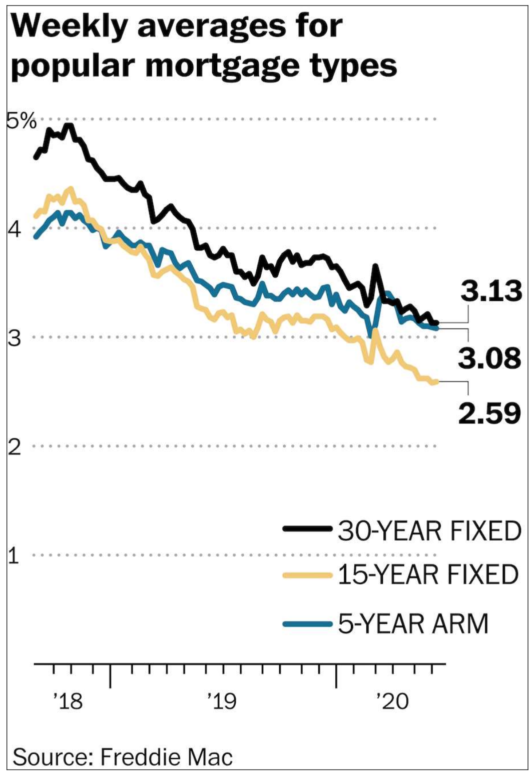
The Paper Source

The News Of The Note Business

July 2020 Our 32nd Year

Mortgage rates reached a new all-time low in June. The benchmark 30-year fixed-rate mortgage dipped to 3.13 percent, a new record according to Bankrate's weekly survey of large lenders. Bankrate says it's a good bet rates will stay at these low levels for months to come.



A number of states still have virus-related moratoriums on evictions. Here's a list: **tinyurl.com/ps-eviction-states**

The virus has caused a spike in rent fraud: **tinyurl.com/ps-rentfraud**. For example, a Virginia woman found a house for rent on Craigslist. Without seeing it (?), she sent a $1,000 deposit with the promise that the keys would be mailed (?!!). You can guess the rest. She found another house, this time toured it, rented it, moved in, and...here's the rest of the story: **tinyurl.com/ps-rentalscam**

"**Zombie** foreclosures"—homes that sit vacant after foreclosure — are down 3.1% from the first quarter of 2020. Due to virus-related moratoriums, the number of properties in the process of foreclosure in the US is down 8.8% compared to the first quarter of 2020: **tinyurl.com/ps-zombie**

Is the dollar about to crash, and with it Americans' standard of living? Stephen Roach thinks it is "virtually inevitable," and he's no schlub. He's a Yale professor and former chief economist at Morgan Stanley. He has a suggestion for hedging against it: **tinyurl.com/ps-roach**

There are many online financial calculators. Here are some of the best I've found: **tinyurl.com/ps-calculator**

Some of the issues of the June, 2020 PAPER SOURCE JOURNAL had a printing problem that made the charts difficult to read. For clear copies go to **tinyurl.com/ps-june-charts**

A great lesson in financial planning: Jim was a single guy working in the family business. When he found out he was going to inherit a fortune when his ill father died, he decided to look for a wife.

One evening at an investment meeting he spotted the most beautiful woman he had ever seen. *"I'm in business with my father,"* he said to her. *"He's terminally ill, and I'll soon inherit $200 million."*

Impressed, the woman asked for his business card.

Two weeks later she became his stepmother.

Women are so much better than men at financial planning!

Cheers,

Bill

W. J. Mencarow

"*The duty of a true patriot is to protect his country from its government.*" -- Thomas Paine

Do you know the lowest-priced gas station in your area? Go to **www.gasbuddy.com** and enter your

The Ten For Twelve Technique

by Tom Henderson

In The Note Professor Notebook*, I teach the Ten for Twelve Technique where you purchase 10 payments for the right to receive the next 12 payments. No matter the amount of the payments, your yield will always be 35.07%.

If you follow my teachings, or especially if you have taken one of my seminars, you know that I emphasize learning and applying the concepts of the time value of money to achieve astronomical yields. I don't want you to merely memorize a technique without really knowing why you are able to obtain such astounding yields.

The concept to learn in this issue is the relationship of PV, I/Yr and PMT when N is a small number. The Ten for Twelve Technique is a perfect example.

Case Study

Last week I received a call from a note holder who needed $10,000 for an emergency. All she had was a note paying $1,000 monthly. (For simplicity, I am using $1,000 as the monthly payment and $10,000 as the amount needed.) She said she had been offered $10,000 for the next 24 payments and was not happy. I knew this was a variation of the Ten for Twelve Technique, except the note buyer would have been receiving 24 payments instead of 12. That yield is 103.53% — great if you can get it.

The first thing I needed to do was to find out why the note seller did not like the offer. "You will

By knowing the concepts of the time value of money, I could tweak the offer she did not like into one she did like.

receive the $10,000 you wanted. What did you not like about the offer?" I asked, as I opened my financial calculator phone app.

"That's over a $14,000 profit for the note buyer. I feel like I am getting ripped off," she replied.

Now I knew her mindset. She was totaling all the payments and subtracting the purchase price to determine the discount.

I needed to clarify what she would accept. My calculator provides instant solutions.

"I can beat that offer and lower your discount a couple of ways. I can double the amount of money you will receive by giving you $20,000 for 24 payments. Or I can offer you the $10,000 for only 12 payments. Which would you prefer?" (Do you have your calculator out? WHY NOT? What is the yield on $20,000 for 24 months?)

There was a long silence. She was not sure what she wanted. It seemed as though I could hear her thinking and feel her indecision. At this point I knew I had to gain control of the conversation.

"What did you like about each of these offers?" I asked.

"In the $10,000 offer, I liked that the discount was only $2,000 and it was only for 12 months. But I also liked the extra $10,000 for the $20,000 offer, but I am hesitant about waiting 24 months to get my note back."

While she was explaining, I was making quick calculations on my phone calculator app.

"What would be wrong if I offered you $15,000 for the right to receive the next 18 payments?" I inquired. I was trying to give the note seller the best of both offers; more money coupled with less payments.

"I like that one. I like that very much!" were her exact words.

Here is what my offer looked like:

N = 18
I/Yr = 23.93%
PV = -$15,000
PMT = $1,000
FV = 0

By knowing the concepts of the time value of money, I was able to tweak the offer the note seller did not like into an offer she did like.

I immediately typed out an agreement and sent it to her.

(Continued on page 3)

How To Deal With A "Jerk" Note Holder

by Jeff Armstrong

Although there are many note holders who are open to talking when you demonstrate empathy and relevancy, there are also some emotionally charged jerks that seem intent on hurting you and making it personal.

The pandemic has changed some things. It's added new stress, challenges, and hurdles to our plates. This might be a news flash, but note holders feel it too.

The Call

I was smack-dab in the middle of a hostile note holder call. It wasn't pretty. It was one of those calls we all dread — where they unload and then hang up on you. They accuse you of interrupting and throw in some saucy obscenities. I kept thinking to myself, "emotional control." The call ended, but of course I was a little rattled.

I chuckled a little to myself and thought "He tore me up." I reminded myself that I have made thousands of calls, and that this happens from time to time. It didn't really help, so I took a walk around the block. But, before I left, I looked at myself in the mirror, smiled and said, "Hey. That was a gift." And again, "That was a gift."

You might not realize it yet and think it was not a gift, just a jerk. You might be confused and wondering, "How in the heck was that a gift?" It's a gift because it makes you better. Do you think that jerk is proud of himself? Probably not. If he does, he's probably not a very good person,

We've all said things when we were stressed or angry. We've taken that stress and anger out on innocent friends, family, or strangers. For those of us that try to be good people, we feel bad about it. At least with friends or family, we have the luxury of apologizing and hoping for their grace.

(Continued on page 4)

Tom Henderson

(Continued from page 2)

But I am not through tweaking this deal. Now I have another decision to make. Would I rather enjoy an amazing 76.45% yield or an amazing 105.48% yield? These are decisions you want to have!

Are you wondering how I arrived at 23.93% in the original offer? You should be.

Conclusion

LEARN CONCEPTS and NOT MERELY TECHNIQUES! By knowing the concepts of the time value of money, and not just merely a technique, I was able to instantly tweak a deal that ended up as a win/ win. Did you notice the relationship of I/Yr, N and PV? Knowledge is power.

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. He writes only for his newsletter and for THE PAPER SOURCE JOURNAL.

*** THE NOTE PROFESSOR NOTEBOOK is available at Tom's website, where you can also sign up for his free newsletter: hpNOTES.com**

The Key Question

by B. H. Tilton

What is a "safe" mortgage/ deed of trust?

Will I always have hair?

Will the Yankees win another pennant?

These questions are often asked among kings and cabbages. But, as any king will tell you, things change. That nubile neighboring kingdom's daughter sometimes turns out to be MacBeth's mother.

Due diligence is a term much used in this business but often turns into nothing but filling in some investor's check list. Old-time note buyers always ask the key question, ***"if this deal goes sour, do I want to own this property at this price?"***

There is a dependence on credit scores that many times does not address the underlying collateral's inherent ability to at least return the investor's original capital. This business is not about 95%-97% funding using a government-sponsored program where your personal funds are never at risk.

The broker mentality (instead of the business owner mentality) just looks for the next deal as an employee looks for the next payday.

A "safe" mortgage/deed of trust is one in which your answer to my question of owning the property is a loud YES.

B. H. Tilton is president of Cross Creek, Inc. which invests in notes secured by property in Alaska. ***Please do not contact them with notes secured by property outside of Alaska.***
Phone: 907-376-2697
Email: cci1@wwdb.org

Jeff Armstrong

(Continued from page 3)

You called someone that could have had a terrible day. And, you just called at the wrong time. There's a lot going on in the world right now, so he took it out on you. So, you have a choice, label him a jerk, or use how you feel as energy to get back on the horse and call him again.

The Call Back

The next morning I courageously called the "jerk" back. As it often turns out, the guy wasn't a bad person. In fact, he really appreciated the call back because he felt terrible for how he had treated me the day before.

I learned that he'd laid off his entire team. Some were his friends, he knew their families, and he was taking it very hard. He really appreciated the call back and flooded the call with his own apologies.

Although he was not in a position to sell us his note yet, he asked if we would follow up with him next month. I sent a follow up email to him and he responded with gratitude. I'm now looking forward to calling him again next month.

The next time you get someone nasty on a call, try cooling off, changing your approach and giving them a call back the next day. Remember that most people are good and that when they treat you with contempt or disrespect, they're likely having a bad day. It's also likely that they feel remorse for treating you this way.

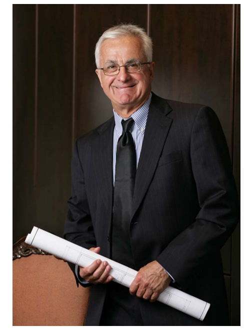
Hope this helps! Be kind, keep safe and stay healthy. Remember success demands action, keep on marketing, it's going to work! TWITA! (That's What I'm Talkin' About!)

Jeff Armstrong of Armstrong Capital has been a note investor and broker specializing in performing notes since 1991.

For help with your note business, your note investments or to request a quote on a note, visit **armstrongcapital.com** *and subscribe to his weekly Note-Able Newsletter.*

Purchasing A Distressed Commercial Mortgage Note

by Alex Nackoul



Part II of II

Continued from last month.

So, I boarded a plane in Orange County, California and flew to Texas.

The first thing I do when I inspect a commercial property is to drive the area. I spent the day getting to know the neighborhood and the city. I stopped for lunch at a Mexican restaurant. I took a mental note that I was able to practice my Spanish because the waitress did not speak English. Later our due diligence revealed that the zip code in which the property was located had a Hispanic majority.

Later that day, I stopped at the subject property and walked around the block. I met a few people on the street who lived and worked in the area. I asked them about the bar/nightclub (the former use of the property). They all reported that it had not been opened in some time.

I phoned my associate at my office in Orange County. I asked her to contact the note seller to arrange for me to meet the note debtor at the property the next day.

When I buy premium commercial mortgage notes, I very seldom, if ever, meet the debtor. In fact, I prefer not to meet them. However, this was a distressed commercial mortgage note. If I could not meet the debtor and see the inside of the property, I was going to walk away from this deal.

If you are just servicing a distressed note you own, you're going to be behind the eight ball quickly.

On my second day in Texas the debtor showed me around the inside of the property. He was distant — as though I was intruding. He did not like that I was going to buy his mortgage. He asked me what I was paying for it. I told him that the terms of the note were not going to be changed and what I was paying for the note was not his concern.

The interior of the building was okay. The bathrooms were clean and the bathroom fixtures and toilets were new and updated. Lighting was good. The walls were painted a dark color but looked to be in good condition. Flooring was bare concrete. There was some unfinished space in the rear of the property; block walls had been constructed and there was litter and trash on the floors. The property was fenced and secured. I confirmed that the roof had only a few years left.

The debtor then asked me if the note seller had informed me that he did not have fire insurance due to the condition of the roof and the use as a nightclub. I answered that I was aware of it. A lot of debtors do not want to see their mortgage sold, but this was different. This debtor, I felt, did not want me, a professional mortgage investor, to be in his business life.

I thanked him for showing me the inside of the building. We left without shaking hands.

He was going to be an issue.

This was truly a distressed note: the property was distressed and the debtor was distressed. However, the purchase price gave me that needed margin of safety.

I bought the note.

Managing The Mortgage

Purchasing a distressed commercial mortgage note is just the beginning. The next phase is managing the asset. Some industry people refer to this as loan servicing. At Brownstone, we think this is incorrect. Words define your behavior, and if you are just servicing a distressed note you own, you're going to be behind the eight ball quickly.

We manage our loan assets. Not only do we have a very sophisticated software system, we have over 40 years of experience; from booking a new loan purchase, to completing the foreclosure, to selling the real estate.

As I expected, the debtor became an issue. He refused to provide us with important information. He refused to obtain fire insurance (which was available). He refused to

(Continued on page 6)

Alex Nackoul

(Continued from page 5)

pay his property taxes. He refused to make his note payments on time. Our staff was professional and persistent. After making a dozen or so monthly payments, he stopped.

In two and a half months, a local Texas attorney had foreclosed on the property for us. I like Texas.

We now owned real property in Texas.

Managing The Real Estate

Once our foreclosure was confirmed by our attorney, I contacted another attorney who handles unlawful detainers. Our former debtor was still in legal possession of the property as a "hold-over tenant at will." (*Editor's note: A hold-over tenant at will, also known as tenancy at sufferance, is anyone who once had occupancy rights to a property, no longer has those rights, but continues to occupy the premises without the property owner's consent. In other words, a squatter*.)

This attorney immediately filed an action in court to recover possession. Then he personally went to the property and determined that the former debtor had legally abandoned the property. He sent me written confirmation that I was now legally in possession of the property under Texas law. All this only took two days. Again, I like Texas.

I phoned a local commercial real estate agent. He was knowledgeable and service-oriented. He immediately inspected the property and discovered that damage had been done to the building. I had already figured in a new roof, new electrical panel and HVAC units. However, vandals had ripped out the plumbing and lighting fixtures to get the copper wiring. The margin of safety that I had in the note purchase price more than accommodated this added expense.

This property cleaned up quickly. Once broom-clean and secured, the agent listed the property for sale or lease and hung a large sign on the building. He offered it for sale at zero down payment. I would finance half of the remodeling expense if a buyer would pay for the other half. I offered a no-qualifying commercial mortgage at a reasonable interest rate for 10 years. Alternatively, I offered the building for lease at a price, terms and improvements to be negotiated.

Then my agent waited for the phone to ring.

And waited.

And waited.

I then got a phone number in the town where the property was located. I asked the Texas agent to add this number and "Se habla Espanol" to all the advertising. Since my agent did not speak Spanish, I gave the Texas phone to one of my Latina associates at Brownstone.

Within days, we had three or four inquiries from the local Texas number. A few days later, our Realtor in Texas had a signed contract to sell the property.

The buyer was an Hispanic man from the neighborhood who was versed in the building trades. After four months of remodeling, we closed escrow. The building has been completely remodeled with a new roof, new HVAC system and new electrical panel. The stolen plumbing, wiring and fixtures have been replaced. The building has been painted inside and out. The parking lot has been resurfaced. All the work was city permitted and built to city code. Before the close of escrow, the city issued an occupancy permit to the buyer.

Now I no longer have a distressed commercial mortgage note with a distressed borrower secured by a distressed parcel of real estate. On the contrary, I have a credit-worthy borrower with a remodeled commercial building with a long economic life and equity earned and paid for. Further, our loan documents were professionally prepared, calling for a property tax impound account and a monthly bank ACH debit payment.

Conclusion

One exit option I will not consider is to sell the property for ALL CASH. As a mortgage investor, I want to stay in the loop of the investment. I now know the real property and its local real estate market. I want my money out there working.

Now I own another investment-grade commercial mortgage note.

Investment accomplished.

Alex Nackoul is managing director and CEO of Brownstone Mortgage Capital Corporation. (BrownstoneLoans.com). He is a university graduate and veteran of over 40 years in the real estate and mortgage market. His field experience, his own "continuing education" in reading and writing, along with his questioning of independent thinking, have led him to become one of the leaders in the field of mortgage investment.

Are You BI?

by W. J. Mencarow

"Information technology and business are becoming inextricably interwoven. I don't think anybody can talk meaningfully about one without talking about the other." -- Bill Gates

If you are a certain age, the primitive BI (Before Internet) period of history is almost impossible to imagine. In the 1990's we entered the AI (After Internet) period and everything changed, including real estate note investing. Here is some of how technology has changed it, mostly for the good, and sometimes, well, not so much.

Learning About Notes BI

In the 1970s -1980s there were a handful of people teaching note and real estate investing seminars, most of whom knew and recommended the others. They bought notes personally and taught a few seminars a year, charging a couple hundred dollars to tell their students pretty much all they knew. They did it because they had a passion to teach and wanted to pay it forward. You may have been fortunate enough, as I have been, to learn from some of them, such as Mike Meeker, Jack Miller, Jimmy Napier, Pete Fortunato, John Schaub and a few others. Pete (PeterFortunato.com) and John (JohnSchaub.com) still teach, so learn from them while you can.

Learning About Notes AI

"Our technological powers increase, but the side effects and potential hazards also escalate." -- Alvin Toffler

Combining servicing and guarantees may cross the legal "bright line" making the note a security.

There are still a few people, such as Pete and John, who don't rip off their students. They give them far more than anyone expects. However, there are others who have no expertise yet sell note and real estate courses and "funds." Some have been shut down by the SEC, fined and a few were imprisoned. There are others whom I expect will experience a similar fate any day now. Therefore, I urge you to:

*** Never give money to anyone who promises, suggests or intimates that you will get rich with their advice.**

*** Never give money to anyone who says they will teach you notes or real estate and who also has notes or real estate they try to sell you** (replace "notes or real estate" with anything else). That is an obvious conflict of interest. No ethical person will claim to teach you how to buy something at the best price – and then try to sell it to you.

*** Always take title to notes** and have possession of the original, signed documents.

*** Do not buy notes from a person or company that offers guarantees,** such as in case of default they will handle collection and foreclosure. At least one court has ruled that such a guarantee deprives the note owner from his legal equitable interest in the property.

*** Do not buy notes from a person or company that services the notes they sell.** Your are trusting strangers to send you money. Either service your own notes or engage a servicing company that has no connection to the note seller. You can meet servicing companies at the Paper Source Note Symposium and find them in our Note Industry Registry.

A seller that combines servicing and guarantees may cross the legal "bright line" making the note a security.

Finding Notes BI

Place ads in newspapers. Spend hours in courthouse basements looking for note holders. Then spend a lot of money sending direct mail to them and hoping for a one percent response. If you mail to thousands of people you may buy one note.

Direct mail still works, but you have to know what you are doing. Learn from Jeff Armstrong at ArmstrongCapital.com.

Finding Notes AI

Go to websites like Bid4Assets.com and others that simply list notes and don't try to sell you anything else, such as "training" or "secret lists." Network with people who come across notes regularly such as title company officials, estate lawyers, etc.

(Continued on page 8)

Are You Bi?

(Continued from page 7)

How NOT To Find Notes

"Technology is a strange thing. It brings you great gifts with one hand, and it stabs you in the back with the other." -- Carrie Snow

Some websites allow people who do not own notes list them anyway. These people have found them on other websites posted by people who also do not own the notes but have found them on still other websites, etc., etc. You will waste your time chasing these.

Other fraudulent websites convince people to spend tens of thousands of dollars on note education where part of the pitch is that you will get access to "secret" lists of notes for sale. In the legitimate note business these are known as phantom listings. These lists have been picked over by professional investment firms, then by the seminar promoters, and their students get the dregs at the bottom of the barrel — notes that no knowledgeable investor would buy. I know someone who spent over $25,000 for "note training" which included access to a "secret list" of notes. He found a note on a property in his town, and when he did his due diligence he discovered that the note had been paid off years ago!

Due Diligence BI

1. Call the note holder and ask your prepared questions.

2. Visit the courthouse, read all the documents thoroughly, know the state laws where the note was originated and make sure the documents comply (or hire a local real estate attorney).

I know someone who spent thousands for "training" and a "secret list" of notes. He found one on a property in his town and discovered that the note had been paid off years ago!

Due Diligence AI

Nothing has changed in number one. Personal contact with the owner, asking the key questions, establishing trust, will always be the most effective way to buy a note, real estate or anything else.

Number two is a different story. Most (not all) courthouses are online, so you don't have to spend hours in a dank basement. But you still must know the state laws where the property is located or hire a local real estate attorney.

Revival Brothers offers automated due diligence: RevivalBros.com.

Calculating Offers BC (Before Calculators)

How did people figure offers before calculators? They used this simple formula: $P=C*((1-(1/(1+i)^{n}))/i)+M/((1+i)^{n})$

Of course, if you found even that simple formula too difficult, you could use this even simpler one: $ApproxYTM=(C+((F-P)/n))/(F+P)/2$

These are real formulas, but I am kidding about the simplicity — I have no idea what they mean. Most people consulted a book of amortization tables.

Calculating Offers BI

Plug in the numbers and your desired yield into a pocket calculator.

Calculating Offers AI

Do the same or use a program on your computer or phone such as TValue (timevalue.com).

Closing BI

Spend a couple of hours at the title company or overnight documents.

Closing AI

Sign documents over the internet in minutes with programs such as Docusign.

Servicing Notes BI

On a notepad, figure out who paid and who didn't, record on-time and late payments, calculate what part of each payment goes to principal and which part goes to interest, calculate late fees, type late notices if necessary, print, address, stamp and mail them, manually keep track of responses, recalculate amounts due and send additional notices, etc.

Servicing Notes AI

Use a program like NoteSmith.com or hire a servicing company and track your notes with their internet portals.

"The only thing that I'd rather own than Windows is English, because then I could charge you $249.00 for the right to speak it." -- Scott McNealy

A version of this article originally appeared in Think Realty magazine.

Creating Notes With Seller Financing

by Tracy Z Rewey

Part I

You've probably heard the call to "Be the Bank" or use "OPM" (other people's money) for investing. Selling or buying property with owner financing is one method of using creative financing techniques.

Over the years it's been done well, tragically wrong, and somewhere in between. In this series we will cover:

Market Size of Seller-Carry Creative Financing
Why Use Seller Financing?
A Seller Financing Example
Building Your Owner Finance (OF) Team
Using MLOs For Dodd-Frank Compliance
Optimizing Mortgage Note Terms for Resale
10 Steps to Creating Notes

What Is The Market Size Of Seller-Carry Creative Financing?

In the past five years, over $113 billion in owner financed notes have been originated with creative financing. This includes residential, commercial property, and land where the owner of the property took back a 1st position loan greater than $30,000. That number goes up when second liens are included.

This form of private financing is used all across the nation with Texas, Florida, California, Arizona, and North Carolina being the top users in 2019. A decade of tracking these seller financing stats shows the need for private mortgages goes up when traditional bank financing is harder to obtain and then level out in a balanced market.

Think seller financing is all about ugly houses, low price-band homes, and zero down payments? It might surprise you to know the average balance comes in at $196,926 on residential properties and the average loan to value (LTV) was 80%.

Why Use Seller Financing?

After three decades of working with private financing, the reason sellers offer financing usually fits into one of these buckets:

- The Buyer Has Issues
- The Property Has Issues
- It's A Well-Planned Investment Strategy

Why Buyers Seller Finance

It is easy to see the advantages for buyers purchasing with creative seller financing. They get to deal with the seller and avoid working with a bank. That means:

- No costly loan fees
- No private mortgage insurance premiums, and
- Less restrictive underwriting in the areas of:

1. Down payment
2. Credit scores
3. Proof of income
4. Self-employed income

Overall, seller financing is easier, faster, and less restrictive than traditional bank loans. While they might pay more in interest they usually save on upfront costs. Once a buyer establishes a good payment history and improves their credit scores, they can often refinance at a lower rate.

Why Sellers Offer "Owner Will Finance"

The average seller of property wants full asking price, a cash buyer, and no costs. So why would they consider owner financing, especially when notes are typically sold at a discount?

There can be advantages for the seller to consider offering a property for sale with financing when there are property challenges:

- Property type is difficult to finance through traditional third-party lenders
- Property has been on the market for 90 or more days
- "As-is" closing is desired on a property in need of repairs
- Ownership has not met minimum holding time or title seasoning requirements of traditional lenders
- Immediate closing required in the event of foreclosure or other financial burden
- Quick closing is preferred by seller to free up investment capital

(Continued on page 10)

Tracy Z Rewey

(Continued from page 9)

Other sellers look at owner financing as part of their real estate investment strategy to:

- Convert rental income to interest income
- Maximize selling price
- Increase prospective buyer pool
- Utilize the installment sale tax advantages for deferral of capital gains under IRS Section 453 covered in Publication 537
- Leverage property when buying or selling (including wrap notes subject to underlying financing)
- Generate long-term interest income

The last one is a personal favorite. If you have a $100,000 mortgage at 9.5% interest amortized over 30 years, the monthly payment would be $840.85. If the buyers took the full 30 years to pay back the loan, they will have paid $302,706 over time. That's an additional $202,706 due to interest! After all, why should the banks get all the benefits of interest income backed by real estate?

A Seller Financing Example

A seller financing transaction typically involves a deed from the seller to to the buyer and then the buyer signs a promissory note and mortgage back to the seller (instead of a bank).

In some states a deed of trust, trust deed, or security deed ise used instead of a mortgage. In other states a land contract or contract for deed is used. Other standard closing documents and disclosures would also apply.

Here's a look at a seller financing example using a first and a second lien:

Sale Price: $100,000
Down Payment: $10,000
Seller Financed 1st: $80,000
Rate/Term/Payment: 9.75% for 240 months @ $758.81/month
Seller Financed 2nd: $10,000
Rate/Term/Payment: 9.75% for 120 months @ $130.77
Total Payment Principal/Interest (1st & 2nd): $889.58 (plus 1/12 taxes & insurance)

Building Your Owner Finance Team

If you plan to owner finance, you want to start by identifying important members that can be part of your OF team:

- **Real Estate Attorney/Escrow Closing Agent** – Legal counsel can prepare documents and handle the closing.
- **Title Company** – Don't overlook title reports and insurance when using owner financing
- **Real Estate Agent** – Property can be handled for sale by owner (FSBO) or with a real estate agent. The majority seller finance deals we see still involve a realtor.
- **Accountant/CPA** – Tax pros will help calculate the tax implication and tax deferral under installment sale method.
- **Mortgage Loan Originator (MLO)** – When selling to an owner-occupied buyer an MLO can help qualify the buyer and be sure they can afford the payments.
- **Servicing Agent** – Use a third party to collect payments, keep track of taxes and fire/hazard insurance, make collection calls, and handle the annual interest statements.
- **Self-Directed Retirement Plan Custodian (a.k.a. SD IRA)** – Real estate and real estate notes can be bought and sold out of a retirement account providing profits tax-deferred or even tax-free.

When working with seller financed transactions, remember, these are licensed services, so work with qualified professionals:

(Continued on page 11)

- Legal Advice
- Financial Advice
- Investment Advice
- Loan Origination Services
- Real Estate Broker
- Securities for Sale

To be continued.

Confidently Create Real Estate Notes!

Would you like to be a seller financing pro? Wondering how to best structure a note for resale? Want to confidently create, evaluate and own real estate notes?

We've put our 30+ years of experience into the **Creating Notes Master Class.** It provides in-depth coverage of all 10 steps along with advanced strategies for using wraps, partials, and note buyers for resale. Our goal is to help you to create notes safely, ethically, and profitably.
Let us be your guide!

SPECIAL MASTER CLASS RELEASE SAVINGS! During this launch celebration you can save 25%! Just use the coupon code 'CREATE' and you will immediately save 25% – just our way of saying thanks for the support! Go to: **tinyurl.com/note-masterclass**

Tracy Z Rewey has been buying and selling real estate notes since 1988. She is the author of How To Calculate Cash Flows *and the* Creating Notes Master Class. *Her passion is helping you confidently create notes with owner financing.*

Contact her at Diversified Investment Services Inc.
email: Tracy@NoteInvestor.com