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Advanced Seller Data Services: More Notes Are Being Created

Each year Scott Arpan, president of Advanced Seller Data Services (www.notesellerlist.com), does an invaluable service to the note industry by compiling data on the annual creation of seller-held notes in each state (first position or wraps with balances of $30,000 or more). This year he researched 2,236 counties, over 70 percent of the nation.

Scott has just released the 2022 figures (see next page).

Texas leads the nation in note creation—about three times more than even California. Total volume in California dropped by about 30 percent from 2021 to 2022, yet Texas volume dropped only slightly.

I asked him a few key questions about the findings.

Scott, what are some of the key take-aways from the most recent data?

Our counts for 2022 indicate the market is set for a resurgence of notes created. In 2020, notes secured by residential properties were 50 percent of the total of notes created. In 2022, that figure was 63 percent. If we break down the data month-by-month in 2022, we see more notes created in the last half of 2022 over 2021 as interest rates increased. Home sellers are increasingly turning to seller financing as interest rates rise.

You report a slight drop in the number of notes created in 2022 (83,647) vs. 2021 (89,678). How do you account for that?

All real estate markets are cyclical. For the past five years, the note industry was on the downward side of our cycle. As interest rates fell, as they did to historic lows in the Spring of 2022, new note originations also dropped from their peak in 2016.

Every drop in mortgage rates allowed more borrowers to qualify for bank financing. Sellers did not need to choose between extended listing periods or using seller finance to quickly sell their property. Sellers could liquidate their property quickly. In many markets bidding wars gave them more than the asking price.

Our annual data shows the expected drop that came with falling mortgage rates.

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State	2021 Count	2021 Ave Loan	2021 Total Volume	2022 Count	2022 Ave Loan	2022 Total Volume
Alabama	1,147	$ 212,045	$ 243,215,597	1,095	$ 194,637	$ 213,127,320
Alaska	753	$ 249,454	$ 187,839,165	726	$ 246,011	$ 178,604,159
Arizona	4,406	$ 274,046	$ 1,207,447,622	3,628	$ 243,027	$ 881,700,669
Arkansas	422	$ 294,998	$ 124,489,354	410	$ 258,208	$ 105,865,141
California	8,857	$ 476,709	$ 4,222,207,406	6,722	$ 413,672	$ 2,780,701,154
Colorado	1,752	$ 429,197	$ 751,953,902	1,565	$ 405,720	$ 634,951,152
Connecticut	566	$ 341,985	$ 193,563,389	639	$ 316,839	$ 202,459,951
Delaware	162	$ 339,044	$ 54,925,089	162	$ 253,601	$ 41,083,318
Dist of Columbia	35	$ 693,073	$ 24,257,564	22	$ 661,120	$ 14,544,640
Florida	8,447	$ 317,128	$ 2,678,780,577	7,676	$ 296,113	$ 2,272,965,957
Georgia	4,147	$ 245,911	$ 1,019,790,984	3,687	$ 240,957	$ 888,408,314
Hawaii	338	$ 473,393	$ 160,006,873	276	$ 367,387	$ 101,398,806
Idaho	1,953	$ 329,315	$ 643,151,793	1,600	$ 310,456	$ 496,729,524
Illinois	604	$ 407,976	$ 246,417,392	613	$ 301,180	$ 184,623,173
Indiana	621	$ 323,788	$ 201,072,206	622	$ 277,084	$ 172,346,398
Iowa	77	$ 332,629	$ 25,612,415	129	$ 315,092	$ 40,646,919
Kansas	204	$ 253,929	$ 51,801,584	171	$ 281,440	$ 48,126,202
Kentucky	543	$ 228,285	$ 123,958,940	553	$ 214,745	$ 118,754,068
Louisiana	699	$ 252,647	$ 176,600,355	575	$ 282,704	$ 162,554,711
Maine	738	$ 216,431	$ 159,726,165	645	$ 240,659	$ 155,224,806
Maryland	757	$ 332,499	$ 251,701,670	738	$ 302,518	$ 223,257,936
Massachusetts	679	$ 472,588	$ 320,887,463	702	$ 421,648	$ 295,996,830
Michigan	357	$ 306,458	$ 109,405,638	386	$ 248,961	$ 96,098,974
Minnesota	178	$ 410,113	$ 73,000,161	168	$ 350,659	$ 58,910,743
Mississippi	336	$ 218,069	$ 73,271,196	504	$ 178,242	$ 89,834,017
Missouri	1,317	$ 243,196	$ 320,289,227	1,381	$ 209,579	$ 289,428,974
Montana	829	$ 341,753	$ 283,312,998	650	$ 292,010	$ 189,806,817
Nebraska	481	$ 296,684	$ 142,704,843	530	$ 253,225	$ 134,209,347
Nevada	853	$ 351,965	$ 300,225,987	700	$ 333,335	$ 233,334,749
New Hampshire	277	$ 285,878	$ 79,188,084	312	$ 265,820	$ 82,935,844
New Jersey	1,102	$ 450,262	$ 496,189,129	1,129	$ 390,029	$ 440,343,149
New Mexico	565	$ 317,931	$ 179,630,859	193	$ 350,787	$ 67,701,907
New York	2,856	$ 339,193	$ 968,735,122	2,818	$ 301,714	$ 850,231,203
North Carolina	4,479	$ 227,884	$ 1,020,693,779	4,393	$ 204,000	$ 896,171,443
North Dakota	72	$ 357,510	$ 25,740,730	65	$ 295,680	$ 19,219,179
Ohio	1,276	$ 281,881	$ 359,680,491	1,481	$ 229,739	$ 340,243,719
Oklahoma	1,062	$ 229,698	$ 243,939,330	1,137	$ 197,663	$ 224,742,313
Oregon	2,162	$ 370,662	$ 801,371,030	2,054	$ 320,562	$ 658,434,335
Pennsylvania	2,145	$ 294,717	$ 632,168,843	2,099	$ 265,258	$ 556,777,264
Rhode Island	228	$ 373,242	$ 85,099,097	234	$ 342,075	$ 80,045,510
South Carolina	1,814	$ 238,507	$ 432,651,421	1,792	$ 218,252	$ 391,108,277
South Dakota	19	$ 861,112	$ 16,361,120	11	$ 369,176	$ 4,060,939
Tennessee	2,260	$ 250,766	$ 566,730,341	2,019	$ 248,057	$ 500,827,836
Texas	20,752	$ 221,873	$ 4,604,307,835	20,922	$ 197,744	$ 4,137,197,229
Utah	1,437	$ 460,899	$ 662,312,310	1,328	$ 428,366	$ 568,869,435
Virgin Islands	43	$ 332,787	$ 14,309,826	38	$ 236,057	$ 8,970,148
Virginia	823	$ 360,384	$ 296,595,714	738	$ 315,265	$ 232,665,378
Washington	3,174	$ 381,474	$ 1,210,799,351	2,762	$ 361,515	$ 998,504,168
West Virginia	251	$ 171,614	$ 43,075,150	290	$ 152,784	$ 44,307,278
Wisconsin	356	$ 291,414	$ 103,743,481	330	$ 291,312	$ 96,133,025
Wyoming	267	$ 401,741	$ 107,264,726	227	$ 321,547	$ 72,991,164
	89,678	$ 304,670	$ 27,322,205,321	83,647	$ 269,922	$ 22,578,175,514

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	2021		2022		
Month	CountOfMonth	% of Year	CountOfMonth	% of Year	Change over Year
January	8,308	9.3%	6,067	7.3%	(2,241)
February	7,119	7.9%	6,050	7.2%	(1,069)
March	8,454	9.4%	7,802	9.3%	(652)
April	8,351	9.3%	7,301	8.7%	(1,050)
May	7,991	8.9%	7,142	8.5%	(849)
June	8,391	9.4%	7,645	9.1%	(746)
July	7,548	8.4%	6,829	8.2%	(719)
August	6,908	7.7%	7,635	9.1%	727
September	6,677	7.4%	7,048	8.4%	371
October	6,619	7.4%	6,753	8.1%	134
November	6,369	7.1%	6,341	7.6%	(28)
December	6,943	7.7%	7,034	8.4%	91
	89,678		83,647		(6,031)

Advanced Seller Data Services (www.notesellerlist.com) is the premier supplier of leads for seller carryback notes used by the nation's top note investors, note brokers and note finders. The website also offers free educational materials.

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High Yields Buying Part Of The Payments' Pass Throughs

By Tom Henderson

You want a yield of 18 percent. What can you offer them?

In several articles in THE PAPER SOURCE JOURNAL I have discussed how to sell part of the note to achieve astounding yields, while at the same time giving the note seller an immediate lump sum of cash, with a small discount. Can you also achieve your high yield by purchasing part of the payments? You bet your sweet HP 10bII you can. Often, by purchasing a portion of the payments, your offer will fit like hand and glove. Let's look at an example.

Nick and Nora Noteholder are again in need of $20,000 cash (I think they go to Vegas frequently). They have a note with a $75,000 balance at 10% with 240 months remaining. The payments are $723.77 monthly. They have come to depend on these payments and need half of the payments to make ends meet. You want to realize a yield of 18%. What can you offer them?

Try offering to buy half the payment amount for the number of months it would take you to realize your 18% yield. After you identify the variables, simply enter them in your calculator, and solve for N. It will look like this:

N = 118.62
I/Yr = 18
PV = -20,000
PMT = 361.88 (1/2 of the payment)
FV = 0

If we want to increase our yield a tad, we will round N up to 120 months. Lo and behold, everybody's problems are solved. You realize your 18% yield, the Noteholders will receive their $20,000 cash, as well as $361.89 a month for the next 120 months (go ahead, give them the extra penny). At the end of 120 months, they will again start receiving the original payments of $723.77, with a note balance of $54,768.23. At that point, you and the Noteholders can renegotiate if they want to sell any part of the note, or perhaps the entire remainder of the note.

Conclusion: The Noteholders came out very well with this arrangement. First, they received $20,000 cash, PLUS $361.89 for 120 months, which equals $43,426.80. Added to the $20,000 cash, the Noteholders received a total of $63,426.80. But the icing on the cake is after 120 months, the note reverts to them with a balance of $54,768.23. Then they can either keep the payments or sell more of their note.

This technique is especially popular with large notes on land, farms, or ranches, where the note payments are high and the note seller can not only keep the monthly income of $12,000 to $24,000 a year, but also receive large up-front immediate cash.

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Tom Henderson has been buying notes and real estate since the 1980s.

His tell-it-like-it-is approach has made him a much sought-after speaker, author and instructor nationwide. Tom is considered by many as "the best-kept secret in note education."

He is president of H&P Capital Investments, LLC, which buys, sells and trades owner financed notes. Visit his website to sign up for Tom's free Note Professor Real Estate Note Newsletter to stay ahead of the economics of the real estate market and learn time-proven financial techniques to increase your wealth.

Customer Service: The #1 Factor for Success

By Jeff Armstrong

Customers are the lifeblood of any business. In the note industry our customers are note holders. Note holders sell you their note because you have a service that helps them solve a problem. Then why doesn't the note buyer with the best prices have 100% market share? **Because price as an attribute is only one part of a note holder's decision**. The total experience of the service from first contact and communication, to problem-solving options as well as follow up also matter; perhaps more than price alone.

Most note businesses don't understand this very critical dynamic. While many note professionals desire to make improving customer experience a top priority, not every note business has a formal customer experience plan in place.

At Armstrong Capital, we strive for our solutions to evolve alongside our customers (note holders). The note holder's changing needs should drive your business forward (and these days, note holders needs shift quite frequently). How can you ensure your note holders are having positive interactions with your business at every touchpoint?

Customer service is undoubtedly the fastest way to make or break a note business.

Note holders today are proactive. They're willing to do the work necessary to find the perfect service that suits their needs and aligns with their values. Plus, they talk. Loudly.

Happy note holders can help build your note business while unhappy ones can hurt your growth. One 2016 study from *Business Insider Intelligence* suggests that one negative experience can require 12 positive experiences to negate.

This brings me to a lofty, yet necessary, customer service standard that I set for my business and recommend for others. **Business goal: 100% customer retention**.

That's right: Never lose a note holder. It's more costly to acquire a new note holder than retain the ones you already have. This doesn't mean that you should let note holders walk all over you. You have heard that age-old saying, "The customer is always right." I don't like to think of customer relationships in that way. It's a business partnership. Your job is to do everything you can to encourage them to do business with you. When your business is striving for 100% customer retention, you will inevitably see high customer loyalty and an increase in positive referrals and reviews.

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Treat your note holders as individuals, not as numbers. One critical thing we have learned during the Covid era is that customers value human interaction. Find ways to personalize relationships with your note holders, even if it's as simple as greeting a note holder by name or acknowledging their birthday. It is also important to keep a record that tracks your customer/note holder satisfaction. The customer should feel like their relationship with your business is familiar and valued.

Offer a variety of customer touchpoints. A multifaceted communications approach is expected. Do your research to discover where your note holders are and how they want to communicate with your business. Whether it's by phone, email, text, webchat, social media or any other medium, maintaining a high level of communication on each platform is important. Respond quickly and err on the side of over-communication.

However, dialogue with your note holders shouldn't just be available across channels. It should also be present throughout all stages of the note holder journey. From their first interaction with your company to the day they receive funds for their note — and everything in between (and even after) — the note holder should feel that it is easy to reach you anytime and anywhere.

Anticipate your note holder's needs. According to *Harvard Business Review*, an important factor in customer loyalty lies in minimizing the work a customer needs to do in order to solve their problem. This means anticipating their problems and offering quick and easy solutions. Here are a few tips to guide this effort:

- Collect data and use it. Customer needs are always shifting, and data will help you adapt.
- Establish a consistent and productive dialogue with your note holders so that you can adjust business approaches based on relevant trends.
- Never say "No," without also offering a "Yes." Be proactive and find solutions before your note holder has to ask. Manage note holder expectations. Everyone has a different idea as to what good service is.
- Be transparent with your note holders by telling them what you can offer. Then work hard to exceed those expectations.
- Make brand interactions memorable. When considering how your note business approaches customer service, remember that note holders won't simply compare you with other businesses within your industry. The bar for customer service is set by the best — not just the best of your direct competitors. Never forget, you CAN find success with less competitive pricing, coupled with an outstanding customer experience.

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While each note holder interaction likely won't be perfect, it is worth striving for. Find ways to create memorable customer service moments with your note holders as these interactions can be the deciding factor for note holders when deciding between your company and another.

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. For more information on how he can help you with your note business, note investments, note appraisals or to request pricing options on a note, visit Armstrong Capital to email him and subscribe to Jeff's Weekly Training & Tips Newsletter. You can also follow him on Instagram and Facebook @TwitaJeff


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Dissecting A Non-Performing Note Deal

By Dean Engle

I want to share a little story with you about an REO (bank-owned real estate) we bought as part of a pool of mortgage notes, because it highlights a couple of points:

a) notes can be sold for more than REO's

b) you can profit handsomely from the steps a bank goes through when it converts a note to an REO

A few years ago, a bank lent a woman in Fort Wayne, Indiana just under $70,000 as a first mortgage.

Everything went fine until about eight years later. She stopped paying. The bank started foreclosure. Twelve days before the property was scheduled to go to foreclosure sale, the bank ordered a BPO (Broker Price Opinion). The BPO value came in at a whopping — $9,000. That's not a typo. Nine thousand dollars.

The bank filed the BPO and foreclosed on the property. They bid $77,545.17 at sale, which was the total owing to the bank. Naturally, no one bid at the sale, and the property reverted to an REO.

Then the bank took a write-down on the REO to "mark to market"—meaning they took a hit on their balance sheet. In other words, if the bank has a BPO or an appraisal that states a property is worth $9,000, then it should mark the value of that REO to the "market value" of $9,000.

The REO specialist took the outstanding principal balance of the loan, $61,359.70, and marked it down by $52,359.70. The result? The REO was now "worth" $9,000 on the bank's books.

What happened next is the fascinating part. That REO was part of a pool of 44 notes and REOs that the bank was selling. The bank was asking bidders to bid on the principal balance of the loans; they wanted to see bids expressed as a percentage of the outstanding balance of the loans.

We bid 57.5% of the UPB (Unpaid Principal Balance) of the pool, including the Ft. Wayne REO.

Remember—there actually was no loan against the property, since the bank had already foreclosed on it.

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The bank needed to prove to regulators and its stockholders that it got 57.5% of the UPBs of the loans or REOs it was selling.

So let's dissect this for a minute.

If the bank had not written down the loan, or if we had bought the loan before the bank took the property back as REO, it would have wanted to get 57.5% of $61,359—or $35,281. Instead, the bank wanted $5,175 for it, since it had written down the last recorded loan balance from $61,359 to only $9,000—and $5,175 is 57.5% of $9,000.

How did this benefit us? We decided to order another BPO for our own records that might help us to figure out a better range of value for the house. Surprise, surprise. Our BPO came in at $44,000!

What had just happened? We ended up buying an REO for $5,175 that we believed was worth close to $44,000.

And to think that if the bank had only sold the note before it took the property back and wrote the REO down in value, it would have asked us for an extra $30,000!

The lesson is this: It can benefit you greatly to bid as a percentage of the outstanding principal balance of the loan.

Dean Engle was a Fulbright Scholar who is now partner in Park Tree Investments, a private mortgage investment firm specializing in the acquisition, management and disposition of current and defaulted residential mortgages nationwide.

www.parktreeinvestments.com

Private Money, Hard Money

By Dan Harkey

A) "Private money, hard money, and bridge loans" are used interchangeably:

These terms, private money, hard money, and bridge loans refer to alternative lending methods separate and distinct from banks and institutional lending; investors/lenders fund the loans, usually as one or more private parties. Pools of investment capital accumulated by many private parties are also frequently used to finance private money loans. If there is a pooled entity, there will be a sponsor/manager.

Private money lending has advantages when banks decline or the loan transaction is non-bankable until property-related problems are solved, like finishing a partially constructed building or renting income property with an excess vacancy that needs increased occupancy to the point of rent stabilization.

B) Reasons to choose private money loans:

Private money borrowers have unique problems to solve or quick closing requirements that render bank financing unavailable. Once the issues are solved, bank financing or selling the property on the open market becomes an option.

Here is a partial list of situations where private loan transactions will benefit borrowers.

(1) Fast loan approval with possible 2-to-4-day funding for bank declines and fallouts: Maybe the bank has already done significant underwriting, including opening escrow & title, obtaining an independent appraisal, and completing application and financials. Some private lenders can use the banks' information to fund faster, particularly when they have a mortgage pool or immediate capital available to invest.

(2) Debt consolidations for consumers, businesses, or a combination of both: In most cases, the is used for debt consolidation, lowering the borrower's monthly payment obligations. The funded loan should give the borrower some breathing room to improve their credit to obtain a long-term bank loan. Also, if the loan is a second lien, the average interest rate between the first and second is calculated to show a "net-effective rate."

(3) Marginal to poor creditworthiness where a borrower is not bankable, and approval of a loan request are primarily property equity driven.

(4) Special purpose-unique properties -- Churches, synagogues, restaurants, bars, automotive repair shops, body repair shops, gas stations, and other single-purpose or limited properties.

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(5) **Limited document loans** where the requirement is a loan application, credit report, and 3 to 6 months of bank statements. The objective is to prove the ability to pay the outstanding loan payments and other debt obligations.

(6) **Post-COVID fresh start loans**. A borrower may need to catch up and give themselves breathing room for accrued and differed payments. One may refer to this as a "fresh start loan.

(7) **Payoff loans coming due or past due**: Refinance and pay off existing first, second, and third lien position loans that may be due. Sometimes, refinancing the second and providing cash out is the appropriate answer to the loan request. Loans are available for both owner and non-owner-occupied residential and commercial properties.

(8) **Cash-out for any reason refinances** based upon the protective equity of existing real estate. Proceeds may be for business and consumer purposes. The Federal Government and some states, such as California, require a special license to engage in consumer-purpose lending.

(9) **Junior lien or second-position loans** on both owner and non-owner-occupied dwellings for business purposes

(10) **Construction completion, rebuilding, or upgrading properties** in poor or marginal condition: The loan is usually necessary because the collateral property or the borrower needs to meet bank underwriting guidelines in its distressed or partially completed state. Loan approval by the lender will consider the as-is-value and the as-completed-value.

(11) **A borrower may own and operate a cash-based small business with limited financial strength.** A lender will require 3 to 6 months of personal and business bank statements. The borrower is still required to prove that they or they can make the required payments.

(12) **Leveraged existing real estate equity** developed over time to borrow additional funds, purchase other investment properties or invest in a business enterprise.

(13) **Purchase a property with a cash down payment, sweat equity, and seller's agreement to carry back a subordinated junior lien**. The property seller would have the borrower sign a promissory note and a deed of trust with a set interest rate, payment schedule, and due date. The subordinated second is recorded concurrently with the first trust deed but with a recording number after the first.

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(14) Inherited property where family members and successor trustees who are beneficiaries need funds for distribution to the beneficiaries, pay the estate's legal costs, or fix up the property for a future rental. Another option is fixing it and selling it on the open market.

(15) Loan on unimproved raw land. Loaning on raw land can be a complex process. Is the land parcel part of an existing subdivision, referred to as an infill lot, a commercially or industrially zoned parcel within a subdivision, or a larger parcel held for future development? The borrower may need to use the property as collateral to raise funds for future entitlements, including engineering, architecture, various reports, and fees to develop a fully entitled parcel ready to build. The borrower would pay the loan off as part of the construction loan.

(16) Retail strip and community centers, industrial or other properties that require upgrades or repositioning: Many centers are distressed due to the COVID shutdown vacancies, where tenants could not pay rent.

(17) Fix and flips loans for high-frequency purchasers to purchase a distressed property, rehabilitate with the expectation to resell and turn a quick profit. Borrowers need both experience and some of their capital at risk.

(18) Litigation settlements: A loan to buy out a business partner, pay off a pesky family member, an ex-spouse, a judgment lien, or a partition suit.

(19) Pay off civil judgments and liens, including arrearage in property taxes, association dues, and federal and state tax liens.

(20) Sale of existing promissory notes and deeds of trust to 3rd party investors: The sale is usually at a discount, whether the promissory note is performing or non-preforming. A deal will free up cash.

(21) Hypothecation or pledge of a promissory note and deed of trust: A promissory note and deed owned by a borrower will assign the note and deed to a third-party investor as collateral for a new loan.

(22) Cross-collateralization of more than one property: multiple properties are required to meet the equity requirements of the lender. The borrower would sign one promissory note but have recorded liens that encumber two or more properties.

(23) Small mobile homes or trailer parks: properties that don't meet the underwriting standards of institutional lenders.

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(24) Airbnb-type rental income properties: Financials and history are necessary to prove the ability to make payments.

(25) New ground-up construction or construction completion for a partially completed project: Most requests result from borrowers needing to fund additional dollars to complete the project when they deplete their capital or existing construction loan proceeds.

(26) Collateral combines real and personal property, such as a motel, restaurant, carwash, or gas station with mini markets. A recorded trust deed encumbers the real property, and a UUC-1 financing statement will be filed with the Secretary of State to encumber the personal property. Valuation and decision to make the loan must be on the real property only.

(27) A long-term lease on commercial property has or is expected to expire soon. The lease expiration could cause a vacancy and a disruption in rental income. If the master tenant vacates the property, this will disrupt other smaller in-line tenants because the master tenant is responsible for the primary draw of foot traffic to the center. Banks will usually not make this loan. This loan is generally a bridge loan until the owner obtains a long-term lease with a credit-worthy tenant and manages the center back into stabilization.

(28) Credit approval is subject to highly sophisticated lease analyses, with multiple tenants having different terms of leases, including length, lease rate, and lease provisions. Some tenants are on long-term leases, and some are on a month-to-month tenancy. Lease documents may include go-dark requirements for the anchor tenant or provide for lease cancellation in the event of excess vacancy or loss of an anchor tenant.

(29) Some properties require mutual property access easements for ingress/egress or complex usage rights, such as reciprocal parking agreements. Many properties, such as churches and retail shopping centers, sign contracts with multiple property owners to use the entry/exit of the property or the parking in specific ways or at certain times.

(30) Foreign nationals with and without Social Security. The borrower must have a US bank account(s). The borrower must have a process agent service arranged during loan processing.

(31) "Notice of a substandard condition" or "notice of property noncompliance" is recorded on public records by a building department notifying the public that the property is out of conformance or in disrepair for building and zoning codes. The bridge loan funded by private lenders will provide funds to make substantial improvements and modifications to bring the property up the acceptable building, safety, and zoning standards. Institutional lenders will not make these loans.

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(32) **Non-conforming property not complying with current zoning and building standards**. As a result, there are strict limitations on repairing or replacing the structures in destructive acts such as fire, flood, windstorm, vandalism, or earthquake. The property may not be able to be rebuilt to an acceptable level after the destructive event occurs.

(33) Earthquake seismic retrofit. Many older properties require upgrades with engineered reinforced steel frames bolted into the existing structure and walls shored up with steel support fasteners to withstand earthquakes.

(34) Tenant improvements. Owners of commercial buildings need to provide funds to install interior or exterior improvements to satisfy the owner's and the prospective tenants' leasehold improvements.

(35) Cannabis-related properties, manufacturing, and retail facilities. Some states have legalized lending in cannabis-related operations, and others have not.

When borrowers are unsuccessful at closing their loans or a bank declines, they will discover alternative funding sources that provide much greater flexibility in the underwriting, approval, and speed of funding. Interested parties should consult a highly qualified lending specialist to help.

C) Private money credit decisions:

The creditworthiness of potential borrowers is guided by the **"five C's"** as core components of whether to make real estate loans: **character, capacity, capital, collateral**, and **conditions**.

The five C's credit risk analysis identifies each borrower's and collateral property's strengths and weaknesses. The two industries, institutional and private money, weigh each factor differently in making a final decision.

The five C's of the credit risk analysis system are like a sliding scale, meaning one or more of the core components take on greater or lesser importance in the overall credit decision. Private money credit decisions focus on collateral, capital, conditions, and character, capacity to a lesser degree. Banks and institutional lenders concentrate on character, capacity, collateral, and to a lesser degree, capital and conditions.

1) Character: Is the borrower likely to uphold their obligation to meet timely payments per the loan agreement, irrespective of unforeseen future events? A credit report and background search will reflect the borrower's payment history.

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(Continued)

2) Capacity measures the borrower's financial ability to repay the loan. Sometimes a debt-to-income (DTI) ratio applies, which in many cases, may improve by the distribution of net proceeds of a loan to pay off debts.

3) Capital refers to the amount of available money invested in the property to protect the loan in the event of default—the more protective equity in real estate loan transactions, the safer the loans.

4) Collateral refers to the security property to be encumbered. If a borrower defaults on the loan, the lender will look to the protective equity in the collateral from the foreclosed property to recapture the principal and costs upon resale of the asset: the more protective equity, the safer the loan.

5) Conditions refer to the general conditions relating to the loan, such as length of employment, terms, and interest rate, and how the borrower may use the loan proceeds to improve their financial circumstances.

Conditions also include considerations outside the borrower's control, such as government intervention in real estate ownership, recently passed and pending legislative changes, the state of the economy, and industry trends.

As to the fifth C- "Conditions," assume a borrower's request does reflect all positives for four "Cs." Consider that the property is a small commercial building in a neighborhood with 60% vacancy. The declining nature of the area and other neighborhood conditions may prevent making any loans.

Multiple types of lenders are helpful in the dynamic real estate market. There are tradeoffs.

D) Institutional lenders:

An institutional lender is a commercial or savings bank, savings, and loan, trust company, credit union, industrial loan company, insurance company, large pension fund, or large business trust, and any other lender regularly engaged in financing the purpose, construction, or improvement of real estate, or any loans made by such a lender, or any combination of any of the foregoing entities.

Institutional investors invest their funds under management in corporate equities, debt securities, government securities, residential mortgages, commercial real estate, and mortgage-backed securities.

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Institutional lenders are known as financial intermediaries because they create depository pools of funds and depositors' money to lend out and use depositors' money to lend out to borrowers. Institutional lenders follow strict, standardized guidelines. Lending underwriting standards are designed to limit risk.

E) What to expect from bank and institutional lenders:

Banks and institutional lenders have the lowest rates and the best terms in real estate lending. Borrowers will always choose the lowest interest rates and most favorable terms for their circumstances. Bank employees operate under strict guidelines, with little flexibility or latitude to make exceptions. But banks, institutional lenders, and government-sponsored entity lenders (GSEs) with the lowest interest rates and best terms also have a much more rigid underwriting and approval process with limitations and time delays that kill many loan approvals. Institutional lenders also have strict state and federal regulations to comply with.

Borrowers who expect tremendously low rates with banks must be ready for the maze of paperwork and a drawn-out processing and underwriting period that could take 60 to 90 days. In many cases, the frustration will be overwhelming and extend beyond the contract due date allowed to close the transaction.

Usually, borrowers operate under stressful situations and must complete the transaction quickly. Many borrowers find alternative lending better because their financial upside is far more significant than private money cost and interest rates.

F) Loan agents and brokers:

A loan broker acts as an agent of the borrower to make or arrange the loan with the expectation of compensation. The broker must represent their client's (the borrower's) best interests.

A separate and distinct mortgage broker (not a note broker – Editor) represents private-party investors to arrange privately funded loans. The mortgage broker is the "middle person" between the borrower and the investor/lenders, private parties. In some cases, the broker will close the loan with their funds. But usually, the broker will complete the loan transaction with the investment capital of third-party private lenders.

The broker is a fiduciary of the private investor parties and is tasked with protecting the client's best interest. Sometimes, the broker will act as a dual agent for both parties. Of course, this assumes that all mortgage broker parties are professional and understand the "laws of agency."

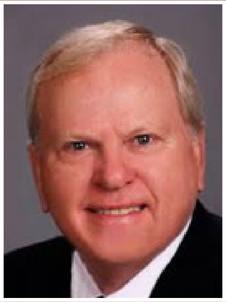
(Continued)

G) Trust deed and mortgage (note) investors:

Investors/lenders or private parties who purchase an interest in notes and deeds of trust are called “beneficiaries.” There is a fiduciary responsibility to protect their interests relating to the full disclosure of all material facts and risks known to the broker. Private-party investors appear as beneficiaries on the debtor’s promissory note, deed of trust, and title insurance policy.

The executed promissory note is the promise to pay, and the security instrument is the executed deed of trust or, in some states, a mortgage or contract for deed. These are contracts between the debtor and private-party lenders referred to as principals, not the broker. After the loan closing, the investors, or the loan servicing agents of the investors, will retain the executed documents for safe storage and as evidence of the investment.

In summation, private money loans are collateral-driven, even though the lender must review financials to prove that the borrower can pay the debts.



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Tax Benefits of Real Estate Investing

By Charles Renwick

Everyone knows that planning for retirement and investing go hand-in-hand. However, as I've written previously, smart planning also considers both the current and long-term tax implications of your investment decisions.

We often talk about 401(k) and Roth IRA tax strategies (and these are great strategies) — however, we must be careful not to overlook the long-term investment prospects and tax benefits associated with real estate investing.

Real estate investing not only offers the potential for appreciation, regular income through rent, and the ability to multiply gains through financial leverage, but of course, it also offers compelling tax benefits!

First, a few caveats about real estate investing

Real estate investing is not necessarily easy, and economic returns are never a sure thing. Also, navigating the intricacies of tax codes and regulations can be intimidating, especially when you're first getting started. However, compared to most other tax strategies, the majority of the tax benefits associated with real estate investing are not overwhelmingly complex.

While I always recommend you seek individual professional advice, I'll outline a few of the basic real estate investing tax benefits here in the hope that you can use them to maximize your returns.

Tax benefits of real estate investing

1. Real estate depreciation

As you may have heard, depreciation is a significant tax benefit for real estate investors. But how does depreciation work exactly?

The IRS acknowledges that properties degrade over time and allows investors to deduct a portion of the cost of the property over its "useful life." For real estate investors, these deductions can really add up.

This might seem obvious, but consider the implications and the benefits.

Primarily, consider the fact that depreciation is a non-cash deduction. This means that you can use the deduction to offset cash income, effectively resulting in tax-free cash income. This is almost as good as it gets in the world of tax benefits.

The deduction becomes even more compelling when you consider that there is no parallel for it in stock market investments. With those investments, you must wait until you sell the investment to take a deduction for the investment cost.

While it is true that maximizing depreciation can be a complex process, the basic concept and the general deduction are not complicated, and you can use this strategy to significantly increase your return on investment.

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2. Real estate capital gains tax treatment

Our current tax code is designed not only to fund our national government but also to incentivize behavior. For example, the government wants to encourage long-term investing and has created a system that allows long-term investors to pay less tax!

For real estate investing, understanding this two pronged approach can pay real dividends, especially when it comes to gains on the sale of your investment.

Again, this is not complicated. The profit from selling a property at a higher price than you paid for it is considered capital gains, and if you hold the property for more than a year, these gains are generally either not taxed or taxed at lower long-term capital gains rates. This tax benefit is known as the "Long-Term Capital Gains Tax Benefit."

Although this benefit is also available for other types of investments (for example, the stock market), this is considerably different than the tax consequences of a 401(k) investment, for example. While all gains on a 401(k) investment are deferred until retirement, the tax rate at retirement is the higher ordinary income tax rate — no matter how long you held those investments.

Best of all, real estate is a natural fit for the long-term capital gains tax benefit, especially if you intend to hold the property and rent it out for a number of years.

3. Business tax deductions for owners of real estate

Owning rental real estate is not only an investment but also a business. This seems obvious, but this concept has real tax-saving implications.

Specifically, because your investment is also a business, you are allowed to deduct ordinary and necessary business expenses associated with your real estatement investment. This means that lots of expenses you might otherwise pay anyway are now tax deductions!

For example, because you need a cell phone to manage your real estate investment, you are entitled to a tax deduction for a portion of the expenses associated with your cell phone — it is an ordinary and necessary business expense.

While there are hundreds of other expenses real estate investors can validly deduct, property taxes and mortgage insurance are the most obvious. These business deductions add up and can result in big tax savings for real estate investors. This is especially compelling because there is no similar concept or deductions available with stock market and 401(k) investing.

(Continued on next page)

Conclusion

The tax advantages of real estate investing are plentiful and can significantly enhance the profitability of your investments, helping you meet your retirement savings goals.

As with all things related to money, investing, and tax, it is critical to keep good records. Quicken is a great way to keep all of your records clean and organized.

This is especially important when it comes to real estate investing because the extra deductions available to those who keep good records are truly compelling.

As always, I recommend professional advise and assistance because tax laws are complex and frequently change. However, many of the overall tax benefits are obvious and easily accessible to all, so do not be afraid to ask questions and take the next step.

Charles Renwick is a Chartered Financial Analyst (CFA) and Certified Public Accountant (CPA). He is the author of the best-selling book, *All the Presidents' Taxes*, and is the founding member of the accounting firm CMR Associates

Remember, every investor's situation is different, so the benefits you enjoy may vary. Nonetheless, understanding the tax benefits associated with real estate investing is an essential first step toward maximizing your investment returns and reaching your retirement goals through real estate investing.

U.S. Real Estate Investor Clubs

AL: Alabamareia.com, aiaclub.com
AK: danniallethomas.com/alaska-real-estate-investment-club.html
AZ: azreia.org, tucsoninvestors.com
CA: BAWB.info, cvreia.com, lasouthreia.com, LAREIC.com, NorCalREIA.com, nsdrei.org, ocreforum.com, prosperitythroughrealestate.com, reiwealthacademy.com, samsreclub.com, sdimpactrein.com, sdcia.com, bayflip.com, sjrei.org, sviclub.com, strivewealthbuilders.com, simplydoit.net, lynda@sdimpactrein.com
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OH: acreia.org, greatlakesreia.com, GDREIA.com, mahoningvalleyREIA.com, investinstark.com
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WI: appletonreia.com, MadisonREIA.com, wiscoreia.com

Tools and Resources: 2023

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

Tax Auction Online Sites

auction.com, bid4assets.com

Tax Records Search

netronline.com/public_records.htm, publicrecords.searchsystems.net

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Camper Sponsor ---------- **$3,150**
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$100 ---------- **Gear Up**
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