The Paper Source

The News Of The Note Business

August 2020 Our 33rd Year

Joe Biden wants to eliminate 1031 "like kind" real estate exchanges for many investors and prevent investors from using real-estate losses to lower their income tax bills.: **tinyurl.com/biden1031** and **tinyurl.com/biden1031-2**

Commercial Mortgage Delinquencies
Top 15 Metro Areas

Delinquency rates on some commercial properties (retail, hotels, restaurants and local businesses) have shot up faster than at any other time since records have been kept. There has been no change in industrial, multifamily and office delinquency rates. tinyurl.com/ps-cmrcl

After rising from 3.2% in January to 7.8% in May, the national residential mortgage delinquency rate improved for the first time in five months, falling to 7.6% in June as the overall number of past-due mortgages declined by 98,000. However, those 90 or more days past due rose by more than 1.2 million. At 1.87 million, the number of seriously delinquent mortgages is now at its highest level since early 2011. **tinyurl.com/ps-mort-delinquencies-improve**

The Federal Housing Finance Agency will extend its ban on foreclosures and evictions until at least Aug. 31. This affects mortgages owned by Fannie Mae, Freddie Mac, and the 11 Federal Home Loan Banks. FHA mortgages will also be under a foreclosure ban through August. **tinyurl.com/ps-ban-on-foreclosures**

Delinquency rates on some commercial properties have shot up faster than at any other time since records have been kept. No change in industrial, multifamily and office buildings. **tinyurl.com/ps-cmrcl**

About 110 million people in the US rent their housing, and the Aspen Institute says that one in every five tenants could potentially face eviction. If unemployment remains high, up to 23 million renters could be evicted by Sept. 30. **tinyurl.com/ps-evictions**

Real estate pros in the commercial and residential sectors largely believe the industry has already hit bottom and is now on the mend with expectations of growth over the next several quarters, according to a June survey of hundreds of top-level real estate executives nationwide. **tinyurl.com/ps-rebottom**

We have had to change the venue for The Paper Source Note Symposium from Las Vegas to your house (that is, online). The virus restrictions on meetings (50 people maximum) simply made the in-person event impossible. So it will be online Oct. 1-3. Included in your registration is non-expiring access to the speakers' videos, their PowerPoint slides and MP3 audios. Details and registration at **PaperSourceSeminars.com** or call Alison at 800-542-2270.

Cheers,

Bill

W. J. Mencarow

"Government exists to protect us from each other. Where government has gone beyond its limits is in deciding to protect us from ourselves."
— Ronald Reagan

How To Obtain Two Houses For The Price Of One

by Tom Henderson

Purchasing seller financed notes to increase your wealth prior to purchasing properties is another forgotten art.

Here is a dandy little technique where "back in the old days" I purchased two houses for the price of one.

I wanted to purchase a single-family residence (SFR) for $80,000 cash, where the seller was asking $110,000. There was an underlying seller financed note for $75,000 with 240 months remaining at 5 percent interest, and payments of $494.97. The seller was adamant about receiving a net of $25,000 after the underlying was paid off, which meant a selling price of $100,000.

Is there any way I can give the seller what he wanted, while at the same time obtain the SFR for only $80,000 cash? We shall see.

First, I went to the underlying note holders to inquire if they would sell their note to receive a lump sum of cash. At the time, the going yield for purchasing notes was 12%.

The note holders told me that they had received several offers in the $45,000 range. If you are following on your calculator, you know that this was the market price for that note. Although they would like a lump sum of cash, $45,000 was not an acceptable price.

"If I could get you $55,000, would this be acceptable?" I inquired.

When a downturn occurs, having several highly leveraged properties where equity suddenly disappears will result in selling due to health reasons: the properties are making you sick.

Without going into the details, I showed the note sellers several ways it would be to their advantage to have $55,000 now to invest instead of the low yield of 5 percent on their $75,000 note.

I immediately got an option to purchase the note for $55,000 and recorded the option. I then purchased the SFR for the $100,000 cash the property owner wanted.

At closing, the $75,000 note was paid off.

But hang on, there is my option on record to purchase the underlying note for $55,000. Where does the extra $20,000 go? Into one of my favorite charities: The Help Feed and Clothe Tom Henderson Fund.

But alas. I am not through.

Did I not virtually obtain this property for $80,000? WOW!

I now have a free and clear house worth $110,000. At the time there was institutional investor money available at 80 percent of market value. That translates into $88,000. Plus the $20,000 I got for the underlying note purchase gave me a grand total of $108,000.

What do I do with the $108,000? I bought another house, FREE and CLEAR, with all cash. Now I have one house with 80% equity, as well as one house free and clear.

Two houses for the price of one.

Could you refinance this free and clear property to obtain another property? Of course. But a word of warning when taking this approach. As I teach in my seminars, as well as in my newsletters, equity is like a rubber ball; it bounces up and down. When a downturn occurs, having several highly leveraged properties where equity suddenly disappears will result in selling due to health reasons: the properties are making you sick. This is why I favor owning free and clear properties.

Conclusion

When out in the marketplace looking for bargains, do not overlook the opportunities of properties that have an underlying seller financed note. This concept is in The Note Professor Notebook*. Another arrow for your investment quiver.

I will be teaching this concept, along with a wrap concept that produces the same results at the Virtual Paper Source Note Symposium.

(Continued on page 3)

Ways to Make "No" Work for You

by Jeff Armstrong

Is "yes" really always "yes"? "No" is protection. "Yes" is commitment. "No" instantly makes people feel safe while "yes" makes them worry about what they've committed themselves to. Nearly every "yes" at best is a conditional "yes," and often is a counterfeit "yes," especially from note holders. On the other hand, "No" is always "no."

There are three instances where your communication skills can make "no" work for you: to break impasse, to get someone's attention (especially if they have stopped responding to you) and to help someone think clearly. Why not try these ways to make a note holder's "no" work for you?

Try changing your good "yes-oriented" questions – "Is it okay if I go over some different options with you?" to "no-oriented" questions – "Would it be horrible if I went over some options with you?" Practice makes perfect and also increases your ability to make things happen.

People are twice as likely to take an action to avoid a loss than they are to accomplish a gain.

Most of your "yes-oriented" questions can simply be flipped to get the same result you want by changing the beginning of them to:

"Is it ridiculous...?"
"Would it be horrible…?"
"Is it a bad idea...?"
"Have you given up on…?"

"Have you given up on selling your note?" is a particularly powerful tool. It triggers the safety of "no" and then boosts it with prospect theory – the concept that loss aversion drives action more than the desire for gain. People are twice more likely to take an action to avoid a loss than they are to accomplish a gain. This is literally a prize-winning concept.

"Have you given up on selling your note?" is one of the top lines that I receive response from when following up. Make sure you're ready for a quick answer and you're prepared to elicit a "That's right" (we are still interested in selling it) from them before you go further.

"Is it ridiculous for you to sell your note at this time?" Got me one of my transactions just last month!

"Would it be horrible if I went over some options with you?" is the question I asked a note holder that 'thought' he only wanted to sell the entire note. I ended up buying a 5-year partial and he was very happy about it.

(Continued on page 4)

Tom Henderson

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**

Do You Have To Lie About Who You Are?

Truthfully, how can I advertise myself (as everyone says to do) as a buyer of notes when I am not? I am a broker and have no capital to use to purchase notes for my own investments, so why are brokers encouraged to portray themselves in a manner that is not truthful? Could I not be liable for presenting myself and my company in a fraudulent manner? .

And if I tell them I am a broker and not a buyer, how do I proceed without losing the deal? I realize that the money offered to the seller is not affected by this, but it is a question of trust between the seller and "buyer." I myself would be tempted to pull out of a deal if I felt that I was misled about how my money was to be handled and by whom. I feel there should be disclosure from the beginning about my actual role, but it doesn't make for good advertising (wry smile) to say "We Broker Notes." I am troubled with this as I am a public school educator in my community, I am beginning to have many contacts with lawyers and real estate agents, and I do not want my name associated with anything other than the utmost integrity. — Shannon Dipple

By W. J. Mencarow

Shannon, I commend you for your ethics. We need more people like you in this business.

Some people claim to be buyers when they are brokers to avoid the potential legal problems involved in agency. A note broker should never represent himself as an agent of the investor. But you should never claim to be something you are not, for both moral and legal reasons.

As you pointed out, many note brokers are fearful that if they say they are not the direct buyer that the note holder will want to go around them and contact the buyer

(Continued on page 5)

Jeff Armstrong

(Continued from page 3)

"Is it a ridiculous idea…? was used by a note broker of mine on a recent transaction to try to get the note holder to accept a partial option.

She used it to suggest an alternative to the prices she already gave the note holder. She reported the note holder said "No it wouldn't be" – and subsequently the deal was made.

Some scientific studies have recently shown us we are only capable of making so many decisions in any given day. We wear out as the day goes on. A good tip is to use "no-oriented" questions when talking with a note holder later in the day when their brain is starting to get worn out.

I have read that it's one of the reasons a few famous people (Mark Zuckerberg, Steve Jobs, etc.) wear the same thing every day. They're not interested in burning up mental decision power on what shirt to wear. Their daily decisions are literally worth millions.

If someone asks me "What?" or "How?" when I'm fatigued, I will likely not answer until the next day. If they give me "Is this a bad idea…?" I actually find myself quickly focusing (even getting a little bit of energy) and being able to answer.

Practice makes perfect. To practice use this communication skill with not only note holders but with waiters, grocery store clerks, and really anyone who can help you gain a feel for this in your frequent, daily interactions.

Is it a bad idea to leverage the natural human inclination to say "no," to get things done? No.

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.*

Jeff will teach at the The VIRTUAL Paper Source Note Symposium Oct. 1-3. PaperSourceSeminars.com or 800-542-2270

directly, either before the first deal or later. And this is a legitimate concern. You should only deal with institutional investors who protect brokers by paying them a commission if the seller goes around you, and if they buy other notes or partials from that seller in the future. The Paper Source Registry will give you that information.

My advice is to simply state that you work with a number of institutional investment firms (like an independent insurance agent) in order to get the best price for the note, and leave it at that. If someone asks who the investors are, say that they are companies that prefer to deal with people like yourself who are knowledgeable about the complex and sometimes confusing matters involved in due diligence, estoppels, liability issues, the time value of money and the like.

The reason I suggest that you use these words and phrases (which will probably be unfamiliar to them) and point out how hard you work on a transaction is to send the message that this is not as easy as it may look. The message is also: "I know how to do this — you don't."

Your advertising should send the message, “We can solve your problem.” Always remember that you are not in the note business, you are in the problem solving business.

Update from Shannon:

Thank you so much for your response. I met with a real estate agent today and presented myself in the manner you suggested and did say that I utilize institutional investors’ money to help solve a client's problem. It went very well, and I feel very good about how it was handled, especially since I left with another appointment and a contact at another agency. Thank you!

How Can Notes Go UP In Value?

I have been corresponding with a person who says he has notes to sell. He says their face values were $5,000 to $10,000 fifteen years ago, but now they are worth ten times that. I don't understand how the note values can go up over time. — Demos Loizides

Note values usually decrease over time. This concept is known as the Time Value of Money. Any instrument of tender with a fixed face value loses value over time due to the effects of inflation and devaluation of capital. While the security instrument's value may go up, this is not true of the note. The note may lose even more value if it becomes non-performing.

However, there is a factor that can actually cause notes to increase in value, and that is interest rates. When rates go down, note values go up, just like bonds. When banks are paying 10 percent, a note with a 6 percent interest rate has to be deeply discounted to make it attractive. When banks are paying under 1 percent, that 6 percent note will sell at or close to par. Although “10 times” the value of 15 years ago is highly unlikely!

Another way a note can increase in value is if it is a wrap and the underlying loan is amortizing quicker than the wrap. For example, if the wrap was amortized for 30 years and the underlying for ten years, the equity would grow continually for ten years and the "equity" in the wrap would be many times what it was originally. Example:
Wrap loan $50,000 @ 11%, 360 months
Payment = $476.16
First loan $49,800 @ 8%, 180 months,
Payment = $475.91

The beginning cash flow on the note is only $.25 per month for 180 months. At that time, the first is paid off and the full payment would come to the owner of the wrap. The equity in the wrap begins at only $200, but it will grow every month until the first is paid off. Only then will the equity begin to go down.

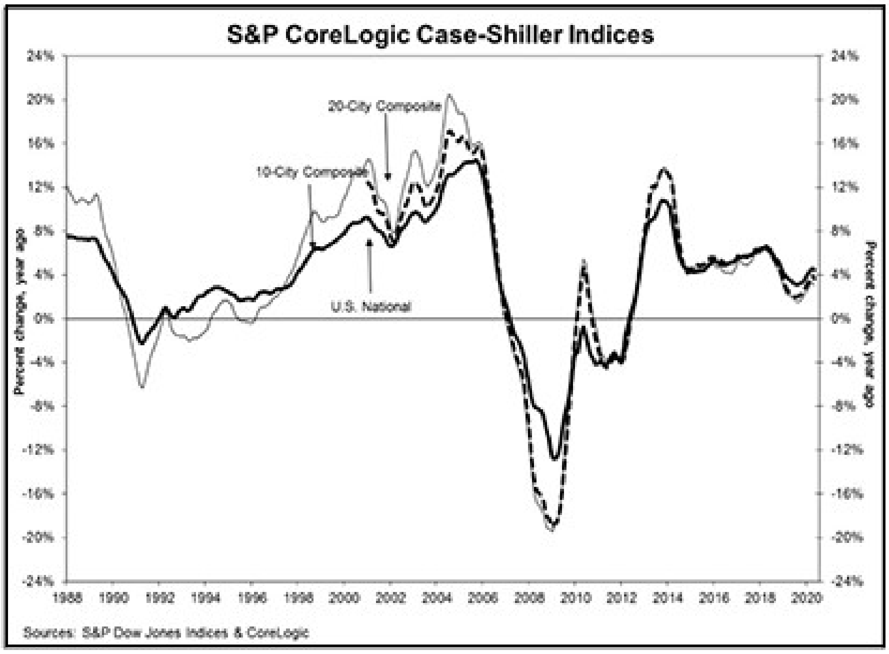
If you wanted to buy that note for a 14 percent yield, you would pay $4,450.62 based on the cash flow. Sometimes on a high yield wrap like this, someone is wise enough to put in a substantial pre-payment penalty, to maintain their yield.

The true yield of the person with only $200 into this wrap is just a little over 30.5 percent.

For example, the balances of the loans in 5 years are, and the wrap equity has grown to:
Wrap loan = $48,582.15
First Loan = $39,225.21
Wrap Equity = $9356.94
At this time, the value of the note at a 14% yield is $8904.65. The value of the note has gone up past double because the big cash flow is now five years closer. Yet the equity has now barely exceeded the value at a 14% yield. The cash flow of course is still the same, but the note equity has gone up from $200 to $9,356.

The only other way I can think of where a note increases in value naturally is through a note not being fully amortizing. A note where the payment is less than interest only will grow and also become more valuable each month.

Pandemic Has Not Affected House Prices



The S&P's CoreLogic Case-Shiller Indices showed modest home price increases in May, a 4.5% annual gain, down slightly from 4.6% in April. The 10-City Composite annual increased by 3.1%, down from 3.3% in April. The 20-City Composite posted a 3.7% year-over-year gain, down from 3.9% in April.

Phoenix led with a 9% year-over-year price increase in May, followed by Seattle at 6.8% and Tampa at 6%. Three cities reported higher price increases in the year ending May from a year ago.

As of May, average home prices for the 10-City and 20-City Composites are back to their winter 2007 levels.
Source: newslink.mba.org

10 Principles Of Financial Independence

1. Save consistently by living on less than you earn.

2. Study the investment methods and strategies of successful people, and seek advice only from those who are competent through their own achievements to give it.

3. Learn to apply the principles of compounding, discounting and leveraging.

4. Never bet on a loser because you think its luck is about to change.

5. Think twice before investing in anything that eats. Those deals are much easier to get into than out of.

6. Don't invest in anything you can't explain to your spouse. (By permission of John Schaub, wwwjohnschaub.com)

7. Reinvest all proceeds until financial independence is achieved.

8. Never get involved in anything that promises quick riches. Trying to get rich quick is another form of gambling. God says, "The plans of the diligent lead surely to advantage, but everyone who is hasty comes surely to poverty." (Proverbs 21:5). If you try to get rich quickly you'll get poor even quicker.

9. Be constantly on guard against every form of greed. No matter how much you have, wealth never brings lasting happiness. Read Luke 12:15-21. Wealth without God is death.

10. Get Started! A good plan today is better than a perfect plan tomorrow. Unless you were born wealthy, chances are you will have to sacrifice financially during part of your life. It is much better if that happens by choice when you are young than by force when you are too old to recover. The decision is yours.

Investor Spotlight

Note-Sage, LLC

Welcome Note-Sage, LLC, the newest investor in The Note Industry Registry! This is an interview with Dr. David Vaillancourt, president of the company.

What does Note-Sage specialize in?

Note-Sage, LLC is formerly Gr8 Houston Homes, which was established in Houston, Texas in 2013. Our company focuses on buying notes in the $10K to $2MM range; purchasing is based on current market value.

However, we don't limit ourselves, as we'll take into consideration any property in the market place.

At Note-Sage, one main focus for us is buying seller-financed notes.

We also have the knowledge to direct people on their short sale or foreclosed property, providing them the consultation they need as well as a comprehensive exit strategy for SFR's and small commercial properties.

In addition to our basic note seller services for properties in Houston, Texas and around the U.S., we are also capable of assisting those financial institutions which require a complete liquidation of warehouse lines - buying single and small pool residential notes (up to 40 per trade) anywhere in United States.

Our own capital is used (along with other contracted funding sources), so there are no money ties that may complicate your transaction and we engage a variety of industry experts to underwrite all of our purchases.

Do you work with note brokers?

Absolutely! We particularly love to buy, sell and trade real estate notes for properties which have been sold via seller financing. Nothing tricky about it.

We make swift purchases on a variety of types of property notes including residential real estate notes and small commercial business notes.

In what states do you buy notes?

In every state except California, New York and New Jersey. We buy single notes and also tapes/portfolios, and we close our own transactions.

What types of notes do you buy?

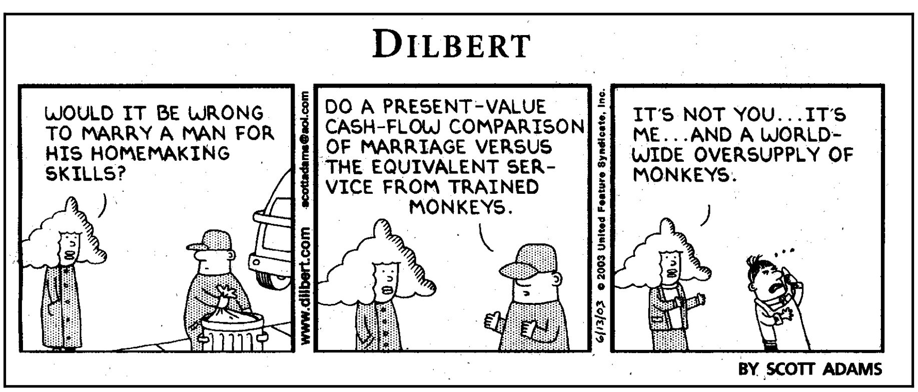
Those secured by single family houses, mobile homes with land, small commercial property and churches.

We also buy divorce liens, marital liens, owelty liens, reperforming residential (payor bankruptcy is OK), hard money notes, small seconds behind large firsts, tax liens, distressed/ nonperforming notes, and partials.

Suppose you buy a note through a broker, and the note seller later contacts you to sell another note or more of a partial you had purchased, thus going around the broker, what would you do?

We would protect the broker who brought us the original transaction by paying them additional commissions for whatever we bought from that note seller in the future.

Note-Sage.com
email: sdv@note-sage.com
218-714-9438



Have You Considered Hard Money Loans?

by Stanley Gainsforth

What Is "Hard Money"?

The term "hard money" originated with the concept of real dollars that are held by an investor, as opposed to "soft money." Soft money is the term for money loaned by banks. The term "hard money" probably originally comes from gold and silver, or as money backed by gold or silver rather than by credit.

Hard money has the incidental characteristics of being more expensive for a borrower and is often available to borrowers who don't qualify for soft (bank-style) loans. Private hard money lenders require a higher return than banks and typically lend with more attention to the property as collateral. They can afford to ignore credit factors that the bank is bound by regulation to consider.

What Is A Hard Money Lender?

The real hard money lender is the investor that buys the note and deed of trust. Most hard money "loan companies" are really brokers of some type; they act as a go-between, putting a hard money borrower together with a hard money lender.

How Does Hard Money Differ From Purchase Money Or Soft Money Notes?

"Purchase money" is a term that applies to seller carryback notes used for the purchase of property. There isn't any reason why hard money can't be used as purchase money, and it often is. But most home buyers aren't looking for hard money - the short-term and expensive nature of the money is impractical in most situations.

Right now hard money loan interest rates can be as much as 18 percent.

Hard money differs from soft money in that the source of funds is private. It is not regulated in the same way as "bank" money. Hard money is most commonly used to get quicker funding or funding where the "usual" sources are not available.

Why High Rates?

As of July, 2020, hard money loan interest rates can be as high as 18 percent. The overall notion is that if a borrower cannot obtain a bank loan it must be a riskier proposition and an investor who is taking such risk should be compensated accordingly.

The rate is dependent on the real estate market and availability of hard money credit. Factors such as property condition, the real estate market and availability of hard money play an important role. "The property is more important than the borrower" is the mantra for hard money investors.

These loans are based on the value of the property and not on the borrower's credit history or credit score. In addition to high rates, most hard money lenders limit the loan-to-value ratio to a much lower percentage than a bank does with a conventional mortgage. A bank will do 80 to 90 percent LTV, while the LTV on a hard money loan is typically to 50 to 70 percent.

Another reason rates are higher is that a savvy investor can find ways to get good returns from other sources and must be induced to invest in hard money by higher rates. By the same token, hard money loans that are written at higher rates fund more easily and quickly. Since the market for hard money is usually more time-sensitive, these higher rates buy the quicker response hard money borrowers expect.

The other factor is the cost of the broker. This "middle man" is required by the simple fact that borrowers aren't in communication with a stable of hard money investors when they need a loan, and couldn't do the research and preparation to package a loan that would be salable to a private investor if they knew one. The usual formula is the investor is paid primarily with interest, and the broker is paid primarily with points. The results are high interest, high point loans.

Why Hard Money?

The usual funding sources for real estate loans are backed by governmental and quasi-governmental sources, and are heavily regulated. Because of the way they must legally identify their assets, banks can't afford to have a lot of foreclosures on the books.

Because of the way they are regulated and because of the nature of their secondary market, banks must be very careful of credit considerations. The borrower must meet certain debt ratio requirements, have very good credit in most cases, and may be disqualified for a myriad of reasons, such as a short time on the job, certain unsecured obligations and so forth.

Although hard money brokers are not interested in arranging a loan for someone who cannot make the payments, they don't have to meet the requirements of a bank. A borrower with credit problems and spotty income may qualify for a hard money loan if the equity is there.

How Does An Investor Work With A Broker?

It is the broker's responsibility to prepare the necessary paperwork and research the deal to ensure that it is a good investment. This entails compliance with the procedures dictated by appropriate regulatory bodies with regard to proper disclosures and documentation of the salient facts that support the quality of the investment. The broker will typically:
1) sign the borrower on all documents necessary to close the loan;
2) appraise the property to verify value;
3) order a preliminary title report to verify ownership and determine what encumbrances presently exist on the property;
4) ensure that the borrower has sufficient income to handle the obligation;
5) get demands for payment from anyone whose obligation is being paid off by the loan and get statements from any first or second mortgages that will remain as to the condition of their loan; and
6) package the deal so that it can be understood by an investor.

An investor simply requests a copy of the package and reviews it. Many times an investor will also want to see the property. An investor who believes that he wants a certain deed of trust should communicate this to the broker and perhaps arrange a "hold" for long enough for him to see the property.

"The property is more important than the borrower" is the mantra for hard money investors.

How Do I Know I Can Trust The Broker?

The same way you answer that question when you are selecting a mechanic or a doctor. Look for the usual indicators of professional procedure and good business dealings. If the broker is recommended by another trust deed investor, that is good.

An investor who likes a certain loan but can't afford it can buy part of it in most cases. In the jargon of the industry, this is called "fractionating" or "fractionalizing" the loan. I don't usually recommend fractionating a loan unless it is a first mortgage or it is fractionated between friends that normally work together.

How Much About Real Estate Does An Investor Need To Know To Invest In Hard Money Loans?

There are certain basic rules that if followed will minimize risk:
1) make sure the equity is sufficient; and
2) make sure the payments on the senior loans can be handled in case of default.

This simplified viewpoint is something like saying that the way to play the piano is to "push the key for the note you want to play" — there are a lot of little nuances, but a good broker can probably walk you through them if you have a basic understanding of real estate loans, what a first, second and third deed of trust are, and so forth.

An investor should avoid investing in a property he doesn't understand. This doesn't necessarily means he should have bought and sold a half-dozen commercial buildings to understand a deal on a commercial building, but if after looking over the broker's materials the investor doesn't "get it," he should wait for another deal.

What About Prepayment Penalties?

A prepayment penalty is an extra charge to the borrower if he pays off the loan early. An investor will often realize prepayment penalties, as it is unusual for borrowers to pay off balloon payments exactly when they are due. People move, refinance, or sell their properties.

How Does A Prepayment Penalty Relate To The "Bonus" An Investor Receives From Early Payoff On A Discounted Note That Has No Prepayment Penalty?

The bonus from a discounted note is the amount of the discount. It comes whether the note is prepaid or not. Roughly figured, a one point discount increases the yield by one percent on a one year loan, or by 1/2 percent on a two year loan, etc.

Stanley Gainsforth is a Southern California loan officer and investment counselor who appears regularly in Mortgage Market Weekly *and other publications.*

Creating Notes With Seller Financing

by Tracy Z Rewey

Part II

For part I of this article, see the July, 2020 issue or visit ***tinyurl.com/ps-creating-pt-1***

Using MLOs For Dodd-Frank Compliance

In 2014 the Dodd-Frank Act was implemented under the guidance of the CFPB. While it provides exemptions for certain seller financing transactions, it is important to be sure that buyers planning to live in the property have the ability to repay.

A mortgage loan originator (MLO) can help with qualifying the buyer and providing any related disclosures. Many MLOs work only with traditional mortgage loans, so it's important to work with one experienced in seller financing. Fortunately, there are great options for these services with pricing around $500 and the cost can be passed on to the buyer.

Optimizing Mortgage Note Terms For Resale

The beauty of owner financing is the terms can be negotiated and agreed upon between the buyer and the seller. When selling the property and agreeing to "Be the Bank" you want to optimize the terms for potential resale to a note buyer for two reasons.

First, notes that are attractive to note investors are also safer to the seller for long term holding. Second, the note will be worth more should you want to sell all or part of the note to recapitalize. Even if you plan to hold the note long term, there is peace of mind knowing you have liquidity.

For lower risk and best pricing investors like to see the following for residential properties:

- Down Payment – 20% or more (10% Min.)
- Credit Rating – 680+
- Interest Rate – Fixed 9-10%
- Term – Fully Amortizing (20 to 30 years)
- Income – Ability to Repay (45%+/- Debt to Income Ratio)
- Reserves – Taxes & Insurance
- Servicing Through A Licensed Third Party

If a note doesn't fit into this box it can usually still be bought and sold. The pricing will just be adjusted to compensate accordingly. Pricing on notes for resale can range from 95% to 50% (or less) of the balance due. That's why it is so important to setup a note for success from the start.

10 Steps to Creating Owner Financed Notes

1. Identify Your Team Members & Keep Them Involved
2. Determine Sales Price and Initial Terms
3. Market Property with Owner Financing
4. Prequalify (Obtain Application, Authorization & Income)
5. Negotiate Terms
6. Put Offer and Acceptance in Writing (with Earnest Money)
7. Underwrite, Credit Review & Qualify (with a RMLO [Residential MLO] on owner occupied homes)
8. Request Title & Complete Contingencies
9. Setup Closing, Obtain Settlement Statement & Review Docs
10. Closing, Recording & Servicing

(Continued on page 11)

Tracy Z Rewey

(Continued from page 10)

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.

Tracy Z Rewey
Diversified Investment Services, Inc.
1-888-999-7905
email: Tracy@NoteInvestor.com