The Paper Source

The News Of The Note Business

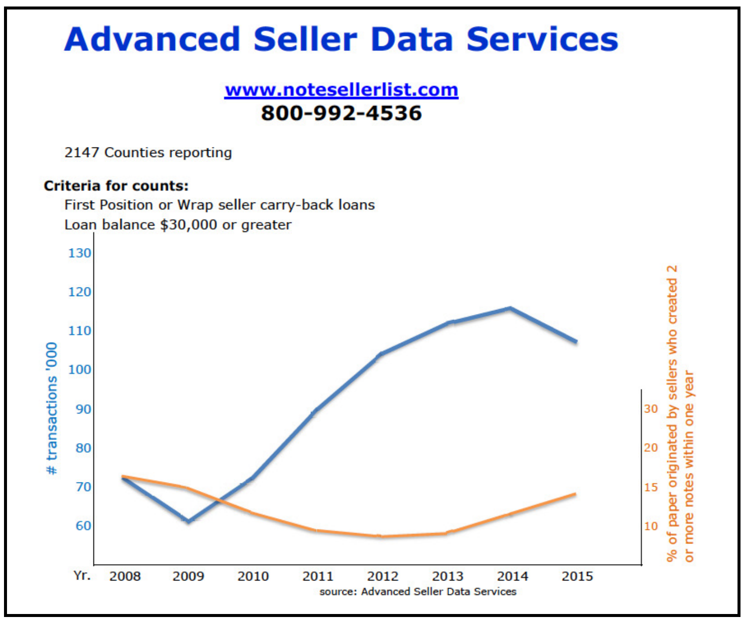
March, 2017 **Our 30th Year**

A federal judge has ruled that the Consumer Financial Protection Bureau has the authority to investigate seller-held mortgages for violations of federal truth-in-lending laws. Read more: **tinyurl.com/cfpb-home-sales-ps**

On March 1 90 day T-Bills surged to an 8½ year high. T-Bills often lead other interest rates.

Our 2017 podcast interviews are at **papersourceonline.com/podcasts/**

Live links for any of the following stories are at **PaperSourceOnline.com/march17links** Go there and you won't have to type them in.



2017 may be your last chance to do a 1031 tax-deferred exchange under current law. Congress may severely curtail or even eliminate them: **tinyurl.com/glpqmub**

The Consumer Financial Protection Bureau (CFPB) — kudos to George Orwell for that — has sued a lawsuit settlement funding company, claiming they are illegally lending money: **tinyurl.com/cfpb-sues-settlement**

Richard Cordray, the head of the CFPB, has pulled a Hillary. Congressional investigators have discovered that he habitually used a secret device to hide his communications with Democrat Party lobbyists and donors: **tinyurl.com/cfpb-pulls-hillary**

Senator Ted Cruz has introduced a bill to abolish the Consumer Financial Protection Bureau: **tinyurl.com/cruz-cfpb**

This is what happens when the government tries to control wages (and prices). It ALWAYS ends up hurting the very people it is supposed to help: **tinyurl.com/hhxbvzp**

What a superb analysis of the impact of Muslim immigration on the West! You must read this: **tinyurl.com/muslim-ps**

The Obama administration secretly funneled billions of dollars to left-wing organizations through a mortgage slush fund scheme. It's a shakedown. It's corrupt, pure and simple: **papersourceonline.com/doj-money**

As Wall Street stops buying rental homes, small investors move in: **papersourceonline.com/as-wall-street-backs-off**

Cheers,

Bill

W. J. Mencarow

The Two Note Partial

by Tom Henderson

Last December a note seller contacted me and wanted me to do a simultaneous closing (where I would buy the note at the same time the property sold).

The property was selling for $150,000 with $50,000 down, and a $100,000 note at 9% for 30 years, with monthly payments of $804.62.

Even with large a down payment, I was not comfortable with simo closing with no pay history. In talking with the note seller, I discovered he really needed only $80,000, and needed it quickly.

Although I rarely do "simo" closings, I did feel warm and fuzzy about offering to purchase a partial, so I offered to purchase a 5 year partial for $33,822, and I explained fully how a partial works.

What was my yield? Did you get 15%? Added to the $50,000 down payment, this would give him the $80,000 he needed. He had no objections, but wanted to "run it by" his attorney.

Not a good sign.

The note seller's attorney objected to almost everything, because he believes that partials are illegal. Moreover, the attorney strongly objected to the note seller's giving up possession of his note.

I learned a long time ago that it does no good to argue with attorneys. The only solution I could think of is what I call The Two Note Partial.

The note seller's attorney objected to almost everything, because he believes that partials are illegal.

In a nutshell, it works like this:

The seller would create two first lien notes secured against one deed of trust. A default on one would be a default on the other. Should the note go into default, the note seller would have the option of buying me out, taking over the payments after foreclosure, or letting the house just go into default and see what happens after the property is sold.

To make it more acceptable to the note seller's attorney, the note seller keeps the second note in his possession. Notice I said second *note*; NOT a second lien, mind you, but **a second note secured against the same deed of trust.** Both are first liens.

All the numbers have to remain the same for the payors. It will not affect them financially.

How do you structure a transaction like this? Here is where it gets a little tricky, so get out your calculator, or, better yet, TValue Amortization Software, for a little calculator practice.

If you don't have TValue — GET IT. The Paper Source can get it for you at a discount if you go to **store.PapersourceOnline.com** and use the coupon code reliantdiscount.

First we create the first note for a five year payout at 9% with payments of $804.62. The note sellers will be making the same amount of payments. What is the PV? Let's look.

N = 60
I/YR= 9%
PV = $38,761.39
PMT = $804.62
FV = 0

I will purchase this for $33,822 to receive a 15% yield. The note seller gets his $50,000 down payment PLUS $33,822 for a total of $83,822. The note seller receives the $80,000 he needed; the payors get the house for the same payment amount and same period of time; and I get a good note with above average yield; happy campers all the way around.

Now let's deal with the second note. If we subtract the PV of the first note of $38,761.39 from the original $100,000 note, we get a difference of $61,238.61. This will be the amount for the second note.

Now for the advanced part and where TValue is invaluable. We structure the loan so the second note of $61,238.61 will have no payments for 60 months, yet interest will be accruing. At the end of 60 months, when the first note is paid off, the payors will start making the same $804.62 on the second note for the next 300 months.

For the payors, nothing changes financially. They will make their $804.62 payments for 60 months to me and $804.62 a month for the remaining 300 months to the note seller. Nothing changes for the payors except to whom they make the payments. What happens in the event of early payoff, or default? This is a Schedule B issue and is the topic of another discussion.

I know some of you are scratching your head and wondering about the balance of the note after 60 months of no payments. Relax. After 60 months of 0 payments on a $61,238.61, the balance will be $95,880. What would be the balance for a 30 year note payable at $804.62 at 9% after 60 months?

N = 300 (Number of Pay Periods After 60 months 0 Payments)
I/YR= 9%
PV = -$95,880 (There Might Be a Few Cents Difference Due to Rounding)
PMT = $804.62
FV = 0

The balance is the same. This technique will solve all issues for everybody involved.

The note seller said he would run this by his attorney. I had a brief chat with the attorney, whom I thought I would give me a lot of trouble. Oddly enough, he was agreeable to the idea after I put his mind at ease and showed him Schedule B. (I will go into Schedule B in more detail at the Paper Source Note Symposium)

ALWAYS, I say again, ALWAYS get all the documentation before working on the calculations and pricing.

We were all in agreement, so I started writing up a contract and preparing a Schedule B. But alas, the deal did not come to pass. The note seller called me the next day and said there had been a typo on the property sales contract — the buyer had intended the contract to say $5,000 down, NOT $50,000 down. The deal fell through.

I am still not sure what happened here because I never saw the contract. That's a mistake I will never make again, I hope.

However, all was not lost. I learned two valuable lessons. First, I got practice in looking creatively for solutions. It always helps to keep the creative juices flowing. Second, I learned a lesson AGAIN the hard way. My mind was distracted on solving the note problem instead of taking things one step at a time. ALWAYS, I say again, ALWAYS get all the documentation before working on the calculations and pricing.

Conclusion: There are always different ways to solve problems if you know the concepts of the time value of money.

Just as important, get all the documents before working on the solutions and pricing. It will save you a lot of time and trouble.

I will be discussing this and other note techniques in detail at the 2017 Paper Source Note Symposium.

See you there!

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.

He is president of H&P Capital Investments, LLC, which buys, sells and trades owner financed notes.

Contact him at **hpNOTES.com** *if you need help with structuring or selling your notes.*

While there, 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.*

Tom Henderson will teach a special 2 hour seminar:
Advanced Techniques For Buying Notes & Real Estate
at the Paper Source Note Symposium. Tom will also be available for complimentary consultations.

MORE On How To

Find Non-Performing Notes

Part II

an Interview With Kurt DeMeire

Continued from last month

Is there a general rule of thumb you use to calculate your offer when buying a note? Do you use a percent of value, or something else?

Everybody has a different goal. Some people are only happy if they can get a property for 50 cents on the dollar, but that will be a rare thing. I can do deals on 75% or 80% of value pretty regularly.

A lot depends on how much you want that property. When I buy a note I ask myself, “what would I be willing to pay for that property?” because, in many cases, when you're buying a non-performing note you end up being the owner of the property.

I've done very well buying thirds, by the way. When you buy a third for pennies on the dollar, you have to know that if you end up owning this property by foreclosing on the third that the senior first and second liens will remain on the property. That's why it's so important

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when you're buying a third that you get the status and the payoff information on the senior liens, knowing that those will remain on the property at the end of the foreclosure.

Suppose you buy a second on a property when there’s say, only a month before it goes to the trustee (foreclosure) sale due to default on the first. Will you have enough time to protect your position?

There are two ways to protect your position.

One is that you can immediately start foreclosure on your second and then bring the first current. That stops the foreclosure on the first lien. Whatever you have paid to bring the first current is now tacked on to your second. You then start the foreclosure process on your second.

Another way to do that is to let the first foreclose. Let them take it all the way to auction, but make sure you're there at that sale to keep the bidding going up high enough to cover the full value on the second you bought it at discount.

I'll give you an example of that. There was a very nice condo in Irvine, California that was worth about $700,000. The first was foreclosing for a little over $400,000. I bought the second just four days before the auction. The second was about to get wiped out. So because the first was so close to sale I decided I didn’t want to start my own foreclosure, which is a four month process.

My strategy was to make sure I was at that auction with a check for $500,000. Remember, I bought the second. It was a $100,000 second that I bought for $40,000. The reason he agreed to sell me the note for $40,000 is because he was going to get wiped out.

I was going to let the first foreclose for $400,000, but I was there at auction day and made sure the bidding went up to $500,000. Why?

Kurt DeMeire will teach *Buying Non-Performing Notes During The Foreclosure Process* at the Paper Source Note Symposium in April. He’ll also be available for complimentary consultations.

Plus, on Thursday morning, April 27, he will guide you through the Clark Co., Nevada (Las Vegas) trustee’s sale/ foreclosure auction and give a briefing before it starts. That is included in your Symposium registration (provide your own transportation).

Because overbid money goes to the holder of the second. All I needed to do was to make sure the bidding went up to at least $500,000. I would then get my overbid check for $100,000 on a note I bought for $40,000.

And if the bidding went above $500,000 (remember, the condo was worth about $700,000) I'd let them have it, and I'd just wait for my overbid check of $100,000 and make a quick $60,000. But the property owner surprised me and paid us both off (the first lienholder and me) one day before it went to auction. So I got a $100,000 check a few days after buying that second for $40,000.

That is how that one ended with the property never making it to sale and me getting a payoff before the auction ever took place.

So if you buy a junior note you can protect yourself by doing your own foreclosure and reinstating the senior loan or letting it go to auction, but just make sure you are there to keep the bidding going high enough to cover the junior note. You want that one to be paid off in full on a note you bought at a discount.

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How does bankruptcy impact purchasing a note?

Here's a very interesting situation: I hold a note on a mobile home park in Arizona that I bought about six months ago. The lender was owed about $2.7 million. and had been held up for over two and half years in a chapter 11 bankruptcy. They got fed up with the whole process. I bought their $2.7 million loan balance (that balance included all the years of delinquency and hundreds of thousands of dollars in legal fees). I bought it for $1.1 million cash, but now I'm owed $2.7 million. The judge just ruled that the property's value is only about a little over $1.6 million.

So it looks like I'm going to end up getting paid the $1.6 million unless I successfully appeal the value that was assigned. I just filed an appeal to that valuation, so at the very least my profit will be over $500,000. If on appeal I get the value raised I will probably get paid whatever the value is of the property that is assigned to the property on appeal.

Remember, the time to buy the note is during the foreclosure process. I have purchased countless notes over the last 30-some years, and that normally is done in the default period, at least in California and Nevada. Many lenders are receptive to being cashed out at a discount. So you then step in as the lender, the holder of that non-performing note. And then you finish the foreclosure.

Kurt's website is
www.CountyRecordsResearch.com
Sign up with the Promo Code ***papersource*** *and get not 5 days free trial, but 30 days!*

The login for THE PAPER SOURCE REGISTRY OF NOTE INVESTORS: notes-2017
Username: registry

90% Of What Sales Produce A Private Note?

by Marc Rouda

Did you know that roughly 90% of small business sales involve owner financing?

Did you know that, based on SBA data, we conservatively estimate that 225,000 new business notes are created every year?

Small business seller-financing is not only alive and kicking, but growing.

Security Financial Services (SFS) is the largest institutional investor of business notes in the country and has been buying them for nearly 25 years. SFS has recently liberalized its underwriting criteria.

SFS is quoting as low as 14% yield-to-maturity (ytm) versus a 16% to 19% yield-to-maturity (ytm) range previously. This increases the net proceeds to the seller and improves the likelihood of an accepted offer. And because the seller's net proceeds are higher, the broker's commission will be higher as well.

For more information on the new underwriting criteria or to submit a business note, visit www.secfin.com or call 800-982-5945. NOTE: SFS buys business notes ONLY. Do not submit real estate notes.

Effective Conversations with Note Holders

by Jeff Armstrong

As a note professional, you probably spend a significant amount of your negotiating and marketing effort on conversations with note holders, then following up with them. With a full list of note holders and consistent follow-up, you're bound to obtain plenty of new transactions, right? Most of the time, that's absolutely correct. However, finding the right note holders and following through by contacting them doesn't always produce the kind of results you'd like to expect.

In order to turn a note HOLDER into a note SELLER, you'll need to get your note holder to agree to some type of sales conversation, which usually happens over the phone. The sales conversation could be an hour or a quick five minutes, as long as you find out the note holder's needs and explain what you have to offer.

There are numerous ways for a note professional to accidentally turn a note holder away from his or her services. When you've made a lot of contact with note holders without obtaining notes, it's safe to assume that something isn't right about the way you're interacting. If your service meets the needs of the note holder, and it's priced within the range of the current market, what else could be preventing your note holder from becoming a note seller? Avoid the common mistakes note professionals make during sales conversations by following these tips:

What could be preventing your note holder from becoming a note seller?

Increase Your Telephone Skills - A lot of people are nervous or unprepared when it comes to speaking on the phone, which doesn't allow them to engage the note holder on the other end of the phone call. In order to prepare yourself, write out your main points ahead of time and practice them. You could even consider a public speaking class, practicing with friends, or recording yourself and listening to the recording afterwards.

Use the Right Words - Improve the content of your offer, ensuring your approach allows note holders to understand what's in it for them. Focus on the benefits and results for the note holder, instead of focusing on descriptive features or the process of your work. Begin messages with "you" or "your" and use these words consistently throughout your offer. Many note professionals speak the "me" or "my" language, subconsciously making the note holder believe it's all about the company, when the note holder would much rather hear what's in it for him/her.

Make Sure Your Note Holder is Qualified - Make sure you're speaking to a note holder who has a true need to sell their note at a discount. Learn more about your target market and identify which segment of your market is most likely to accept your offers. Research your note holders ahead of time as well, even prior to marketing to them.

Target Your Offering Towards the Note Holder - For example, if your note holder is looking for cash for a specific need, discuss that. If your note holder is looking for one time lump sum, discuss that. In addition, if you're aware of a specific pain point for your note holder, discuss the solutions that your company has available for this.

Become Well-Known and Recommended to Note Holders - Chances are, if you're well known and have been recommended to your note holder, they'll have no problem taking time to talk with you. Consider increasing your professional visibility through referral-building, networking and direct contact.

Increase Your Competitive Advantage - If note holders are already talking to someone else, reposition your service in your marketplace. How can you show note holders that your service is higher quality, more unique and effective, or better for their business?

Don't Overload Your Note Holder with Services - When you start discussing all of the services

Sports Contracts

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

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

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

As an example; a contract for a football player might be for three years, with a base salary for each year with a variety of incentive clauses. These clauses vary based upon the position the athlete plays and, of course, his status as a player. Examples of these incentives are things such as total number of passes caught by a specified date, number of points scored, or winning the division title.

The Major Key to Salability

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

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

(Continued on page 8)

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you offer, your note holder won't be able to figure out what you actually do and how it's aligned with their needs. You may offer a wide variety of services, but most of your note holders are looking for a specified service. Narrow your focus and pitch the service that your note holder most likely needs the most.

Engage Your Prospects and Commit to Taking Action

If you follow these tips during your conversations, will you continue to make mistakes once in a while? Absolutely. Will you turn every note holder into a note seller? Absolutely not. After all, you're only human. However, these tips will help you avoid the common mistakes many note professionals make, and eventually lead you to become more successful and productive during conversations.

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 broker and investor specializing in the seller financed note industry since 1991. He can be reached by email at info@armstrongcapital.com. For more updated and current information on how he can help you with your note business, your note investments or to request a quote on a note you currently have visit www.armstrongcapital.com

Jeff Armstrong will teach *Note Marketing For Results* at the Paper Source Note Symposium and be available for complimentary consultations.

Sports Contracts

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

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

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

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

Even if the player is not interested in selling his contract, his agent might sell his interest in the contract.

Ask These Questions

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

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

- What is the term of the contract?
- What is the salary portion of the contract?
- What are the different incentive clauses that are in the contract?
- What contingencies do you have to satisfy to earn the future payments?

You want to ask specifically "do you have to make the team and by what date?" in order to know the income potential from the future payments. By getting the answers to these questions you should be able to assemble enough information so that the investor can give you an answer regarding their willingness to purchase any of the contract payments. If you have any questions or are uncertain, fax the contract to your investor and ask them what, if any, of the payments they can purchase.

The stark reality is that most sports contracts cannot be purchased, but don't hesitate to explore the transaction fully.

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

If you are presented with a sports-related contract, analyze it completely to insure you understand what you have. Otherwise you may miss an opportunity!

Reach Our Over 20,000 Subscribers With Your Ad In Paper Source E-Mailings. You'll Be The Only Outside Advertiser! Just $49.00. Call Alison At 800-542-2270 Or E-mail alison@cashflows.org