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In this issue

A Brief History of Notes, Licensure & Note Funds

By W.J. Mencarow

The first book of the Bible records that pledging something of value to secure a debt was common even then (Genesis 38:17-20). In Deuteronomy chapter 24 God decreed laws regulating collateral. Early in history notes began to be used in lieu of physical collateral for debts. They represented the legal right to the collateral, and thus they had value. Notes could be bought and sold, and there were probably note investors in Biblical times.

Did you know that Jesus talked about money more than any other subject except the Kingdom of God? Eleven of His 39 parables are about money. One out of every seven verses in the Gospel of Luke is about money!

The modern note industry had its beginnings in 1953 with the founding of Metropolitan Mortgage & Securities Co., Inc. in Spokane, Washington, by Paul Sandifur, Sr. I believe it was the first company that bought notes on a regional, later national, basis.

In 1971 Larry Stevens founded Wall Street Brokers in Seattle.

At some point a few people realized they could make money by buying notes from individuals at one price and selling them to Met and Wall Street Brokers at a higher price. Soon after, they realized they did not have to buy the notes at all; they just contracted to buy them at one price and sold the contract at a higher price. Thus, note brokerage was born.

The first person to teach note brokerage was Michael Ira Meeker. He changed the lives of countless people.

The fact that notes are almost unknown is one of the great things about it. They are under the radar of bureaucrats and large corporations. Everyone knows about stocks, real estate, CDs, and other investments because corporations make money selling them.

No large company makes money selling notes.

So far, notes have escaped the fate of Ronald Reagan's truism about government: *"If it moves, tax it. If it keeps moving, regulate it. If it stops moving, subsidize it."*

Note Funds

There are success stories of people who have invested in note funds. There are also horror stories. In a few cases, they lost money because of outright fraud when the promoters simply stole the money and bought few, if any, notes. In other cases, the money flowed in so fast the promoters couldn't find enough notes, so instead of closing the fund to new investors, they paid early investors with the new investors' money. That's a Ponzi Scheme, and it's illegal. The SEC shuts it down, fines the promoters, and in some cases, they go to prison. The investors can lose everything. The SEC can shut down a fund even if no investor has lost money. In some cases, it was only AFTER the SEC swooped in that the investors lost their money,

That is one reason I never invest in note funds. I always take title to notes.

Licensure

Note brokers are required to be licensed in some states, including California, Nevada, Wisconsin, New York, and Georgia. If you are brokering notes, you should check with the appropriate regulatory department in your state to determine if you need a license.

I was on the professional staff of the U.S. Congress in Washington for many years. I learned a few things. One is that occupational licensure is not designed to protect the public, although that is the propaganda. The purpose of licensure is twofold: (1) to restrict entry into occupations so as to protect those already in those fields from competition and (2) to provide the government with revenue from penalties.

Occupational licensure is a cabal between government and industry. If two industries conspired in this way, they would be prosecuted under the Sherman Antitrust Act for restraint of trade. But when they bring the government in as a partner, they are rewarded. There is no evidence that occupational licensure protects the public, but there is plenty of evidence of the harm it does; limiting competition and consumer choices, raising costs, contributing to unemployment, and growing the nanny-state bureaucracy.

Why does the person who cuts your hair need to be licensed but not the one who works on your brakes? It's because the barbers and hairstylists have put money in the pockets of state legislators to restrict their competition. Depending upon the state, bee keepers, ferret breeders, lightning rod salesmen, florists, septic tank cleaners, taxidermists, interior designers and tree surgeons, among others, have to be licensed. It's obviously not to "protect the public," it's simply to restrict competition. Let's not let that happen to note brokering and investing. Preserve free enterprise!

Advanced Seller Data Services

www.notesellerlist.com

800-992-4536

State	2022 Notes Created	2023 Notes Created
Alabama	1,095	1,324
Alaska	726	709
Arizona	3,628	3,662
Arkansas	410	542
California	6,722	7,220
Colorado	1,565	1,534
Connecticut	639	623
Delaware	162	172
Dist of Columbia	22	26
Florida	7,676	8,270
Georgia	3,687	4,055
Hawaii	276	304
Idaho	1,600	1,737
Illinois	613	746
Indiana	622	695
Iowa	129	122
Kansas	171	268
Kentucky	553	705
Louisiana	575	559
Maine	645	615
Maryland	738	788
Massachusetts	702	776
Michigan	386	373
Minnesota	168	165
Mississippi	504	557
Missouri	1,381	1,557
Montana	650	702
Nebraska	530	548
Nevada	700	801
New Hampshire	312	286
New Jersey	1,129	1,236
New Mexico	193	229
New York	2,818	2,765
North Carolina	4,393	4,500
North Dakota	65	57
Ohio	1,481	1,723
Oklahoma	1,137	1,181
Oregon	2,054	2,186
Pennsylvania	2,099	2,331
Rhode Island	234	196
South Carolina	1,792	1,943
South Dakota	11	6
Tennessee	2,019	2,141
Texas	20,922	22,361
Utah	1,328	1,585
Vermont	-	3
Virgin Islands	38	42
Virginia	738	929
Washington	2,762	2,913
West Virginia	290	379
Wisconsin	330	403
Wyoming	227	223
	83,647	89,773

2272 Counties Reporting

Criteria for counts:
- First Position or Wrap seller carry-back loans
- Loan balance $30,000 or greater

Production by Month

Jan	7,308	May	7,743	Sept	7,467
Feb	6,577	June	7,953	Oct	7,828
Mar	8,090	July	6,908	Nov	7,093
Apr	6,744	Aug	8,287	Dec	7,775
					89,773

Note Creation by Property Type

	2021	%	2022	%	2023	%
Residential	54,443	61%	52,801	63%	56,352	63%
Commercial	14,794	16%	13,415	16%	15,142	17%
Land	16,921	19%	14,333	17%	14,418	16%
Unknown	3,520	4%	3,098	4%	3,861	4%
	89,678		83,647		89,773	

Average Loan Amount by Property Type (LTV based on known sale prices)

	2021 Loan	2021 LTV	2022 Loan	2022 LTV	2023 Loan	2023 LTV
Residential	$ 269,201	77%	$ 225,857	75%	$ 248,523	74%
Commercial	$ 495,266	71%	$ 432,590	66%	$ 613,077	72%
Land	$ 233,128	70%	$ 247,735	68%	$ 263,871	70%
Unknown	$ -	0%	$ 418,937	77%	$ 247,536	82%

Total Loan Volume by Property Type

	2021	2022	2023
Residential	$ 14,605,504,609	$ 11,925,492,024	$ 14,004,768,096
Commercial	$ 7,143,224,275	$ 5,803,199,335	$ 9,283,211,934
Land	$ 3,927,038,735	$ 3,550,778,673	$ 3,804,492,078
Unknown	$ 1,647,238,146	$ 1,298,705,482	$ 955,736,496
	$ 27,323,005,765	$ 22,578,175,514	$ 28,048,208,604

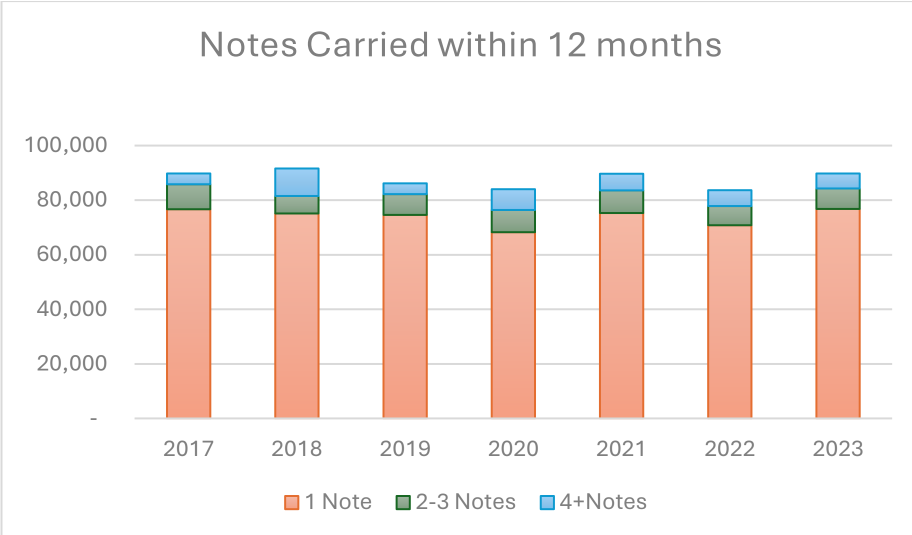
Single note creators versus multi note creators

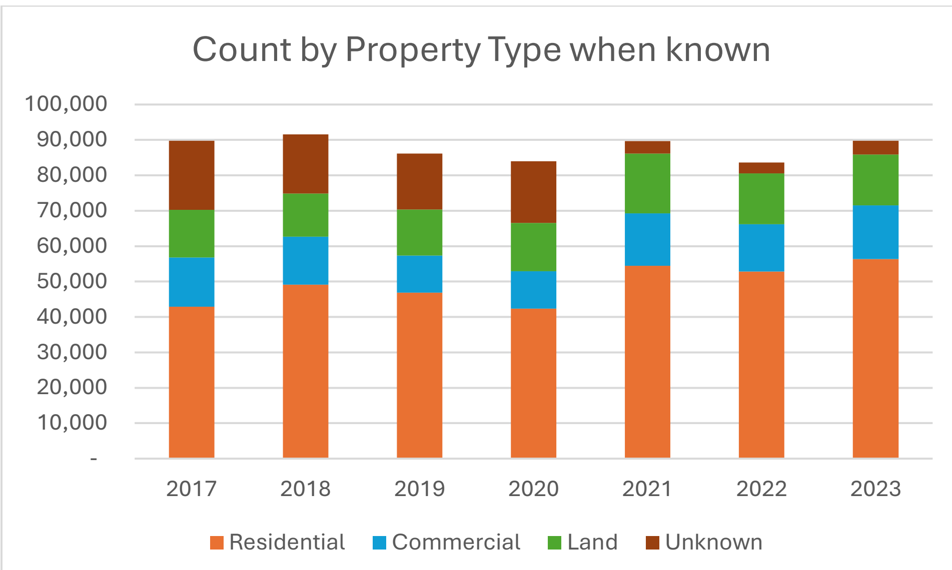
	2021	%	2022	%	2023	%
1 note in 12 months	75,279	84%	70,807	85%	76,780	86%
2-3 notes in 12 months	8,304	9%	7,037	8%	7,507	8%
4+ notes in 12 months	6,095	7%	5,803	7%	5,486	6%
	89,678		83,647		89,773	

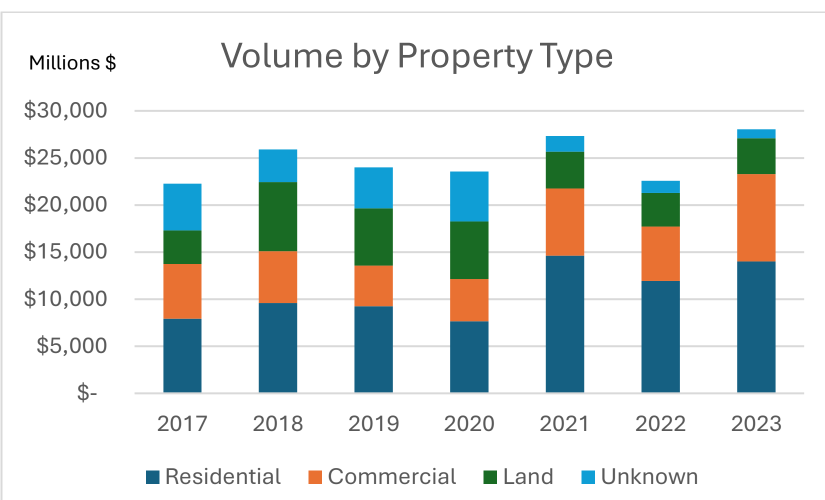
Loans included in study: 1st position, seller financed, $30,000 minimum loan amount. Sellers who carried loans using different names or addresses would not have been detected as multiple note originators.

Notes created by Individuals, Revocable Trusts and Corporations

	2021	%	2022	%	2023	%
Individuals	52,157	58%	48,966	59%	51,416	57%
Revocable Trusts	10,408	12%	8,798	11%	9,617	11%
Corporate Entities	27,113	30%	25,883	31%	28,740	32%
	89,678		83,647		89,773	


Notes Carried within 12 months
100,000
80,000
60,000
40,000
20,000
-
2017
2018
2019
2020
2021
2022
2023
1 Note
2-3 Notes
4+Notes


Count by Property Type when known
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
-
2017
2018
2019
2020
2021
2022
2023
Residential
Commercial
Land
Unknown


Millions $
Volume by Property Type
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$-
2017
2018
2019
2020
2021
2022
2023
Residential
Commercial
Land
Unknown

Attention Hard Money Lenders

By structuring a partial, the lender increased his yield from 16.19% to 53.22%

By Tom Henderson

I realized today that you are never too old to learn new tricks. I received a call from a person, whom I shall call Jim, who was referred to me by one of my favorite associates. He is going into the hard money business and wanted to know about selling partials of his hard money loan and how it would affect his yield. I am embarrassed to say that because I locked myself into the box of seller financed notes, I never thought of applying the partial concept to actual loans, in this case hard money loans.

Here is the scenario. Jim would give a buyer a hard money loan for $100,000 at 12% interest for 6 months, interest only with a balloon and 2% points. Payment of $1,000 monthly. Jim would sell a 90% partial of this loan to an investor, which will include 1% of the origination fee, for the investor to receive a 10% yield.

Lots of calculations on this one, so let's get started. Here is what the original note would look like:
N = 6
I/YR= 12
PV = -$100,000
PMT = $1,000
FV = $100,000

Remember the points of 2% or $2,000. So, in essence, the loan actually looks like this:
N = 6
I/YR= 16.19
PV = -$98,000 (Original minus $2,000)
PMT = $1,000
FV = $100,000 (Balloon Payment)

Notice how the points affected the yield. It jumped to over 16%. This is the yield the payor is actually paying. Be sure to check with your state for its usury laws. Points sometimes exceed state usury laws.

How did the partial affect the note investor?
N = 6
I/YR= 10
PV = -90,000 (90% of the loan)
PMT = $750 (Payment of the Balloon Note to Receive 10%)
FV = $90,000 (Note Investor's Portion of Balloon Payment)

Again, we must consider the effect of the points on the note investor's yield. Since he will receive $1,000 or 1% at closing, in essence, the note investor's purchase looks like this:
N = 6
I/YR= 12.3
PV = $89,000 (Original minus $1,000 in points)
PMT = $750
FV = $90,000 (Note Investor's Portion of the Balloon)

Notice how the points increased the note investor's yield. It jumped from 10% to 12.3%.

Let's not forget Jim. Remember, Jim is keeping 10% of his loan. Here is another OBSCENE YIELD.
N = 6
I/YR = 53.22 WOW!
PV = $9,000 (Original minus $1,000 in points)
PMT = $250 ($1,000 Original Payment minus $750 to Note Investor)
FV = $10,000 (Jim's Portion of the Balloon)

Are there issues about what happens in the event of default? Of course. But just like any partial arrangement, those issues can be solved in many ways; foreclosure, deed in lieu of, loan modification, etc. The gist of this article is to show that partial techniques can be applied to hard money loans,as well as seller financed notes.

Conclusion

The main point to remember is to keep thinking of concepts, and not merely techniques. My eyes were opened that even someone like me, who is knowledgeable in Time Value of Money concepts, can learn new ways to apply note buying concepts. In my case, applying partial purchase concepts to hard money loans is a technique I should have recognized a long time ago. You are never too old to learn new tricks.

For all you hard money lenders, or those wanting to delve into the hard money arena, how do yields of 53.22%, with less money sound to you? Food for thought, don't you think?

Tom Henderson earned a BBA degree in finance and economics. He entered real estate in 1980 during times of turmoil and crisis. Tom mastered the skill of acquiring and disposing of real estate using owner financing and notes, as well as buying and selling notes, to achieve astronomical yields.

Tom is president of H&P Capital Investments, LLC, which buys, sells and trades owner financed notes. He can be contacted at www.hpNOTES.com if you need help with structuring or selling your notes.

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Why Homeowners Insurance Rates Are Rising and How to Manage Your Costs

By Terri Williams | Published by Forbes.com

It comes as no surprise that if you plan on purchasing a house, you'll also need to get home insurance. However, the cost of homeowners insurance may come as a shock.

Homeowners pay over $3,000 a year in property insurance, according to data by Bank of America. And BofA notes that this median household payment represents 4.5% of household income.

And according to data by S&P Global Market Intelligence, through December 29 2023, homeowners' insurance increased by 11.3%. In 25 states, the rate change was at least 10% – and sometimes, it was significantly higher.

While these one-year increases seem alarming, home insurance rates have been rising for a while.

What's Causing the Rise in Homeowners Insurance Rates?

Home insurance rates can increase for a variety of factors, including location, the property's value, coverage, and the insurer. However, Rainy Hake Austin, president of The Agency, tells me that insurance rates have been increasing steadily over the past few years due to factors such as increased natural disasters, rising construction costs, and higher claim payouts.

"In markets like Los Angeles and Aspen, home insurance rates are seeing premium spikes influenced by several factors unique to the area, including the risk of earthquakes, wildfires, and other natural disasters, as well as the cost of living and property values." Since 2009, Austin says California has witnessed a 335% surge in buildings lost to wildfires — which resulted in a 270% rise in associated costs.

"In markets throughout Florida and Louisiana, the state saw home insurance costs rise due to destructive hurricanes," he adds. "We are seeing insurance costs in high-risk locations, specifically in Florida and California, cost hundreds of thousands of dollars per year, and have seen it triple in price in many of these high-risk locations since 2020."

In March 2023, State Farm issued a press release stating that (effective May 27, 2023) it would no longer accept new applications for homeowners' insurance in California. The company credited this decision to an increase in catastrophes, and construction costs that outpaced inflation. Austin believes the decision was made in anticipation of the 2024 wildfire season.

"Approximately 72,000 property holders are anticipated to be affected, with nearly 70 percent of these properties located in ZIP codes where the median sale price exceeded $1 million last year," he says.

In affluent areas of California such as Bel-Air, Beverly Hills, Montecito, and even Napa Valley, Austin says that skyrocketing insurance rates are making prospective buyers think twice about purchasing new homes or even opting out of home insurance altogether.

"We are now seeing homeowners have to scramble to replace their current coverage, with options that will be considerably more expensive," Austin explains. "We are seeing buyers even get denied coverage for reasons like their home being structurally unsound, located in a high-risk location, having maintenance issues, and more."

Jennifer White of RE/MAX Specialists PV in Ponte Vedra, Florida, tells me that it has become increasingly difficult, and costly, to get homeowners insurance in the state — especially if you live near the coast. “Insurance companies are requiring new shingle/asphalt roofs as early as 10 to 12 years into existing roof lifespans, or as early as 20 to 25 years for concrete or clay tile roofs,” White says. In essence, she notes insurers are cutting the typical roof life expectancy in half in order to quote and bind coverage.

“They are also requiring insurance inspections for other items such as water heaters, HVACs, ice makers, and plumbing fixtures and connections/piping to ensure they are newer, in order to bind coverage,” White says. And if any of those items tend to show any type of aging — even if they’re working well, she warns insurance companies are requiring homeowners to make replacements in order to bind coverage.

“Several companies are also either denying coverage for any items mentioned above, as well as denying customers who have had previous claims, in order to mitigate their potential losses,” White explains.

A Costly Additional Expense

But even for homeowners who don’t live in high-risk areas, the increase in insurance rates is problematic. For example, recent reports by Zillow found that it takes 13.5 years to break even on a home purchase, and buyers need a six-figure salary to comfortably afford a home. An increase in insurance rates can certainly push both homeowners and potential buyers to a place where the cost of owning a home becomes financially uncomfortable.

“Inflation, higher interest rates, and increased homeowner insurance premiums are forcing some would-be buyers out of the market and some homeowners to sell,” says broker Arlene Reed of Coldwell Banker Warburg in New York. She tells me that insurance premiums are increasing faster than property values, making homeownership unaffordable for many. “As insurance costs continue to rise, potential homebuyers are finding it becomes more difficult to afford the additional expense on top of their mortgage payments,” Reed explains.

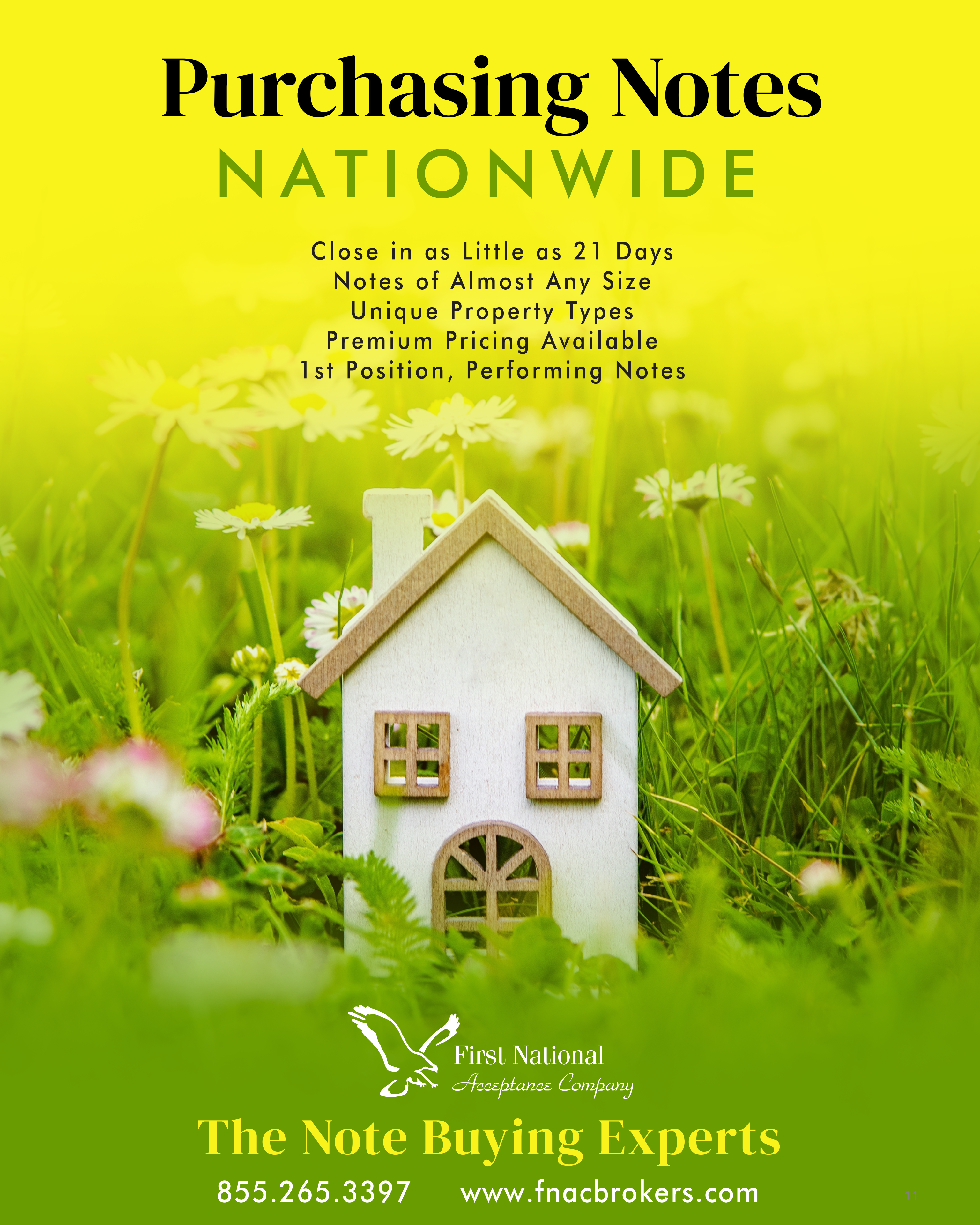
In addition, Reed believes the strain of higher insurance premiums will make it more challenging for homeowners to sell their properties. “An increase in the number of natural disasters and extreme weather events, surging construction costs, inflation, and declining competition in the insurance market are all forcing rates to go up,” she says. As insurance companies are becoming more selective in the properties they are willing to cover, it’s harder for homeowners to find affordable insurance.

Even in New York, Reed says the increase in insurance premiums has had a major effect on maintenance in co-ops and common charges in condos. “They have gone up dramatically in the last year again, making it less affordable for many,” she explains.

Homeowners May Underestimate Risks

Due to the rising costs of property insurance, some home buyers are opting to forego coverage. However, some of them may be underestimating their risk of exposure. For example, according to a survey by the Insurance Information Institute, 12% of homeowners did not purchase insurance. Also, 25% of the homeowners surveyed by the III don’t believe their homes will ever be affected by the weather. In addition, 64% don’t believe that their home is at risk for flooding and 14% aren’t sure of their floor risk. But the survey’s authors noted that anywhere it can rain, it can also flood.

“High-risk locations are areas prone to severe weather like hurricanes, tornadoes, or locations where natural disasters are occurring more frequently,” explains David Harris, an agent at Coldwell Banker Warburg in New York. “In a state like Florida, other insurance challenges include the soaring prices of reinsurance, and the state’s litigation-friendly environment, which makes it easier for customers to sue their insurers, further increasing the insurance challenge.” While some insurers may deny coverage, Harris tells me that most of them will likely choose to raise premiums instead to offset the cost of future claims.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And even among the 88% of U.S. homeowners who have insurance, their coverage may be inadequate. “Many buyers aren’t aware that standard insurance policies typically do not cover flood or earthquake damage, so if you’re buying a home in an area that is vulnerable to flooding, like parts of Louisiana, you may need to purchase additional flood insurance,” according to Adrian Provost, owner of Realty ONE Group Terminus, and executive loan officer at UMortgage in Atlanta. He stresses that it’s important to understand this because flood damage to a home that is not adequately insured can lead to significant financial losses.

Advice For Homeowners and Home Buyers

Considering the importance of home insurance, Reed recommends making it a priority at the start of the buying process. “Real estate brokers/agents should provide buyers with insurance resources so they can be aware of all the costs before making offers,” she says.

If you’re moving to another state that’s prone to several weather or natural disasters, Harris notes that it’s particularly important to research homeowner insurance in advance. “And if the home you are purchasing is older, be sure to have a home inspection to verify the condition of areas like the electrical, foundation, and roof — the areas that will be at the center of your probability to be insured,” he advises. Also, if you’re selling the home, don’t try to conceal problems. “False information can lead to a denial of coverage or even greater legal repercussions,” Harris warns.

Finally, shop around to find more acceptable home insurance rates and coverage. White says there are ways to reduce your premiums if you don’t require certain coverage requirements or premiums. “You may also be able to get a 4-point inspection or a roof inspection in order to show proof of life remaining to prolong the need for a full replacement,” she says. “Those inspections may only buy you a few years, but at least it’s some type of savings.”

Ask the Experts

Tax Liens

Will someone with experience in tax lien investing please rate the risk, difficulty, and time involved in this endeavor? — Mark Jungdahl

I recommend tax lien investing if you have at least $10K - $15K to get started. You could start with less, but I don't think it would be worth it.

I would rate the risk factor as very low. Depending upon what state you are investing in, you are basically being paid a premium interest rate to pay someone else's delinquent property taxes.

This is not a very difficult endeavor, but you need to know a little bit about the procedures pertinent to the particular county that you are investing in. Usually, you can get that info easily enough by accessing the county treasurer's website.

Plan to devote about two days' time for each tax lien auction you plan to attend. **— Jim Berryman**

The way to make money from tax liens are twofold, in a direct way. (There are many other ways in secondary ways, e.g. selling services in this potentially lucrative investment.)

One is that you should be able to get a much higher interest rate return on your investment if you did your due diligence on the property first before buying the tax lien on it.

The other is that if they do not redeem by the end of the redemption period, typically you get to own the house the lien is on. For example, I have bought houses worth $60,000 for about $2,000 in tax liens.

It is unlikely you will get a mansion or a house in a very nice or posh neighborhood since most of those owners either can afford to pay taxes, or know how to get out of situations like that long before it gets to that point, though it does still happen. You just never know!

Contrary to what most people think, federal tax liens do NOT always negate your tax liens. There are very interesting laws about that in different situations. I heard from one real estate lawyer who specializes in tax sales that it has to do with the fact that when the country was set up, the counties were the ones vested with the local property taxes, not the federal government, so the tax liens, which are on the property (land), are superior to IRS liens, which are on the owners of the properties, and not the properties themselves. However, they do have the right, just like the owners, to redeem you by paying the penalties or interest to cancel your lien. You would still earn the high interest rates or penalties.

That happened with one of my properties in Georgia, and the IRS was asked if they wanted to redeem, or even collect the overbid, and the tax collector said that after notification by them the IRS has 120 days to do either, and that typically they do not. In my case, they did not, and I went on to own the property. The IRS liens stayed attached to the original homeowners because, as I understand, they are on the people and not on the property. **— Richard Bentley**

Direct Marketing for Notes

Do you know of a proven direct marketing campaign that works? Are postcards, letters, etc. effective? — Levi Eck

The truth is that nothing works for everyone. You will have to find out what works for you. The most important thing to realize is that this is a real business and it takes real money (for marketing) and lots of time and effort to make it work for you.

The best marketing plans are a combination of three to five solid marketing methods, all working in conjunction with each other; for example, yours may be direct mail, classified ads, networking, a website and direct contact. Or perhaps you will find that a different combination, or fewer methods, works best for you. Each method needs to be tested to find the best fit for you.

I have been in the note business since 1991 and have tested lots of methods. It is both an art and a science. In addition to my marketing book that has literally over a hundred different ways to find notes, I also have a video series on this exact topic spilling the beans on exactly what works for me and WHY. You can look at these at armstrongcapital.com **— Jeff Armstrong**

Non-Performing Notes

Is there a checklist for non-performing notes to tell the good from the bad? — Dan Ball

There is no checklist I'm aware of, but be sure you get this information:

1. What is the value of the property the note is secured by? Look at both full market and REO value comps. Think about who the buyer would be. Is this an upscale area where the buyer would be an owner-occupant or an investor-driven area where the likely buyer is an investor? Make sure you are buying at a discount to whatever your likely value is.

2. Confirm property taxes and municipal lien amounts and especially any past due.

3. Confirm chain of title is in order — meaning the firm you are buying the NPN from has the assignment recorded in the county — OR if there are other unrecorded assignments you are confident that your seller has all proper assignments and legal authority to assign the loan to you.

Value and title are the 2 major things to review. IF these are correct, you are a long way towards picking good deals.

— **Jack Krupey**, jkrupey@jkassetmanagement.com

Note Brokering License in CA?

Regarding note brokering in California, I have been told you need a real estate broker's license. Is this true?

— Mark Huffman

The Department of Real Estate in California says "yes" — you need a license. According to its website:

"Q. - I am not licensed as a real estate broker or real estate salesperson and I am only going to assist private parties who wish to sell their notes (secured by real property) for cash to another party (investor), perhaps in another state. Is a real estate license required if I conduct this activity in California?

"A. - The activity described, so-called note brokering, requires a real estate license if performed in California. This includes the solicitation of California note owners, whether in person, by mail, telephone, or other means of communication. One of the definitions of a real estate broker is:

'...a person who, for a compensation or in expectation of a compensation, regardless of the form or time of payment, does or negotiates to do one or more of the following acts for another or others:

'(e) Sells or offers to sell, buys or offers to buy, or exchanges or offers to exchange a real property sales contract, or a promissory note secured directly or collaterally by a lien on real property or on a business opportunity, and performs services for the holders thereof.'

"There are companies engaged in the discounted purchase of certain mortgages, primarily those carried back by residential sellers and secured by the transferred real property. The companies hold seminars to recruit people to solicit and negotiate the sale of these mortgages. Seminar attendees are informed that they do not need a real estate license to engage in this activity. In California, this is wrong because the activity fits the definition quoted above."

— **Lorelei Stevens**, President, Wall Street Brokers, Inc.

I appreciate your answering my question. Since this is the case, why is it that many note brokering seminars/courses do not inform purchasers that they need a real estate broker's license before they start training California people to be note brokers? I know when I tried to learn years ago that I was not informed of that. That to me is dangerous and should not be allowed. — Mark Huffman

Mark, the reason is simple: If the seminar salesmen told California residents that a license is needed, they wouldn’t make as much money.

John T. Reed (www.johntreed.com) says he attended an event in California selling very expensive note broker courses. Someone asked the pitchman if a license was needed, and his response was, “I’m not a lawyer, I can’t give you legal advice.” He says that’s like somebody telling you to jump off the Golden Gate Bridge, and when you ask, “Won’t I die?” they respond, “I’m not a doctor, I can’t give you medical advice.” — **Bill Mencarow**


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What You Need to Know About Sports Contracts

By The Unknown Investor

Sports contracts are employment agreements between professional athletes and the team for which they play.

Generally, when these contracts are negotiated, they are for multiple years and have a variety of deferred payment obligations payable to the player and to his or her agent. What most investors purchase are the deferred payment portions of the contracts.

One of the risks in buying the payments from these contracts is that a majority of the deferred payment clauses are contingent upon the player's future performance, both on and off the field. In other words, if the player doesn't accomplish the predetermined goals, the money will not be paid.

For example; a contract for a football player might be for three years, with a base salary for each year with a variety of incentive clauses. These clauses vary based upon the position the athlete plays and, of course, his status as a player. Examples of these incentive clauses for a football player are total number of passes caught by a specified date, number of points scored, winning the division title. Professional athletes in other sports have similar incentive clauses specific to their sports.

The Major Key to Saleability

The first contingency in most contracts is that to receive the salary the player has to make the active roster by a certain date, usually just prior to the season opener. This contingency prohibits most investors from purchasing these payments since the payment is not guaranteed to be paid unless the player makes the team. No matter how good the athlete is, there are a number of events out of his or her control which would prevent them from meeting this contingency.

For example, the athlete may be injured in the pre-season on the field competing or off the field in an automobile accident. The athlete might become ill or simply decide for whatever reason that he just doesn't want to play under the terms of his current contract.

If the player doesn't make the team, then all of the other incentive clauses have no value since the player can't accomplish any of them without playing.

There are some contracts without many of the above-mentioned contingency clauses, but these will most likely not be for sale. The reason is that these so- called "guaranteed contracts" will be with high-profile or "franchise" players who can demand it. Of course, these players are also the wealthiest and have very little need or incentive to discount the future value of portions of their contracts.

Not All Contracts Are Sold by Players

What would be more likely is that one of the player's agents might be interested in selling his or her future benefits from the contract. A player's agent normally is compensated by having the right to receive a percentage of the player's future income under the contract. It is important to remember that the agent's future payments are subject to the same contingencies as the player's.

A majority of the contracts cannot be purchased because of the above-mentioned reasons. If you read the contract, you can probably determine if there is a portion of the payments which might be salable.

Ask These 5 Questions

If the player or his agent is reluctant to give you the contract before they have an idea of what you can pay for it, ask the following questions. By asking them, you will be putting your professional foot forward that will allow you to make an informed decision immediately as to whether you can proceed with the transaction.

Here are the key questions to ask the player or his agent:

1. What is the term of the contract?
2. What is the salary portion of the contract?
3. What are the different incentive clauses that are in the contract?
4. What contingencies do you have to satisfy to earn the future payments?
5. You want to ask specifically “do you have to make the team and by what date?” in order to know the income potential from the future payments.

Other Sports-Related Contracts

There are other sports-related guaranteed payment contracts that are not contingent on income or salary and that can be purchased. They shouldn’t be confused with “sports contracts.” Examples of these are settlements due to an injury and class action settlements. The best known of these is White vs. NFL. This is a class action settlement in which the National Football League is the obligor under the settlement agreement where the future payments to the claimants are guaranteed to be paid annually.

These types of contracts can be purchased in a manner similar to any structured settlement transaction. If you are presented with a sports-related contract, analyze it completely to insure you understand what you have. If you categorize it too quickly you may miss an opportunity or take on unacceptable risks.

The stark reality is that most sports contracts cannot be purchased, and this is a very difficult area in which to succeed. But if you do succeed in brokering a sports contract, the rewards can be substantial.


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Tools and Resources: 2024

Bankruptcy Records

pacer.psc.uscourts.gov, ndc.org/home

Commercial Real Estate Tax Reduction

sgettler@costsegregationservices.com

Credit Reporting Agencies, Scores & FICO, etc.

Equifax.com, Experian.com, TransUnion.com

Down Payment Assistance for Rehabbers

emdfunding1@gmail.com

Find House Values & Comps

Redfin.com, Zillow.com, Trulia.com, Realtor.com

Foreclosure Properties and Information

realtytrac.com, foreclosurefreesearch.com, foreclosurelistings.com

Joint Venture Funding, nationwide for wholesalers (notes and properties)

emdfunding1@gmail.com

Guide: Real Estate Negotiations & Beginner's Guide to Real Estate Investing

biggerpockets.com/real-estate-investing

Hard Money Lenders

biggerpockets.com/hardmoneylenders

Mortgage Calculator

moneychimp.com/calculator/mortgage_calculator.htm

Mortgage Note Investing Advice

papersourceonline.com/free-e-course-2/

Tools and Resources (Continued)

People Searches

intelius.com, skipease.com, zabasearch.com

Private Lenders

aaplonline.com

Professional Loan Associations

mbaa.org, namb.org

Property Reports (Chicago Title) Become a member (usually for free) and look up properties all over the US

premier.ctic.com

Public Records Search, Property Finders

courthousedirect.com, searchbug.com, propstream.com, propertyradar.com, batchleads.io, onlinesearches.com

Real Estate Abbreviations, Glossary

abbreviations.yourdictionary.com/articles/real-estate-abbreviations.html

Resources for newbies and old hands in the REI biz

connectedinvestors.com, crepig.ning.com, nationalreia.org, realestatefinance.ning.com, smarterlandlording.com, realestateinyourtwenties.com, investfourmore.com, compstak.com, thebrokerlist.com, apartmentvestors.com, creoutsider.com, parkstreetpartners.com, mobilehomeinvesting.net, adventuresinmobilehomes.com, landhub.com, thelandgeek.com, landthink.com, retipster.com, rentpost.com, rehabfinancial.com, rehabberpro.com, houseflippinghq.com, houseflippingschool.com, 123flip.com, flippingjunkie.com, bawldguy.com, themichaelblank.com, rei360.net, justaskbenwhy.com, joecrumpblog.com, joefairless.com, revestor.com, fortunebuilders.com, myrenatus.com, realestateguysradio.com, astudentoftherealestategame.com, realestateinvesting.org, biggerpockets.com, gowercrowd.com

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