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The Alarming Rise of Note Fraud Schemes in 2023, Exposing $2.3 Billion in Stolen Investments

By W.J. Mencarow

Most investors do not realize how widespread note frauds are and how serious is the problem: At least $2.3 billion was stolen from note investors in 2023 — and that is only what law enforcement has discovered.

I discourage people from investing in note funds, because they require you to give up control of your money. When you invest in a note, take ownership of it. The seller should sign it over to you and have nothing more to do with it. They should not service it, "guarantee" the payments, handle delinquencies or foreclosure, etc. They should just sell it to you and walk away. I don't even recommend that you buy a partial note.

I wish the PAPER SOURCE JOURNAL wasn't the only place in the industry that you can get the following information. We report it because we want you to recognize a scam when you see it. The note world, because it has to do with money, attracts crooks.

In the 36 years Alison and I have been in notes we have seen it grow from a mom-and-pop business where deals were made on a handshake, to...well, if you do a handshake, count your fingers.

In what has been called "one of the darkest financial scandals in a generation," Robert J. Jesenik, CEO of Aequitas Management of Oregon was sentenced to 14 years in prison and ordered to forfeit more than $1.5 million. He and his company stole at least $350 million from hundreds of investors in a note Ponzi scheme and lied in the financial reports to investors.

At its peak, Aequitas employed nearly 200 people. They solicited investors by misrepresenting Aequitas' use of investor money, the financial health and strength of the company, and the risks associated with its investments and investment strategies. They failed to disclose other critical facts about the company, including its near-constant liquidity and cash-flow crises, the use of investor money to repay other investors and to defray operating expenses, and the lack of collateral to secure funds. When the FBI came to his lakeside home, Jesenik jumped onto his submersible watercraft and disappeared under the lake. The FBI waited until he surfaced and arrested him.

Sanjeev Acharya of San Francisco, CA and his company Silicon Sage Builders LLC were charged by the SEC with running a $119.2 million promissory note Ponzi scheme. They promised 23% annual returns to investors.

Earl Roberts and his son Larry Roberts of San Antonio, TX were charged in connection with an alleged factoring Ponzi scheme that defrauded investors over $800,000 through their company FACTAC Inc.

Craig Rumbaugh of Riverside, CA agreed to be barred from the securities industry and to pay $1 million to settle claims that he misled people to invest in promissory notes through his firm, Rumbaugh Financial. Investors lost about $3 million.

Scott Kohn of Portland, OR, who ran Future Income Payments, LLC (formerly known as Pensions, Annuities and Settlements, LLC), was sentenced to 10 years in federal prison. Kohn and his co-conspirators solicited pensioners experiencing financial distress, most of whom were military veterans, by offering an upfront lump-sum payment in exchange for an assignment of the rights to their monthly pensions and disability payments. Even though the assignment transactions were characterized as “sales,” they were, in fact, usurious loans with annual interest rates of as much as 240%. Kohn and his co-conspirators – working through a network of hundreds of financial advisors and insurance agents nationwide – then solicited thousands of seniors to purchase FIP’s “structured cash flows,” which were the pensioners’ monthly pension payments. Kohn and his co-conspirators induced these seniors to invest their retirement savings with FIP by making false assurances of a significant rate of return on their investment, concealing the usurious nature of FIP’s transactions with the pensioners and lying about the financial health of the corporation. Kohn and his co-conspirators caused more than $310 million in losses to more than 2,500 retirees and placed more than 13,000 veterans into exploitative loans. In addition to a prison term, ordered Kohn was ordered to forfeit $297 million.

Atlanta radio and TV personality Chris Burns, who scammed over $5 million from investors through his promissory note firm Matson Money, is a fugitive on the FBI’s Most Wanted list. He sold fraudulent promissory notes to more than 90 investors in Georgia, North Carolina and Florida. The notes, he claimed, were for a "peer to peer" lending program, where businesses in need of capital would borrow money. In return, Burns told investors that businesses would repay the principal, plus interest as high as 20%. He also told clients the investment had little or no risk because the loans were collateralized dollar for dollar by investment securities put up by the businesses. Federal officials say the lending program was a scam.

Lewis Wallach of Marin, CA admitted to a $330 million note Ponzi scheme run through Professional Financial Investors Inc. and its associated fund, Professional Investors Security Fund Inc.

Raymond Erker was convicted of stealing $9.3 million from 54 investors, most of them elderly, in connection with a $9.3 million scam. Investors were told that their funds would be used to buy annuities and secured notes. He was sentenced to 22 years in prison.

Golden Genesis Inc. was ordered to cease and desist by the Missouri Secretary of State. The company sold more than $9 million in unregistered, non-exempt securities in the form of promissory notes through a Las Vegas-based unregistered broker-dealer, Retire Happy LLC. The scheme defrauded more than 240 investors.

Florida attorney Dale Ledbetter pled guilty to conspiracy to commit wire fraud and securities fraud after defrauding over 3,600 investors in 42 states out of over $100 million in a phony payday lending note scheme run by his firm Global Capital. The SEC previously charged Global Capital and its top executives in connection with an alleged $322 million fraud.

Steven M. Sexton and his firm Sexton Advisory Group Inc. of Temecula, CA settled charges brought by the SEC that they were acting as unregistered brokers when raising $4.6 million as part of the Woodbridge Group of Companies note Ponzi scheme. Robert Shapiro, CEO of Woodbridge, was sentenced to 25 years in federal prison in October, 2019 for running a $1.3 *billion* real estate note Ponzi scheme (as reported in the November, 2019 PAPER SOURCE JOURNAL). The scheme defrauded more than 9,000 investors nationwide. Reportedly, Sexton still solicits for investors on social media.

Anthony Wayne March of North Carolina pleaded guilty to charges that he ran a $8.1 million annuity note fraud through Asset Trader. He solicited at least 22 individuals to invest more than $8.1 million in charitable gift annuities and other products offered by his company Asset Trader. Many of the victims of the scheme were in their 80s when they made their investments. March used the funds to pay for a lavish lifestyle, including a jet, a yacht and property in the Bahamas.

Connecticut residents Timothy J. Allcott and Thomas D. Renison were convicted of running a note Ponzi scheme run through ARO Equity LLC. Allcott and Renison raised more than $6 million from investors, promising returns up to 12% per year. Allcott was sentenced to 30 months in prison and ordered to pay over $11 million. Renison received four years in prison and was ordered to pay over $7 million.

Sarasota, FL resident Phillip Roy Wasserman, a former lawyer and licensed insurance agent who called himself the “Annuity King,” was found guilty on multiple counts of wire fraud and mail fraud. His companies were Phillip Roy Financial Consultants and Phillip Roy Financial Services. He defrauded annuity investors out of at least $6.3 million. included Ponzi-style payments from investors which funded his lavish lifestyle,

Pennsylvania attorney Todd H. Lahr was sentenced to 78 months in prison and ordered to pay over $2 million for orchestrating a $2.7 million Ponzi scheme in which he promised note investors a 10% return.

Barry R. Bekkedam of Pennsylvania’s Ballamor Capital Management settled charges by the SEC that he fraudulently solicited $100 million into the lawsuit settlement scheme run by Scott Rothstein. The settlements Rothstein sold did not exist, nor did the supposed plaintiffs and defendants. Rothstein simply used the funds in classic Ponzi scheme to make payments due to other investors and to support his lavish lifestyle. Rothstein’s scheme collapsed in October 2009, and he is currently serving 50 years in federal prison.

Stacey L. Beane of Florida, Justin N. Deckert of Virginia, and Travis Laska of North Carolina were accused by the SEC of helping to hide a Ponzi scheme run through VisonQuest Wealth Management LLC that assisted in a fraudulent offering of $10.1 million in promissory notes.

Brian Davison, Barry M. Rybicki, and EquiAlt LLC of Tampa, FL were sued by the SEC on allegations that they were running a $170 million Ponzi scheme that defrauded about 1,140 investors. They promised investors returns of 8% to 10% from notes on real estate purchased in distressed markets.

Charges against Robert C. Morgan of Florida were dropped when he paid back more than $63 million to note investors. The SEC obtained the order after charging Morgan with fraudulently raising money from more than 200 investors, promising them a return of 11% on real estate notes.

Steven Pagartanis of Long Island, NY was sentenced to over 14 years in prison and ordered to pay $6.5 million in connection with a note Ponzi scheme that spanned 18 years. Pagartanis solicited elderly victims to invest in real estate notes and promised returns of between 4.5% to 8%. Instead, he used the money to pay earlier investors, for his personal expenses and on luxury items.

Christopher Parris of New York was charged with running a Ponzi scheme with Perry Santillo, using their business Lucian Development to defraud investors of at least $115.5 million in non-existent promissory notes.

Landon M. Smith of Utah agreed to pay more than $1.1 million and serve 3 months in prison in connection with a scheme that defrauded over 50 note investors out of $2.5 million.

Susan Margaret Werth of California was sentenced to 5 years and 10 months in prison and ordered to pay $6.3 million in restitution for operating a $6 million Ponzi scheme through Commercial Exchange Solutions Inc. and Exchange Solutions Company Inc. Note investors were promised returns of 15% from purported short-term construction loans.

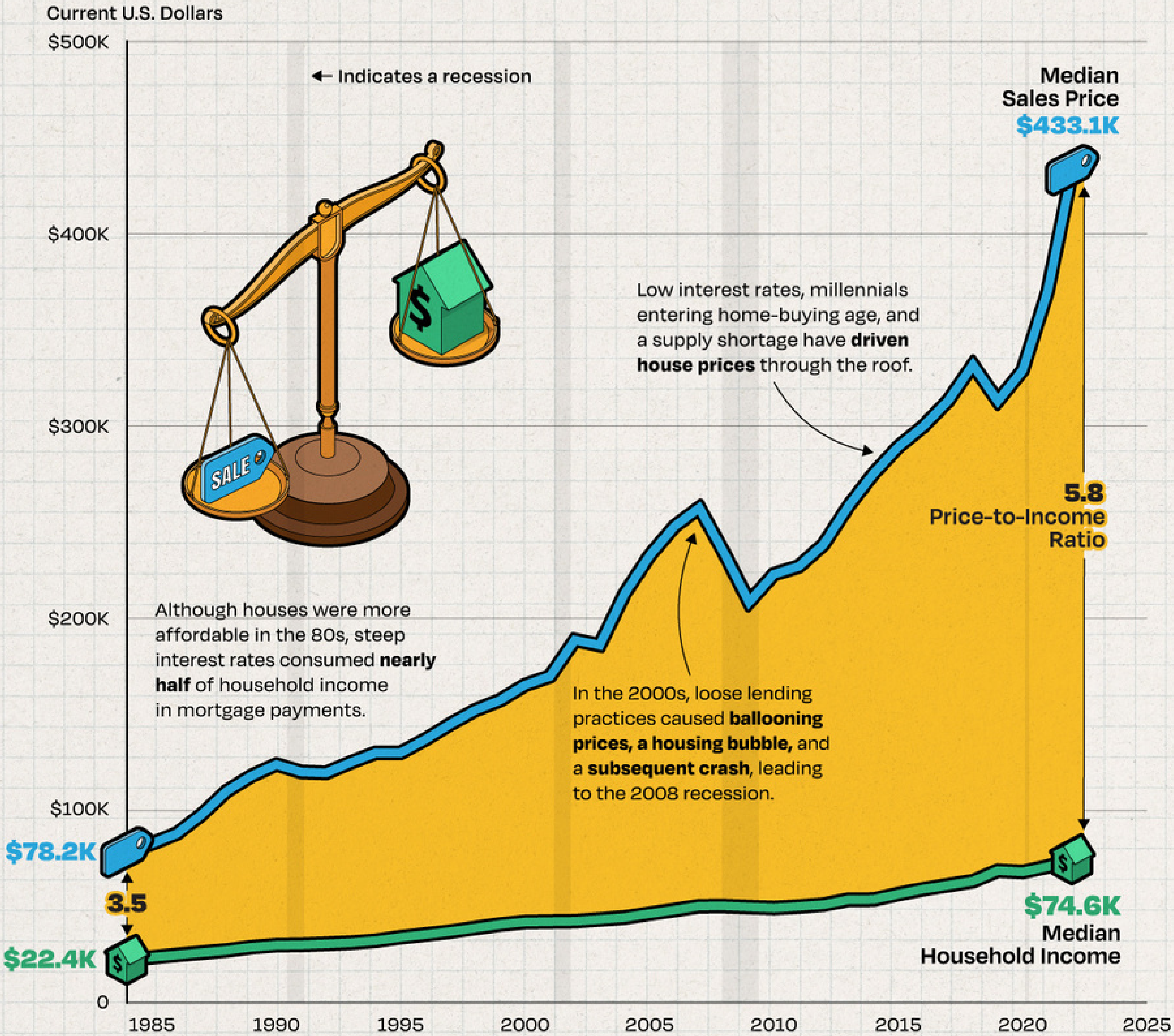
These are just some of the recent note scams. It sometimes takes years for scams to be brought to light.

I am indebted to Kathy Bazoian Phelps, J.D. of theponzibook.blogspot.com which is the source of most of this information. She has written the book *Ponzi-Proof Your Investments: An Investor's Guide to Avoiding Ponzi Schemes and Other Fraudulent Scams*.

The
Increasing Income-Housing Gap
in America

A key pillar of the American dream—owning a home—is increasingly out of reach for Americans as median house prices are now **nearly 6x** the median income in the country.

U.S. House Sales Price to Income Ratio 1984–2022



Source: Federal Reserve Economic Data

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Purchasing Notes
NATIONWIDE

.43 Acres of Vacant Land in Kelso, WA - $86,895 - 720 Credit
Condo in Los Angeles, CA - $438,734 - 693 Credit
Mixed Use Commercial Property in Cocoa, FL - $296,675 - No Credit
Multi Family Home in Asheville, NC - $188,986 - 677 Credit
Second Home in Weidman, MI - $84,169 - 789 Credit
Single Family Home in Palmetto, GA - $65,211 - 598 Credit
Single Family Home in San Antonio, TX - $113,120 - No Credit

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Yield vs. ROI

Money You Don't Lose Spends Just as Well as Money You Earn

By Tom Henderson

Many investors, especially those who come from a real estate perspective, are misled by the difference between yield and return on investment (RIO). Those from a real estate background tend to want to use the RIO method of evaluating discounted notes. These two financial terms can be confusing, because they are very similar, and in some cases the same, but are really quite different.

First, let define some terms:

Return on investment (ROI) is calculated by dividing the profit earned on an investment by the cost of that investment.

Many new to notes will apply this definition to notes, hence they become confused about what yield they are receiving. This can be amply explained in the **10 for 12 Technique** in my *Note Professor Notebook*, where you purchase 10 payments for the right to receive 12 payments.

For example, a note paying $1,000 monthly, and you purchase ten payments for the right to receive twelve payments, would look like this.
N = 12
I/YR= 35.07%
PV = -$10,000
PMT = $1,000
FV = 0

So, your yield is 35.07% according to the financial calculator utilizing monthly compound interest yield. Let's use the ROI formula to determine our outcome. We received $1,000 a month for twelve months x 12 months = $12,000. The cost of our investment was $10,000. So, subtracting $10,000 from $12,000, we received a $2,000 profit. Now we divided our $2,000 profit by our $10,000 cost of investment to get .20 or 20%.

What gives? Why the difference in values? Why did we have a $2,000 "profit" but a 35.07% yield? Because each month the balance, or "cost of investment" decreased.

In the above example, we had $10,000 invested. After the first month payment of $1,000, we had only $9,000 invested. After the second month, we had only $8,000 invested; and so on. In the tenth month, we have ALL our principal, or "cost of investment" back. In essence, the last two months of $1,000 each is "pure" profit because we have already recovered all our principal.

ROI formulas do not apply to compound interest instruments paid monthly, annually, or semiannually. Why? Because the ROI formula does not take into consideration part of the principal is being paid back each month, which means the "costs of investment" are decreased each month. Nor does ROI take in consideration compound interest. There is no ROI formula that accounts for a decrease in "cost of investment," whereas an amortized loan will always have a decrease in the balance or "costs of investment" in the form of monthly payments. This is true no matter if the loan is for one year or thirty years.

Are there situations where the ROI and yield will be the same? Yep. If a loan is amortized annually, with no payments and a balloon at the end, ROI and Yield will be equal.

For example, say you have a $10,000 loan payable at 10%, no payments and a balloon in one year compounded annually. Set your calculator for 1 payment a year. Here is what the loan will look like:

N = 1
I/YR= 10%
PV = -$10,000 PMT = 0
FV = $11,000

ROI and Yield are the same. What happens after 2 years, pray tell.
N = 2
I/YR= 10%
PV = -$10.000 PMT = 0
FV = $12,100

From the ROI formula, after two years, we have a profit of $2,100. If we divide the profit by our “cost of investment” of $10,000, we get .21. Dividing this by the number of years, which is 2, we come up with .105 or 10.5%.

Let’s see what happened to ROI vs Yield if we compound monthly and have a balloon after one year. Set your calculators to 12 payments a year. The loan looks like this:
N = 12
I/YR= 10
PV = -$10,000 PMT = 0
FV = $11,047.13

See the difference in compounding annually vs monthly? I hope you are recognizing a couple of factors.

1. ROI does not apply to compound interest.
2. Different compounding periods will produce different results, yet the yield will remain the same.

Two important points to always remember:

1. Yield is not realized until you are paid.
2. ROI have as similar axiom, “You want not only a return ON your investment, but also a return OF your investment.”

I hope this article helps explain the difference between ROI and yield. I had a hard time with this concept when I started out. It took a while to abandon ROI when dealing in notes and just trust my calculator. If this is not sinking in right now, and you seem confused, remember to TRUST YOUR CALCULATOR.

Did this article clear up any confusion? Along the same lines, there are several other concepts I will be covering in future issues of THE PAPER SOURCE JOURNAL. For example, Nominal Rate vs. Effective Rate of Interest and why the Rule of 72 does not fully apply to real estate notes. Look for them.

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.

Reasons that Note Businesses Stagnate (And How to Rebuild Momentum)

By Jeff Armstrong

YOU are the biggest factor impacting your note business' success.

Things have slowed down. You were generating leads and closing deals not long ago, but something changed. Now, you can't seem to generate as many leads, the leads you do get aren't motivated, and your sales process is churning out fewer deals than ever before.

You're losing momentum. But why? What happened? Is this a permanent thing or is it just a phase? Here are some reasons that note businesses stagnate (and how you can rebuild momentum).

You've Lost Track of Your "Why?" - The truth is, YOU are the biggest factor impacting your note business' success. If you don't feel motivated, if you have a lot of negative self-talk, if you believe that your note business is going nowhere, then you're going to usher in an undesirable reality.

And that's not just self-help mumbo-jumbo. It's logic. Think about it, if you're not motivated and excited about growing your note business, if you don't believe in your note business, are you going to get up early to work on it? Are you going to inspire your associates and vendors to do their best work? Are you going to take necessary risks?

No. Your note business is going to stagnate. So, take the time to find why you're building your note business. Write down, in vivid detail, the dream life you imagine being able to live once your note business is where you want it to be. Review it every day. And be relentless. Let it seep into your subconscious. Otherwise, you're just not going to be motivated to grow your note business.

Your Marketing is Inconsistent - If you go through big highs of lead-generating, deal closing glory and equally small lows, it might be because your marketing is inconsistent.

Do you send out direct mail sporadically or only every couple of months? Do you only run Facebook ads every couple weeks? How often do you post on social media an email your lists? Marketing inconsistently can create times of plenty and times of want. But why fluctuate when you could build a consistent marketing process which would make your business income far more predictable?

I recommend sending the same number of mailers each month and running the same amount of marketing method campaigns every month. Of course, adjust your marketing budget and strategy as necessary, but also keep in mind that inconsistent marketing will generate inconsistent results.

You've Stopped Coming Up with Creative Solutions - If you're like most entrepreneurs, then one of the reasons that you got into the note business in the first place is because you love the thrill of problem solving. You love building and crafting something that takes hard work; you love seeing the fruits of your labor, and you love tackling challenges head on that force you to learn and grow. And yet, some challenges we face aren't all we crack them up to be. When a vendor falls short on their tasks, or a promising deal falls through, or your website stops generating lead for some unknown reason, it's easy to fall back into the "Why me?" "Screw this!" kind of mindset.

But that'll only slow you down. If you want to keep momentum (which you do), then don't let the problem faze you. Stop your negative self-talk and use curiosity to drive you forward. Start asking "How can we solve this?” rather than “What does this mean for our business?”

You’re Operating in a Slow Market - If the work you’re putting into your note business doesn’t seem to equal the results you’re getting, it’s possible that you’re operating in a market that’s crippling your potential. Maybe your market is too competitive, maybe it doesn’t have enough demand, or maybe it’s too small.

Perhaps the best way to find out is by asking other expert note professionals their opinion. Tell them what you’re doing and where you’re doing it and see what they think. Also look at your market’s statistics; does anything stand out?

Fortunately, since it’s the 21st century, you don’t have to operate in a lousy market just because it’s close to home and you have the ability to do the note business nationwide.

You’re Doing Everything Right - I’m not going to lie to you. One of the most common reasons that you lose momentum in your note business is because…well, you’re just going through a season. Everything in life, from business to our family relationships to our exercise routine, goes through seasons.

Sometimes, you’re doing everything right, but your note business is growing very slowly. That’s okay, more than likely, you just need to keep doing what you’re doing and think will pick up in their own time.

Trust the process, don’t overthink the little things, and keep moving forward. Be kind, keep safe and stay healthy. Remember, success demands action, keep on marketing, it’s going to work! TWITA! (That’s What I’m Talkin’ About!)

Jeff Armstrong of Armstrong Capital has been a note investor specializing in the performing seller financed note industry since 1991 as well as a professional appraiser of promissory notes since 1999. Visit Armstrong Capital and subscribe to Jeff’s Weekly Training & Tips Newsletter. Follow @TwitaJeff on IG an FB.

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Divorce Liens

By Lorelei Stevens

For many years, note buyers have known that divorce liens can be a desirable and lucrative asset. But, as time passed, a serious problem emerged that many don't yet know about. The problem is that there is more than one way to buy a divorce lien. One is ideal, the other very risky.

How A Divorce Lien Works

The note investor's ideal divorce lien is created like this: a divorcing couple owns a home; they settle, with one spouse keeping the house and the other getting a note and deed of trust (or mortgage) for their share of the home's value. The "house spouse" pays the departing spouse until the note is paid off. Most divorce liens are written so they're paid off in a single balloon payment at the end of the note's term, but some have monthly payments. In either case, if anything goes wrong, and the note isn't paid properly, the note-holding spouse may foreclose and force payment.

Note buyers can purchase such a divorce lien — with a note and deed of trust (or mortgage) — and have the same power to foreclose as the departing spouse had.

But it's also possible to buy a divorce lien without a note and deed of trust. In that case, the note buyer purchases a court order or court judgment that describes the divorce lien — a court document containing details such as how much is owing to the departing spouse and when it is to be paid.

Words You Don't Want To Hear

Usually, there is no trouble in buying a divorce lien with only a court judgment and no note with deed of trust. Most people are solvent and pay their debts. In the event of a default, the note buyer still has the same legal rights as the departing spouse had, except…a word you don't want to hear; there's that nasty word, "except." It always spells trouble.

The exception is: bankruptcy.

If the "house spouse" decides he or she doesn't want to pay the note buyer, they can declare bankruptcy, and in certain situations, avoid paying off the divorce lien altogether.

How can that be? What kind of bankruptcy tactic could defeat a court-ordered divorce lien?

The primary tool of the bankrupt "house spouse" is known as a homestead. Laws passed in most states allow a householder to designate a house and land as his or her homestead, and exempt it from collection by creditors for general debts in bankruptcy proceedings. In some states, it takes a formal declaration by the householder to establish a homestead exemption, and in others, it is automatic.

Bankruptcy law says that most judicial liens — which is what a court-ordered divorce lien is — can be avoided if it impairs the debtor's homestead exemption. However, the homestead exemption isn't foolproof: in most states, there are limits on how much of the equity in a home can be exempted by a homestead declaration. In Washington State, for example, the exempt amount is $40,000. That means any equity over $40,000 can be collected in case of bankruptcy, but…That's another word you don't want to hear; the nasty word, "but." It always spells trouble, too.

But, even though the departing spouse in this example can collect from any equity over $40,000, he or she has to go through a lot of red tape with the bankruptcy court and stand in line with other creditors.

Departing spouses are, of course, outraged when this happens to them. Many of them have been to court, arguing that a divorce lien should not be avoided by bankruptcy because it is like alimony, maintenance, or support, which are unavoidable.

One case even went to the U.S. Supreme Court. It's called Farrey v. Sanderfoot, 500 U.S. 291 (1991). The high court ruled that the lien could not be avoided because of a technicality that Sanderfoot did not have a pre-existing interest in the home. The decree of divorce gave a new ownership to Sanderfoot and the lien to Farrey was created simultaneously — the divorce lien in this case could not be avoided. The departing spouse, Farrey, could maintain her lien on the home.

Things got better for departing spouses because of "Sanderfoot." Also, section 522 (f)(1)(A)(i) of the U.S. bankruptcy code specifically protects spouses and former spouses so long as the divorce decree specifies the debt being secured by the divorce lien is "in the nature of alimony, maintenance, or support." It is possible to maintain a divorce lien from avoidability (voiding, canceling, annulling the lien) in bankruptcy proceedings, unless…

There's a third word you don't want to hear, the nasty word "unless." It always spells even more trouble.

Unless the divorce lien is assigned to a third party, and then it is likely avoidable. Even though "Sanderfoot" protects the debt between spouses, do not get a false sense of security and believe you, as a third party, would enjoy the same position. Section 522 (f)(1)(A)(ii)(I) of the bankruptcy code itself could override the Sanderfoot case and your divorce lien could be avoided. That means you can't buy a divorce lien with only a court judgment without great risk, because you are a third party.

If you only have a court order or judgment and not a note and deed of trust or mortgage, you can get stung.

Now, words you do want to hear: If you have a note and deed of trust (or mortgage), you can foreclose and get your money in case of default. In most cases, it's not avoidable, even in bankruptcy.

If you own the note and have a deed of trust for the security (the real estate) you're a third party who purchased standard real estate financing documents which allow you, in most cases, to be a secured creditor if the house-spouse files bankruptcy. In other words, you are a note owner and are secured by a valid lien. And you have documents to prove it.

So, eager note buyer, remember what you are: a note buyer, not a court judgment buyer.

Ask the Experts

Referral Fees

If a real estate agent or other 3rd party were to provide an investor a lead for a note and the investor bought it, what fee / incentive would be in line to give to them for their efforts? — David Janiczek

It depends on who they are and how much work they do. It may be unethical for people in some professions to accept a referral fee. But they may accept a gift card to their favorite restaurants, Wal-Mart, etc. For others, anywhere from $100 to 1-3% of the note balance — $100 if they just provide a name and contact info, more if they do due diligence, assembly and send you paperwork, and shepherd the process from start to finish. The larger the note, the lower the percentage.

— Larry Monahans

Buying A Contract For Deed

If you purchase a Contract For Deed (CFD) does that mean you own that property? — Seif Kamali Adil

A contract for deed has different rules depending on the state but unless the listing is an reo you are simply buying payments. That goes for pretty much all note investing a npl is you buying payments that are not being paid, could be CFD or a note.

— Nathaniel A. Jr. Woods

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Not so fast. When you buy a CFD you still have a contractual agreement with the borrower that you will transfer the deed to them if they complete the payments as agreed. If you buy a non-performing CFD and you want to take over the property you will want to work with an attorney to terminate the CFD with the borrower.

— Marishka Pilch

Why Did You Choose Note Investing?

I've been researching real estate-related investment options, including tax benefits, lifestyle requirements, etc. I originally thought I wanted to flip houses, but my research has faithfully led me to note investing. As I continue to research, I'd appreciate your insights on why you choose note investing — including pros and cons. Also, for those who have experience in multiple real estate investment strategies, what is your favorite and why? — Jeanna Rice

Jeanna, the answer is a very long one...you are the only person I have seen that's honestly done research and has set certain "boundaries." Money is hard to earn and easy to lose. I have seen people getting rich owning rentals and doing property management. Me? Never. I have also seen that people go bankrupt doing it too! It all comes down to Warren Buffett's 2 rules: Rule#1: Don't lose money. Rule#2: Don't forget Rule#1. Do your research, set your "redlines," find investors with integrity. And most importantly, at the end of the day, you need to find ways to find (that is, to create) the right deals to make profits AFTER taxes, and do it safely.

— Zaya Gilana

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I like Florida in tax liens. It has many of the same benefits but its own quirks as well. I like that I don't have to deal with tenants. I don't really need to work on the business every day, so it works out well. We work had a few days a year on sales and occasionally on REO foreclosure work.

— Shawn Frederick

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They are all part of one complete strategy. But there is less liability with paper than there is with brick and mortar.

— Jonathan Katz

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I do both rentals and notes. — Jamie Bateman

I made my wealth in real estate. One day, I sold, paid my taxes, and started buying notes. Notes are much more passive. I'm retired and like to travel. I'll buy real estate if prices come down again.

— Mirko Lopez

I studied note investing before I got into wholesaling real estate. But I want note investing to be my retirement vehicle.

— Amindi Wadley

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I think notes are great IRA investments providing you have a great payor. A bad payor can be as much of a pain in the butt as a bad tenant. Sometimes the note payor refinances and you get your money but then you have to find another investment. Single family rentals are great too. I have some in my IRA, but I think there are better tax benefits to SFRs outside of your IRA.

— Alyssa Getzoff

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A bad tenant is much worse than a bad payor. I've had both.

— Mirko Lopez

***

Honestly, it depends on your definition of financial freedom combined with freedom of time. Some people value their freedom of time over how much they make. Someone of that mindset will most likely keep very low to non-existent personal debt so that they can live on a few thousand a month. Others value the freedom to be able to live anyway they want and are willing to absolutely crush themselves to trade the time to be able to do that. Then there are those that fall anywhere along the spectrum.

Another aspect you should consider is how much capital do you have to work with? If you have about $900K and you like the idea of private lending, you could earn 8% easily, make $6k passively and have all the time that you want. This, of course, assumes #1 you have $900K sitting around #2 monthly net expenses are $6k or less. This is one reason why real estate investors choose rentals, because you can own a property for a lot less than a note.

Let's say you have $250K to invest. You could make 1 loan for $250K and earn 6-10%, various factors dependent, or you could take that same $250k and put 30% down on three properties, though now you have to manage tenants, toilets and termites, if you will, so it's not very passive at all.

There is another strategy of leveraging your notes called hypothecation and creating arbitrage (spread) on your notes and that's always very creative; however, just like rentals, it also increases the amount of time dedication from you to perfect that craft. Not sure If I answered anything or opened up more doors, but I wish you the best.

— Edwin D Epperson III

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Creating An Excel Spreadsheet For Notes

I've been working my way through "Invest in Debt" and am trying to set up some auto calculating tables in Excel. Started with FV and quickly ran into issues. I set the table up with the equation from the book and am able to input the numbers from the book and get the correct results from the examples, so it appears to be working correctly. But when I compare that to a standard amortization table template, I find that my payments and FV are DRASTICALLY different. Am I missing something? Should FV NOT equal the total paid over the full term of a loan? I feel like I'm missing something on a fundamental level...like there are two different concepts that I'm conflating.

— Daniel Ramirez

***

FV usually equals 0 as in the note pays off. There are some instances to use it but for a fully amortizing note FV = 0.

— Jason Dodge

***

Forget Excel! Forget any tables! Buy an HP12C and a yellow tablet and go buy a note.

— Steve Eckart

***

Steve Eckart is right if you are only dealing with performing notes and only want yield calculated. If you are working with non-performing notes and want to run XIRR (since most people don’t actually hold a note until maturity) then you need a program like Excel. XIRR is extended internal rate of return. It is a measure of return used when multiple investments (at different points in time) are made in a financial instrument. I find most people only calculate foreclosure cost timelines and forget redemption. Or even people calculate only Fannie Mae foreclosure costs and forget there are court fees / publication fees / auction fees.

— Dave Putz

***

I wish I could find a ready-made Excel spreadsheet to keep track of my notes. What I have created is always lacking.

— Mirko Lopez

***

I recommend that you get “*Real Estate Finance and Investments*” by William Brueggeman and Jeffrey Fisher. There is a reason why this book is $200. But you will learn 10x more than some guru training that is 5x the price.

— Christopher Seveney

***

I also recommend “*Calculator Power! Profits in Discounted Notes*” by Jon Richards.

— Reiskills Brian Gibbons

***

I use an app called E-calc free on my Android and it works just like an HP12C. It is free with a nag screen or pay $3.99 to make the nag screen go away. Also known as “Financial Calculator” from Ara-Soft.

— Robert Coates

Know Who You Are

By Tom Van Erp

Not many succeed in any significant way. You need to know who you are.

When Bill Mencarow asked me to write on "where to invest $100,000 today" it got me to thinking. "Who am I to tell total strangers on what to do with their money? What do I know about the people who read this magazine? I know they're all 'note investors' and such, but what does that mean?"

As an old long-time note and real estate guy, I am asked this question on a fairly regular basis. It strokes one's ego. It's nice to be seen as a so-called expert. Its ego-satisfying to be asked where all this is going, but let me tell you something: no one can tell someone else what to do with his or her money without knowing a whole heck of a lot more about that person. Investing is a very personal thing. It's easy to say "Buy houses. All you have to do is rent them out and hold on. Over the long haul, they'll make you rich." Or "Buy notes at a discount in your IRA and your net worth will take off like nobody's business." Or "Be a hard money lender, and if they don't pay, you simply foreclose."

Give me a break. If it were all that easy, everybody would do it, but if you'll just look around you, not all that many people succeed in any significant way. Why is that? Because you need to know who you are.

During my long (very long, actually) career, I finally learned that I hate rentals, after having owned I don't know how many houses and such. I was never able to keep them and would sell or mortgage out at the first opportunity. When I buy notes, I always want to "improve" or flip them rather than wait for them to "mature." I always think the world is going to hell. Heck, I'm my own worst enemy. I can't hold on to anything. Everything I've ever owned, I've sold or traded.

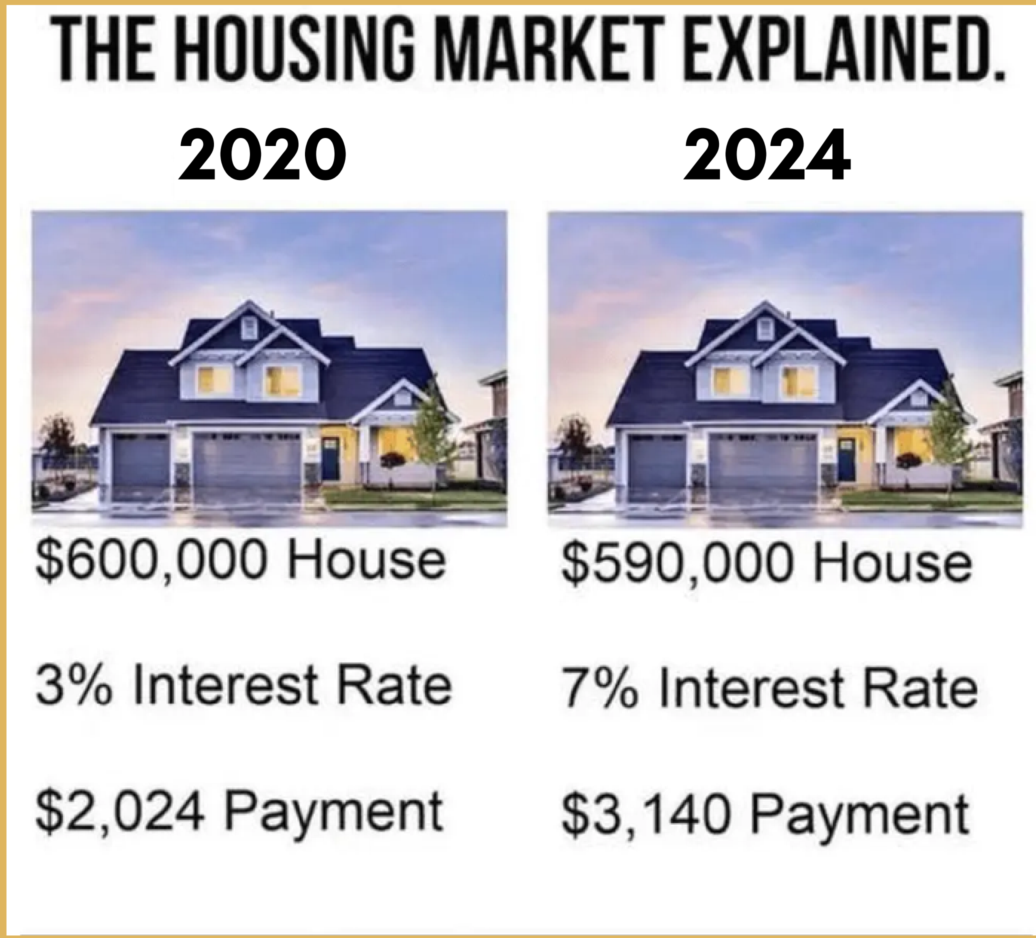
About 25 years ago, when I turned 60, I finally found the solution for me and my deal-junky ways: FIX AND FLIP LENDING. I get constant excitement in that there is a deal every day. It's keeping me in the game, so to speak. The returns without leverage are in the very high teens (and with leverage through the roof) Since I spend a great deal of my time on the road in my RV, I can do it from anywhere, more or less, via the internet. I can do it in my retirement account, and since I'm not all that sure where this economy is going, if I so choose, I can be fully liquid in about six months. Also, my time horizon is rather fuzzy, if you get my drift.

So, if I had $100,000 today, I would find a partner or two who also had that amount, and together we would learn about this business and make a loan.

Flippers are everywhere. Houses are easy to assess. You can get an IRR of around 20% with points and rate and fees. Sure, there's a learning curve, and sure, there are things to watch out for, but it's dealing in something most people have at least a basic understanding about, and the rest you can learn on the fly. What's not to like?

Tom Van Erp is a long-time real estate and note investor from the Denver, CO area who has made over 800 fix and flip loans since 1998. Although Tom tells people he's a retiree while he's on the road with his RV, don't let that fool you. He's still making over $500,000 worth of loans, mostly out of his retirement account, each and every month.


Duplex for sale. $180K cash only.
No showings, no inspections, highest offer wins.


THE HOUSING MARKET EXPLAINED.
2020
2024
$600,000 House
3% Interest Rate
$2,024 Payment
$590,000 House
7% Interest Rate
$3,140 Payment


Real estate cannot be lost or stolen, nor can it be carried away.
Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world.
-Franklin D. Roosevelt
The Paper Source
The Voice of the Note Business

Habits of the
RICH VS. THE POOR

According to a Brown University survey of 50,000 families:

- **94% of the wealthy save at least 20% of their income vs. 0% of the poor.**
- **8% of the wealthy have multiple credit cards vs. 77% of the poor.**
- **6% of the wealthy lease their car vs. 45% of the poor.**
- **75% of the wealthy say they learned success habits from their parents vs. 6% of the poor.**
- **6% of the wealthy play the lottery vs. 77% of the poor.**
- **52% of the poor admit they gamble on sports at least once a week vs. 16% of the wealthy.**

Continued

- 46% of the wealthy floss their teeth every day vs. 16% of the poor.
- 5% of the wealthy are overweight by 30 pounds or more vs. 66% of the poor.
- 7% of the wealthy spend less than 1 hour per day on social media vs. 26% of the poor.
- 10% of the wealthy listen to audio books during their commute vs. 5% of the poor.
- 11% of the wealthy watch 1 hour or less of T.V. per day vs. 23% of the poor.
- 6% of the wealthy watch reality T.V. shows vs. 78% of the poor.
- 7% of the wealthy believe wealth comes from random good luck vs. 79% of the poor.
- 79% of the wealthy believe they, not someone else, are responsible for their financial condition vs. 18% of the poor.

From The Paper Source Blog

Check out these articles published on our blog. Sourced from around the internet, you can find a wealth of information, including the latest real estate news and investor tips. Here's our recommendations for this month. Click the buttons below to view.

How We Bought A Home With A 2.6% Assumable Mortgage

How The 2024 Election Could Impact The Real Estate Market

How You Can Pay a 0% Tax Rate on Capital Gains

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CO: coloradoreia.com, icorockies.com, Denver-REIA.com, irrofcolorado.com
DC: dcreia.com
FL: americanrealestateinvestorschool.com, breia.com, CFRI.net, distressedreia.com, flalandlord.com, JaxREIA.org, investmentpropertiesmiamiflorida.com, REIF-Jacksonville.com, SarasotaREIA.com, swflreia.com, sreia.com, TBREIA.com, tampareia.com, reea.com, WestonREIN.com
GA: atlantareia.com, northmetroreia.com
HI: hirei.org, reialoha.com, westhawaiireia.com
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KS: MAREI.org
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LA: neworleansreia.com, lanorthshorereia.com
MD: baltimorereia.com, karcai.org, mdreia.com, mareia.com, reimw.com, tractionreia.com
MA: bostonAREIA.com, BostonRealEstateInvestorsAssociation.com, MassRealEstate.net, newenglandreia.com
MI: michiganrealestateinvestors.com, REIAofOakland.com, reiawaynecounty.org
MN: mnrealestateclub.com, mree1031.com, MnREIA.com
MO: comohome.net, fasterhousebuyersclub.com, ilreia.com, marei.org, REInvestorGroup.com
MS: jacksonrig.com
NV: reialv.com
NH: nhreia.com
NJ: centraljerseyrei.org, mreia.com, NJReClub.com, poanj.org, sjreia.org, njresn.com
NY: ActionInvestorsNetwork.com, EastCoastREIA.net, ffreia.com, lireia.com
NC: charlotteREIA.com, MetrolinaREIA.org, triadreia.org, treia.com
OH: acreia.org, greatlakesreia.com, GDREIA.com, mahoningvalleyREIA.com, investinstark.com
OK: okcreia.com, tulsareia.com
OR: ORREIA.net, rarebirdinvestors.com
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SC: MidlandsREIA.com, upstatecreia.com
TN: joinknoxreia.com, MemphisInvestorsGroup.com, reintn.org, tnreia.com
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UT: nureia.org, UtahREIA.org, slreia.com, uvreia.com
VA: trigofva.com, TractionREIA.com
WA: northwestreia.com, reapsweb.com, REIAwa.com
WI: appletonreia.com, MadisonREIA.com, wiscoreia.com

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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Tax Records Search

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