me to reach one of my primary immediate goals of reducing my debt to zero and replacing it with assets in the form of notes and real estate.

I would really like to focus my efforts in the large commercial note arena, but I am unsure of the "most effective" approach to this; building relationships, referrals, leads, and all else that results in closing these type of deals. Can anyone offer some sound and proven advice?

By John S. Goodwin

One word of advice: Make sure you are not just going after the large commissions. Commercial loans take a lot of time and I have seen many brokers give up on hitting singles and doubles to try to hit homeruns. When the home runs quit, the brokers are without a base to cover overhead.

Referral Fees Are Tawdry

By Samuel Villarreal

think310@earthlink.net

Is it legal to give an attorney a referral fee if he sends you a client receiving a structured settlement?

How To Contact Us

THE PAPER SOURCE, INC.
317 S. Sidney Baker, PMB 304
Kerrville, TX 78028

Get advice, buy and sell cash flows and more in The Notes Lounge:

www.PaperSourceOnline.com

E-mail for orders and subscriptions:
orders@PaperSourceOnline.com

All other business:

wjm@PaperSourceOnline.com

Fax: 210-568-2160

Phone: 830-895-5025

By Anonymous

Offering referral fees to professionals such as attorneys and CPAs is...tawdry. Many would be insulted or think you don't know what you're doing by offering a fee to an attorney who knows he can't accept it.

If the attorney takes the fee it's not a real worry for you — it's the attorney's worry.

You don't build a referral network on the basis of paying fees. Rather than bringing them referral fees, bring them new clients; establish long-term relationships.

Is There A Full Moon? Here We Go Again

By (name withheld for obvious reasons)

I have written a first mortgage on my house (I own it free and clear) with the intention of selling it and investing in a business start-up — note investing. I will have just over \$150,000 to invest.

I wonder if it is a good idea for me to get into note investing. I am no expert in this field and, as this money represents my future at the age of 55, I am very concerned as to whether I can obtain the cash flow I need doing this.

*By W. J. Mencarow
wjw@PaperSourceOnline.com*

You have carefully crafted an excellent plan to go broke.

Let's recap this disaster waiting to happen: You wrote a note against your house, which is borrowing money at a high interest rate. You want to use the borrowed money to invest in notes. You admit you know little about note investing.

Let me share one my rules with you: Never borrow money to invest in a business.

You will rue the day you raped your free and clear house by placing a mortgage against it. Tear it up right now.

One more thing: Become familiar with Dave Ramsey. www.daveramsey.com You can listen to his radio show on the Internet if there is not a local station that carries it. Read his books and take his Financial Peace University course.

Renewing

By Ivan R. Weir, Lexington, KY
Dear Bill,

Please renew my subscription. And, if you have some favorite pet peeve about the federal government, or something of a spiritual/ethical, even moral nature written out and it's easy to slip in the envelope, by all means do so. Contrary to some of the letters to you regarding your statements about the above shared in the newsletter, I happen to like to see your messages there. For me, it's kinda like mixing my learning about work with the world of politics and something that's very steady, long-lasting and eternal (reassuring). So I vote to keep up the mix.

I enjoy your newsletter very much and look forward to it each month. I also receive two other newsletters about the same subject matter...there is no comparison. THE PAPER SOURCE JOURNAL is by far the most personable, informative and state-of-the-art, with a nice flair of class sprinkled about.

*By W. J. Mencarow
wjw@PaperSourceOnline.com*

Ivan, you made our day. Alison and I are proud you subscribe.

Buying A Second Trust Deed That Was BIGGER Than The First!

By Paul Russo prusso99@hotmail.com

Does anyone purchase real estate note seconds where the PV is less than 50% of the first? I keep finding small second but never anyone to buy them.

By John Merchant jmer1627@aol.com

I think you're referring to the old rule of the ratio of second to first lien as being less than 50%...but there's

a lot more to the story than just that.

One has to look at ALL the factors and elements of the second and the first.

I recently bought an unusual second that was BIGGER than the first.

Dad was selling a house to Son and taking back a \$100,000 note, which Dad thought was a first.

Dad then deeded the note to Son. Then in a typically loose and sloppy family business deal he asked Son to sign and return the note and a Deed of Trust to secure the note.

Son did sign and return to Dad, but only after Son had run down to his bank and secretly borrowed another \$25,000 on a note secured by a new Deed of Trust to the bank.

Of course Son forgot to mention this to Dad, figuring what Dad didn't know wouldn't hurt anything.

Of course when Dad decided to sell his "First Trust Deed" he learned what Son had done, but it was too late to do anything about it.

Dad's "First Trust Deed" had become a second lien.

Fortunately for Dad, by the time he decided to sell his now-second note, the value of the home had gone up considerably, so both notes were, together, less than 50% of the property's LTV.

When I bought the second the balance on the first was only \$15,000..

I knew that anytime I wanted I could pay off the bank's first and then, of course, my second would fall into first place and be a very secure lien on the real estate.

This example illustrates that all notes are not the same, all 2ds aren't to be totally rejected — and that one should look at the whole picture to measure the value of the note being considered.

One Of Your Best Note Buying Tools

by Delbert Ashley

The telephone is one of the best tools you have for buying notes. Yet few people use it effectively. My best advice for negotiating on the telephone is:

Be quiet and listen. Really listen.

In the initial dialogue, what should your objective be? I suggest that it should be to *find out why the person has called*. If the call has to do with selling a note you will want to find out what they have for sale, what they want for it and get to know them and their problems. You will want to do these things BEFORE you give them any information relative to possibly purchasing their note.

You can defer any questions you don't want to answer at the moment by saying, *"I'll give you that in a minute, but first I need to know..."* and then start your questions to get the information you need. In this fashion you control the conversation without being obvious or obnoxious.



A Practical Example

When you ask your questions, keep quiet and listen...really listen to their answers. **Don't be in a hurry to respond.** They may only have paused to collect their thoughts rather than being finished with what they want to tell you. Here's an example:

(Caller) Jim: *Hi, my name is Jim. I understand you buy notes.*

Del: *Yes, Jim, I do.
Do you have a note to sell?*

Jim: *Yes, I do. It's a 15 year note with an interest rate of 10 percent, and I want to know what you will give me for it.*

Del: *Do you have the note in front of you, Jim? I have a number of questions I need to ask you first.*

Jim: *No, it's in my safe deposit box.*

Del: *All right, I'll need to see a copy of it, but first, let's talk some more about your situation. How did the note come into being?*

(Listen and develop a line of related questions.)

What can you tell me about the payor and their credit?

(Listen and develop more questions like *"Did you check their credit?" "How much money do they make?" "What do they do for a living?"* etc.)

What prompts you to want to sell the note at this particular time? (Listen and yourself if they give you a

real reason or a smokescreen.

Develop more questions like *"What happens if you can't sell the note?"*

"Who else have you talked to about selling the note?" "Did they make

you an offer?" "How much was the offer?" "Why didn't you accept

it?" "How much money do you need to get done what you need to

do?")

At this point you should have learned a lot about Jim and his circumstances, needs, preconceived notions and attitudes. That's the first step. Now you need to learn about the note.

Del (after listening completely to Jim): *Jim, I have a form here that I need to fill out with a lot of information about the note so that I can have our underwriters look at the situation.*

The information I need is in the paperwork you already have, so probably the easiest way to get what I need is for you to get the note and other papers out of the safe deposit box and send me copies.

At a minimum I need a copy of the note, the mortgage or trust deed and a copy of the settlement statement. DON'T send me the originals, make sure you keep them and just send me copies.

Within a few days after we have those, I can talk more to you about an offer and how we would propose solving your problem. When can you get those to me?

Try the idea of using a form. People will give you information for the form that they might hesitate to give you if they think it's just you, rather than the form and the underwriter (investor) asking for it.

The Buy Sign

It is not uncommon for our customer (the note seller) to let us know he is ready to do business by giving us a **buy sign**. It is also not uncommon for us to miss this important clue because we weren't listening or didn't know about buy signs. Here is an example:

One of my students asked me, **"What do I tell him if he asks whether the quotes I gave him quite a bit earlier are still good?"** That question is a buy sign.

My advice is not to answer that question. Instead, ask him a question: *"Which of the quotes are you interested in?"* After his answer, tell him the market does change quickly so you will have to confirm the quote with the investor, and then ask him,

*How many of your competitors can close in a few days?
The value of that is incalculable!*

"If I can still get you that price, do you want to do the deal?"

If he says yes, get him to sign the agreement before you go back to the investor *"so the investor knows that the you (the seller) are serious."* If he says he is not sure, tell him you don't want to risk turning your investor off from the deal by using up his time (which is a true statement) so he should think about it and call you when he has decided. Only then will you risk your relationship with the investor by going back for confirmation.

A buy sign is more often a question by the customer where it is **implied** that the answer to the question is pivotal in his decision as to whether to "buy" (sell his note) or not. **Most of the time it isn't a pivotal issue but rather an expression of his need for you to help him say "yes" — he has already decided.**

Typical buy signs are statements such as: *"If I go ahead with this, can I...Have the money by (date)?" ... "Keep the next payment?" ... Will you handle the cost for the appraisal?"*

In short, the note owners will be asking you for something or to confirm something. When he does, ask him for a commitment based on *"If I can get this for you, do we have a deal?"* Then get an absolute commitment from him before you do what you have promised to do in exchange. He will not be offended: He is looking for you to help him make a decision and commitment. Remember, **a buy sign is usually an expression of the note holder's need for you to help him say yes.** Once decided and committed, he can breathe a sigh of relief as his problem is taken care of.

Delbert Ashby is a highly respected note investor, broker and teacher with many years of experience.

He is the author of "Make Money Trading Mortgages," an indispensable guide for note brokers (and those who want to be). You can download his book for only \$19.95 at store.PaperSourceOnline.com

**Learn the latest field-tested methods of finding notes at
The Paper Source Note Symposium: *Finding Notes & Marketing Your Business* April 28 - May 1 in Las Vegas.
6 world-class teachers (Jeff Armstrong, Kent Anderson, Dave Kronic, Lisa Moren-Bromma, Simon White, Bill Mencarow) and one-on-one consultations!
Small group setting, limited seating.
www.PaperSourceSeminars.com or 1-800-542-2270**





Cold Calling Finds Notes & Builds New Relationships

by Kent Anderson

The Solution Builder concept is a time-tested and proven system by the Dale Carnegie Sales Training System.

I am not a representative, just a huge fan of their training courses that certainly build confidence and professionalism in your business career.

Here are a few valuable gleanings from their *How to Cold Call and Build New Customers* one-day course...

“Customers want to improve their current situation. They rarely, if ever, really want to buy your product. They want the *result* of the products we sell.”

You need *not* be a “salesman” but rather an other-centered solution provider. Here are some questions for you to ponder:

- **What are your solutions in terms of what the note seller wants?**
- **Have you discovered the key issues that gets note sellers excited?**
- **Are you prepared to be other-centered and give your note seller your “45 second note buying presentation” based on the their key issues?**

When you call a note seller back, do you know how to leave voice mail messages that create return calls?

More importantly, would you like to learn telephone selling principles to overcome call anxiety? I did. And I’ll teach them to you and answer the questions above at *The Paper Source Note Symposium: Finding Notes & Marketing Your Business*.

My goal is to help you perceive and understand the other-centered Relationship Sales Model for your use. It is a system with methods and techniques to help you build new customers for your personal growth and development.

At the Note Symposium, please introduce yourself and tell me your story.

Hope to see you there,

Kent

Kent will be teaching his proven methods of finding notes at The Paper Source Note Symposium: Finding Notes & Marketing Your Business April 28 - May 1 in Las Vegas. Visit www.PaperSourceSeminars.com or call 1-800-542-2270.

REGISTRY PASSWORD CHANGE

As of April 1 the password for The Paper Source Registry of Note Investors (www.PaperSourceOnline.com) will change to:

(sorry — you have to be a PAPER SOURCE JOURNAL subscriber to access the Registry!)

If An Investor Working With Brokers Had A Wish List For 2011 And Beyond...

By Dave Kronic

Here is what many professional note investors wish brokers would do (and NOT do) —

- √ In your e-mail subject line, include the city and state where the collateral is located, the property type and lien position. This makes it easier for your investor to reference in the sent box if a deal comes alive weeks or months later. This doesn't have to be long; for example: **Moline, IL/SFH/1st**
- √ Include signature blocks on all of your e-mail correspondence with at least your full name and a working daytime contact phone number.
- √ When leaving messages, repeat your return phone number *two* times (it's frustrating when only 7 or 8 digits come through!).
- √ When leaving voice mail, don't rush through your phone number. Take it S-L-O-W-L-Y so your investor or note seller doesn't have to replay it.
- √ On voice mail, start with your name, phone number and e-mail address. Then say what you're calling about. Then REPEAT your name, phone number and e-mail address. That way, in case your investor or seller didn't catch it the first time, they won't have to replay your whole message.
- √ When leaving a message, include both your land line and cell phone number.
- √ If you put a deal out for quote please remain available by phone/e-mail for follow up/clarification. A little pitch and catch often makes for more aggressive offers.
- √ Be considerate and acknowledge received offers promptly from your investors and note sellers, and follow up with feedback.
- √ Your outgoing voice mail or answering machine message is another chance to "ooze" professionalism (vs. the computer voice repeating your number) for both your note sellers and your investors.
- √ And finally — texting. I believe it has no place in a professional/fiduciary relationship. Please ask your investors/note sellers if texting is acceptable.

The investor is the true customer in the note sale arena. Successful brokers realize this and respect the opportunity to make their deals stand out from the crowd by their professionalism. This is simply good business sense.

The good habits outlined above will surely get your deal prioritized and earn you a quick response. Trust me on this one!

Dave Kronic is president of Reliant Financial, one of the most active national note investment firms. Reliant buys for its own account, so you are dealing with the end-investor.

Contact him at 800-483-3544, fax 713-334-2943, e-mail dkronic@reliantfinancial.com website www.reliantfinancial.com

Dave will be teaching how to increase your profits by making your investors happy at The Paper Source Note Symposium: Finding Notes & Marketing Your Business April 28 - May 1 in Las Vegas. Visit www.PaperSourceSeminars.com or call 1-800-542-2270.



THE Best Way to Find Notes

by Jeff Armstrong

One of the most common questions I am asked is, “What’s the best way to find notes?”

The simple answer is, “*The best way is the way that works for you.*”

There is no one way to market in this industry that will work for everyone. Successful note brokers and investors find notes in dozens — if not hundreds — of different ways.

For some, direct mail works best for them.

For others, it’s advertising in small newspapers across their state, region or even across the country.

Some develop strong referral bases.

Some do radio and cable television ads.

And some use online marketing almost exclusively.

What works for one may not work for another. You need to keep trying different methods and test marketing until your business is as successful as you want it to be.

No single method works well in finding notes to buy at a discount. The successful note professional uses every idea available and creates new ones. Advertising and direct mail coupled with a powerful referral base and unusual ways to find notes will be successful.

Concentration on one method will probably not be as successful as a multifaceted approach. In other words, if you asked me which method you should use, I would say, “all of them work well, depending on your interests, enthusiasms, time, money, energy and creativity.”

Marketing is the key to the note business.

Successful note brokers and investors find notes in dozens if not hundreds of different ways.

You must also develop a professional brochure to hand to your potential referral sources as well as have an online presence via a website dedicated to your note business that explains what you do as a note broker. I believe the expenses of a professionally developed website, brochure, business card and letterhead are well worth the time and cost.

You should also develop several reliable sources of note referrals. A base of five professional people who see notes regularly can be all you need to sustain your business. So, personal contacts are extremely important.

Be very creative when trying to locate notes. Rise above the crowd and add to the ideas that you hear and read about. Let your imagination run wild. Creativity is amply rewarded in the discount note business.

Marketing is the key to the note business. If you are serious about success for the long term in the note industry I urge you to attend the Note Symposium in Las Vegas April 28 – May 1. I will share my most current and innovative methods of finding notes and marketing your note business (www.PaperSourceSeminars.com or call 1-800-542-2270).

By learning how to be very aggressive and extremely creative, you can create opportunities that will leave your competition in the dust. If you’re timid and put it off, you will fail. *Nike* is not timid. *Microsoft* is not timid.

Flaunt your skills and what you can do for the note seller.
TWITA!

Jeff Armstrong of Armstrong Capital has been a note broker and investor specializing in the seller financed note industry since 1991. He can be reached at 818-865-2322 or by email at info@armstrongcapital.com

For more information on how he can help you with your note business or to request a quote visit www.armstrongcapital.com

Enhance Mortgage Sues Texas AG — Who Then Sues Enhance

The national note buyer is accused of lowering offers and suing mortgage owners who then refuse to sell.

Enhance Mortgage Corp. and Templeton Mortgage Co. of Lubbock, TX has sued Attorney General Greg Abbott, alleging the Lubbock office of the AG's consumer protection division was making false allegations and threats through misuse of the state's Deceptive Trade Practices-Consumer Protection Act.

The AG's office countered with a suit accusing the two mortgage businesses and company officers Mark Templeton Brown and Amy Dawn Brown of violating the state's consumer protection laws.

Enhance contends the state has no case in part because the state's commercial code defines a consumer as someone who buys or leases goods or services, which means the mortgage sellers are actually not consumers under the statute.

In addition, the mortgage company says Texas law gives the buyer, rather than the seller, the right to rescind a sale.

The issue was reported in THE PAPER SOURCE JOURNAL some months ago when we discovered complaints related to a number of breach of contract lawsuits Enhance filed against people who sold mortgages to the company.

At issue is a practice in some transactions in which Enhance would make an offer based solely on the seller's statements over the phone about the loan's terms, the borrower's payment performance and the value of the property.

The seller would sign the contract, which included a clause that bound the seller to go through with the sale at a lower price if due diligence determined the seller had provided erroneous information about the loan.

If the seller balked at the lower price, the state's suit says, Enhance would sue the seller.

Those disputes were related to claims the sellers made to the mortgage company about the value of the loans, said Lubbock attorney Jerry Corbin, who is representing Enhance.

"People call us to start the transaction," Corbin said, adding that someone from the company takes information from the seller over the telephone, including the face value of the mortgage, how much principal remains to be paid, the interest rate and what the borrower's payment history is.

The company promises an offer within 24 hours, the attorney said, adding there's no problem when the person selling the mortgage is truthful, and has all the information at hand.

In some cases, he said, people either don't know, or aren't honest about aspects of the transaction.

The state's lawsuit criticizes Enhance for waiting until after the transaction closes to conduct due diligence on the contract, but Corbin said the company's practice is the industry's norm, and that the company wouldn't invest several thousand dollars for due diligence on each mortgage it is approached about buying.

In some cases, he added, the property's appraisal comes in substantially below the original amount of the mortgage, or the loan turns out to be a no-interest loan.

When that happens, Corbin said, the business has no choice but to reduce the price it pays for the note and seek a partial refund from the seller.

"The AG has the idea that the individual is always the victim, and big business is always wrong," Corbin said. "He always takes the side of the individual, like the individual never lies."

The state's case is based on four lawsuits that have already been resolved in Lubbock courts, Corbin said, and Enhance's lawsuit accuses the attorney general's office of trying to re-litigate those cases.

Local courts have already ruled on the cases and made adjustments, Enhance's suit says, which makes the state's damage request — \$20,000 in civil penalties per violation of the Deceptive Trade Practices Act; \$250,000 in civil penalties per violation if the consumer is over 65; and surrendering all money taken from consumers through the deceptive practices — "extreme and not supported by state law".

The state's suit contends Enhance's contracts are written to favor the business over the note sellers, such as a clause that allows the company to seek a variety of damages in court in the event the seller defaults on the deal, while the business would only have to pay the seller \$10 in the event Enhance defaulted on the deal.

Avalanche-Journal, Lubbock, TX, Nov. 17, 2010

Mortgage Broker Ranks In Florida Down Almost Two-Thirds

Only 36% of Florida mortgage brokers have reapplied for licenses under new state laws, according to the state Office of Financial Regulation.

Prior to last October, when new federal guidelines for mortgage brokers took effect, 42,663 were permitted to write mortgages. By Feb. 2, a mere 15,219 had sought to remain licensed.

Additionally, 2,021 businesses have sought licenses to write mortgages compared to the 6,957 that were licensed pre-October 2010. 1,057 mortgage branches have applied for licenses compared to the 3,115 licensed before the changes.

Problems in Florida — widely considered ground zero for the subprime mortgage crisis — surfaced after reports that the state's office of financial regulation licensed more than 10,000 lenders with criminal pasts.

www.miamitodaynews.com Feb. 10, 2011

Mortgage Interest Tax Break No Longer Sacred?

President Obama and a growing number of economists are telling Congress the time has come to phase out the mortgage interest tax break.

It's not welcome news for those who work in real estate.

"Getting rid of the mortgage interest tax deduction would just kill the market," says Wendy Rocca, a Realtor for Century 21 in Watertown, Mass.

"The mortgage interest deduction, while many people gain from it, is not a wise use of our tax dollars at this point," says Ted Gayer, an economist and a former Treasury Department official.

He says the problem is that the federal debt is now more than \$14 trillion. And many economists say the

government at some point has to trim spending and raise more revenue to pay down the debt.

Gayer says the mortgage tax break costs the government a ton of money. (PAPER SOURCE EDITOR: "Costs" is a propaganda word. Gayer, like all liberals/socialists, believe that your money belongs to the government, and you should be grateful for what they let you keep – therefore lowering taxes or eliminating deductions "costs" the government money.)

Sen. Coburn (R. OK) says the federal government wastes at least \$60 billion a year on duplicate programs, fraud, theft, etc. Instead of taking more money from taxpayers, how about starting with that, Mr. Gayer?)

A bipartisan federal commission looking for ways to balance the budget recently recommended ending the tax break. It would replace it with a less costly tax credit that would reach more lower-income Americans. It also suggested excluding mortgages that are larger than \$500,000.

With the housing market still shaky, it's unlikely the government would do anything to end the tax break right away. But it is one of the moves that lawmakers are starting to consider to get the federal deficit under control.

npr.org Feb. 12, 2011

Apartment Rents And Values Are Soaring

Falling home prices and lethargic sales have been bad news for home owners, but a boost for one group of real estate investors: apartment building landlords.

With millions of families switching from being homeowners to renters, apartment-building values have soared. Investor demand is so intense, prices of some properties are approaching values last seen in mid-2007.

That isn't good for renters, who enjoyed falling rents, landlord concessions and even offers of incentives such as flat-screen televisions to sign leases after the recession hit the housing market. Now rents are rising and vacancies are falling in many markets, making it harder to find a place.

Benefits from rising apartment-building values are rippling beyond their owners. It's a boon for banks and other lenders holding billions of dollars of debt on apartment buildings and other commercial real estate that had been under financial stress.

The national average value of apartment buildings rose 16% in 2010, according to brokerage firm Marcus & Millichap, after falling 27% between 2006 and 2009. Values of apartment buildings owned by real-estate investment trusts are now within 10% of their 2007 peak, according to Green Street Advisors, a research firm that follows REITs.

Resurgent apartment values were first seen in late 2009 in markets such as New York City and Washington, D.C., where the economy has held up better and recoveries have been quicker. But the price surge has now spread to other markets including Los Angeles, Seattle, Boston, Baltimore and Austin, Texas.

Some say things are even hot in Las Vegas, a hard-hit market with plenty of foreclosed homes available for rent. Last month, the Croix Townhomes complex in the city's Henderson suburb sold for nearly \$20 million, or \$143,000 per unit, well above the national average.

Investors in some markets have begun to quickly resell or "flip" properties, a practice not seen since the boom years. Last month, TIAA-CREF paid \$62 million for the 261-unit Newbury Commons in Stamford, Conn. The purchase price was 65% above what Seaboard Properties paid in February 2009, according to Real Capital Analytics.

Apartment building values are being propelled partly by low interest rates that have made borrowing less expensive and competing investments like the bond market less attractive. Values of office buildings, stores, warehouses and other types of commercial real estate are also rising in some markets for the same reason.

But the apartment market is the healthiest, partly because financing is cheaper. Mortgage giants Fannie Mae and Freddie Mac buy apartment-building loans originated by others as part of their mission to support the housing market, but they don't buy loans for other commercial property.

Apartment values also are getting boosted by powerful supply-and-demand forces. Renter households now top a record 37 million after increasing more than 3.5 million in the past five years, partly due to the foreclosure crisis. Green Street Advisors expects an additional 4.4 million rental households to be added by 2015.

Statistics show that the slump in housing sales is far from over. The Case-

Shiller Home Price Index released Tuesday posted a 0.5% drop in November on a seasonally adjusted basis. The Commerce Department says that only 321,000 homes were sold in 2010, the lowest tally since 1963, the first year when records were kept.

The nation's home ownership rate is also falling, to 67% of U.S. households in 2010, after topping 69% in 2004, according to the Census Bureau, with further declines expected. Each 1% decline represents one million households moving to rentals, housing experts say.

Job growth may also be boosting demand for apartments, particularly among 25-to-34-year-olds, a group known as big renters.

The group has garnered the lion's share of new jobs, emboldening people who had been sharing units or living with parents to get their own apartments, Green Street said.

Meantime, new supply of apartment buildings is at its lowest level in two decades because the financing spigot turned off when the recession hit.

Apartment completions will total 53,000 this year, half of what was delivered in 2010, according to Marcus & Millichap, and down from 120,000 in the peak year of 2009.

Cameron Hardesty, a 25-year-old public-relations account executive, said that when she relocated to Washington, D.C., from her parents' home in Dallas, she encountered a frenzied apartment-rental market.

"It was like, if you didn't follow up on an ad on Craigslist within a half hour you were out of luck," she said.

To be sure, not all apartment markets are booming. Houston, Jacksonville, Fla., and Memphis, Tenn., had fourth-quarter vacancy rates topping 10%.

But in other markets, some see a risk of overheating. Since low interest rates are partly propelling the rise in value, rate increases could take some steam out of the market. And landlords won't be able to keep raising rents at current rates if job growth doesn't pick up.

For now, however, market forces are expected to keep pushing rents higher. Green Street expects every major metro market to see rent growth between 3% and 10% in 2011, with the biggest gains in San Jose, Calif., San Francisco and New York City.

Wall Street Journal, Jan. 29, 2011

Landlords Going High-Tech

Landlords are beginning to act more like airlines—using supply and demand to make quick adjustments to rent prices.

Long an old-fashioned bunch known for thick bundles of leasing agreements, some landlords are now using sophisticated computerized models to monitor competition, upcoming vacancies and seasonal patterns to determine optimal rent. While it's not quite the blink-and-you'll-miss-it tactics of airlines, rents can change quickly, sometimes day to day.

AvalonBay Communities Inc., an upscale apartment owner based in Arlington, Va., saw increases healthy enough to justify the investment in the software, the company says. UDR Inc., an apartment owner and developer based in Highlands Ranch, Colo., that uses RealPage Inc.'s YieldStar Price Optimizer, saw new December rents climb nearly 7% when compared with expiring leases at its Sullivan Place in metro Washington, D.C.

Operators using YieldStar software see a 2% to 5% annual revenue premium over properties not using the service, said Janine Steiner Jovanovic, YieldStar's president.

Not everyone embraces the new programs. Some smaller operators say they don't have the time or money to invest in new technology. Those who do adopt the systems—which have been used by hotels and casinos for years—may also use them to manage apartment renewal terms, ensuring operators aren't saddled with too many vacant units during the off season, typically the winter months. Tenants are offered leases shorter than and longer than the typical 12 months and they can receive a lower rent for, say, taking a 13-month lease.

Rent monitoring isn't the only area where landlords have embraced new technology. Many landlords also accept applications online. When approved, electronic signatures can seal the deal.

For now, you usually have to meet someone to get the keys. But that could change: Equity Residential, the largest apartment owner in the U.S., says it is experimenting with programmable locks. "If you choose to, you can look, lease and live completely online without ever having to talk to your landlord," says David Santee, executive vice president of property operations at Equity Residential.

Ever-changing prices are also forcing many to alter the low-tech traffic generators—think ads in print publications and low-tech signs—they've used for years. "You had balloons and flags and you hoped people drove by," says Jeffrey Friedman, chief executive of Associated Estates Realty Corp. Now, landlords are making sure they're found via Web searches, visible on Facebook and tweeting on Twitter.

Some landlords are also making their websites more than just advertising vehicles. AvalonBay is piloting a program across eight communities that lets prospective tenants see which exact units are available, view individual floor plans and put specific apartments on hold online.

Landlords also are using social-networking tactics. The Savoye, an upscale complex in suburban Dallas owned by UDR, has an in-house social-networking site, where residents can post pictures and brief personal blurbs.

Wall Street Journal, Dec. 30, 2010

Appraisals Under Fire

Not long ago appraisals were thought to be too high — now its the opposite

Home appraisals, which were blamed for being too generous during the housing boom, are now being criticized by some homeowners for being too stingy, preventing them from refinancing or borrowing against their houses.

The criticism is being leveled at computerized real-estate appraisals, which depend on models that use prices from home sales and other data to determine the value of a house. Because of the volatility in the housing market they are underestimating prices, some say.

Lenders use computerized appraisals primarily for home-equity loans, preapprovals for mortgage refinancing, loan modifications and mortgage originations of less than \$250,000. Automated appraisals are cheaper and faster than in-person appraisals. They run as little as \$20, whereas appraisals done by people can cost hundreds of dollars.

The computerized models are used as a check on in-person appraisals, which often were too generous during the housing boom. They calculate a home's value by using an index derived from historical repeat-sales data, or

sales records of homes with similar property characteristics, such as square footage and the number of bedrooms and baths. In-person appraisals don't incorporate as much transactional data as a computer model.

Gary Cohen, an advertising-sales manager in West Los Angeles, Calif., says Citibank suspended his \$510,000 home-equity line of credit based on a drop in his home's estimated value. A computer model used by the bank showed his home had dropped to just over \$1 million in 2009 from the \$1.65 million it was appraised at four years earlier. So, Mr. Cohen paid \$750 for an in-person appraisal from a firm designated by the bank. It estimated his home was valued at \$1.3 million, but Citibank wouldn't reinstate his credit line.

"The discrepancy is so great that you have to know whatever method they are using is not accurate," Mr. Cohen says. Mr. Cohen sued Citibank. Citibank said that even if his home is worth the higher figure, the bank has a legal right to suspend the credit line.

Some models weigh past sales of a particular property over time against a historical home-price index, and they are running into problems with properties that have been bought only once. That is the situation in places such as Nevada and Southern California, where new subdivisions sprouted during the housing boom but many homes never sold or entered foreclosure before ever being sold in a nondistressed transaction.

"The main difficulty is that I need two or more sales prices for a property, and if I'm not able to find it, it doesn't fit into the sample used to calculate the index," says David Stiff, chief economist at Fiserv, one of the largest providers of automated appraisals.

Other computerized models break down the particular characteristics of a property—number of bedrooms and bathrooms—as well as sales of comparable homes, to arrive at a value estimate. They often are hampered by a lack of accurate or comprehensive data in county and municipal records. Improvements, for example, are recorded by building permits, so if homeowners don't file permits, the records won't be accurate.

These models "can change a lot, depending on which variables you include or exclude, so there can be a bias," says one expert.

nationalmortgageexchange.com, Dec. 30, 2011

The Joys Of Working In Corporate America!

"As of tomorrow, employees will only be able to access the building using individual security cards. Pictures will be taken next Wednesday and employees will receive their cards in two weeks." (Microsoft Corporation)

"What I need is a list of specific unknown problems we will encounter." (Lykes Lines Shipping)

"E-mail is not to be used to pass on information or data. It should be used only for company business." (Accounting manager, Electric Boat Company)

"This project is so important, we can't let things that are more important interfere with it." (Advertising/Marketing manager, United Parcel Service)

"Doing it right is no excuse for not meeting the schedule. No one will believe you solved this problem in one day! We've been working on it for months. Now go act busy for a few weeks and I'll let you know when it's time to tell them." (R&D supervisor, Minnesota Mining and Manufacturing/3M Corp.)

"My sister passed away and her funeral was scheduled for Monday. When I told my boss, he said she died so that I would have to miss work on the busiest day of the year. He then asked if we could change her burial to Friday. He said. "That would be better for me." (Shipping executive, FTD Florists)

"We know that communication is a problem, but the company is not going to discuss it with the employees." (Switching supervisor, AT&T)

"We recently received a memo from senior management saying: "This is to inform you that a memo will be issued today regarding the subject mentioned above." (Microsoft, Legal Affairs Division)

This gem is the closing paragraph of a nationally-circulated memo from a large communications company: *"Lucent Technologies is endeavorily determined to promote constant attention on current procedures of transacting business focusing emphasis on innovative ways to better, if not supersede, the expectations of quality!"*

"In a memo I wrote reviewing our company's training programs and materials I used the words "pedagogical approach." The day after I routed the memo I was told that the executive vice president wanted me out of the building — by lunch — because she wouldn't stand for "perverts" in her company. She apparently thought "pedagogical" had something to do with "pedophilia." I explained the difference to my boss and he looked it up in the dictionary. Two days later a memo to the entire staff came out directing us that no words which could not be found in the local Sunday newspaper could be used in company memos. A month later, I resigned. In accordance with company policy, I created my resignation memo by pasting words together from the local Sunday newspaper." (Taco Bell Corporation)



It's Miller Time!

by Jack Miller

For *more than 40 years, Jack Miller (d. 2009) taught the most brilliant real estate investing techniques and strategies. Many of his students — and there are thousands — credit him with their success and consider him the greatest real estate teacher who ever lived. Visit his website: www.CashflowDepot.com for Jack's booklets, seminars, a free newsletter and much more.*

Jack, when you are certain that the economy is going to collapse, what action should you take?

First get your personal situation under control. It's a lot easier to be brilliant and make your fortune when you have a dry, quiet place to live and a full stomach.

Second on the list would be to contact those who you know have unlimited sources of capital and share your views with them. In the event you are wrong, you will have years to rebuild your reputation, and in the event you are right, you will have proven yourself to be an accurate forecaster. You will have their confidence for future investment.

There will be many fortunes made by those who can recognize and capitalize on opportunities in bad times.

Next, if possible, TAKE THE MONEY AND RUN! Get liquid so that you may take advantage of the many positive cash flow opportunities which will present themselves. Realize your strengths

and limitations, so you do not become just another loser, lost among the crowds or huddled masses.

For those just starting to build assets, a depression is the best place to start. There will always be more sellers than buyers and prices will be at rock bottom.

I went into Houston at the absolute bottom of the real estate crash there in 1987 and bought apartments at less than \$1000 each for cash. Houses were going for as little as \$5000 cash. It's only when you are cashing out that a high price has any true meaning. As long as you are still buying, pray for low prices.

How do you know if the investor you've found is actually the funder and not another broker?

The fact is, there are very few true end-investors — those who buy cash flow notes with their own sources of funds. 95%+ of the websites that claim to be investors are really brokers, selling to the investors in THE PAPER SOURCE REGISTRY OF NOTE INVESTORS.

Unlike websites and unlike any other list of cash flow funding sources, each investor in the Registry signs an affidavit affirming that they are an end-investor. If we discover differently, they are removed from the Registry. Most of them are well-known to us and to the Industry. After all, we've been publishing the Registry for over 20 years, and we know who the players are. The Registry is continuously updated as necessary on the Internet, and new updated hard copy editions are published several times during the year.

Here's what one investor says: "This is a people business...how does a broker know when a note seller is shading the truth? How does an investor know when a broker doing the same, or lying by omission? Some things take a leap of faith and a healthy dose of common sense.

"One tip: direct funders usually look for reasons and solutions to processing dilemmas, they strive to remove contingencies to get to the funding table vs. looking for reasons to turn down or re-negotiate deals lower."

Make Money Trading Mortgages

by Del Ashby

“This is the best book I’ve seen explaining how notes/cash flows are bought and sold. Del Ashby’s decades of experience will benefit brokers and investors alike, new or well-seasoned. I learned quite a few things, and I’ve been in the business since 1981.”

— W. J. Mencarow, PAPER SOURCE President

Buying and selling privately-held mortgages and trust deeds has been called “The world’s best-kept financial secret.” You can do it from anywhere in the country, and it can be very lucrative on either a full time or a part time basis. You need no investment capital of your own, because **you use the investor’s money to buy the cash flows.**

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This book shows you **step-by-step** how the business works. It details the entire process from the very beginning and progresses through some very advanced concepts that **even most of the old pros don’t know about.**

It is written in **easy-to-understand** terms with the assumption that the reader has no background on the subject matter.

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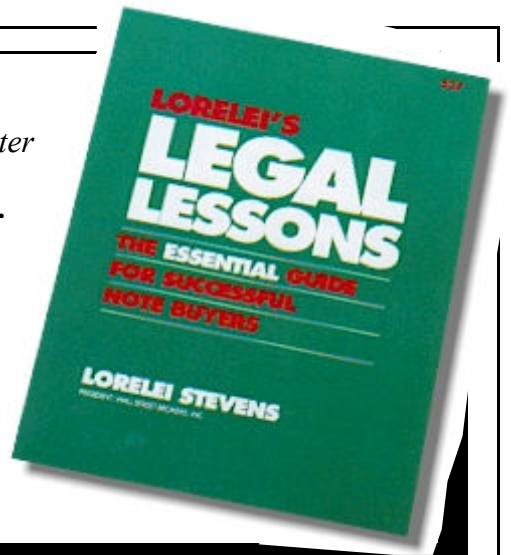
"You are simply not in the note business if you have not read...this book," — Jon Richards, Publisher, NoteWorthy Newsletter

"If I were just getting started in the note business I would memorize every page."

— Alan Myers, President, Private Mortgage Bankers

"If you buy notes or are thinking about buying notes, this book is critical to your financial health and well being!"

— Jerry James, Attorney & Note Buyer (20 years)



"Most of the essential information necessary to engage in the note brokerage business is set forth in LORELEI'S LEGAL LESSONS by Lorelei Stevens. Every person in the business of brokering notes or considering getting into the business should find this work invaluable." -- Bruce W. Blohowiak, J.D., former Vice President, General Counsel, Metropolitan Mortgage & Securities Co., Inc.

"Most of the subjects have not been covered in any other publication of which I am aware. I believe every note buyer should have a copy of Lorelei's book and should refer to it often. I know I will."

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"Well, it didn't take me long to uncover something I wasn't aware of. By the second random chapter I read, I learned not to close on any notes that the current payment due hasn't arrived yet. I'm looking forward to more insights!" — Hank Harenberg, President, Capital Concepts, Inc.

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"Lorelei Stevens has written a book that should be required reading for everyone serious about the note business. She examines the vital issues everyone else is afraid to touch in a clear, concise manner. This is a great contribution to the industry."

W. J. Mencarow, President and Editor,
THE PAPER SOURCE JOURNAL

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