The Paper Source

The News Of The Note Business

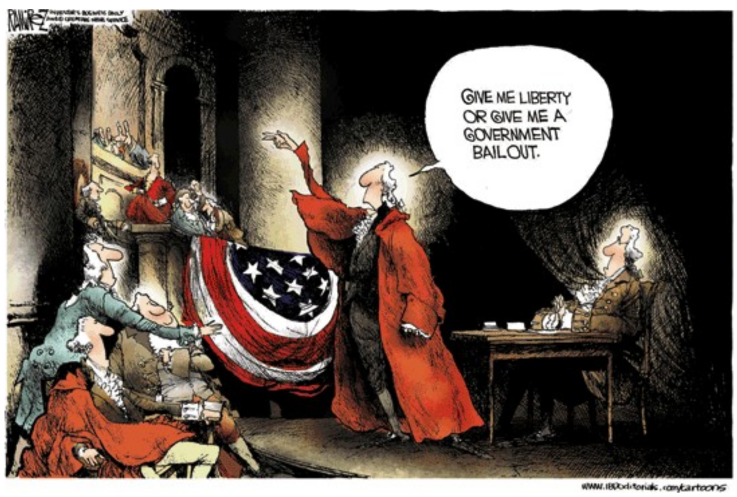
May, 2021 Our 33rd Year

Many of us have been saying that the CDC had no authority to impose a nationwide eviction moratorium. On May 5 a federal judge agreed.

Judge Dabney Friedrich of the US District Court for the District of Columbia vacated the moratorium, ruling that the CDC overstepped its statutory authority.

The CDC issued an order in September barring landlords from evicting tenants for nonpayment of rent, citing a 1944 public health law that gives the agency certain powers to prevent communicable diseases from crossing state lines. Congress and the Biden administration extended the ban, which was slated to expire June 30.

Judge Friedrich wrote. “The question for the Court is a narrow one: Does the CDC (have) the legal authority to impose a nationwide eviction moratorium? It does not.”



If you have been reading THE PAPER SOURCE JOURNAL for awhile, you know that I have often warned that Biden (let’s be honest, his caregivers) want to do away with 1031 like-kind real estate exchanges. Their $1.8 trillion “American Families Plan” would effectively eliminate many if not most real estate exchanges, and that would do great damage to our economy (so much for “American families.”) Exchanges encourage real estate activity and are therefore a powerful stimulator of national, state and local economies. People who use them range from owners of rental houses, small apartment buildings, commercial properties, small businesses, and most farmers. Given the administration’s desire to raise federal capital gains tax rates to 43% and eliminate the stepped-up basis, 1031 exchanges are indispensable to a healthy economy.

Your help is needed to save 1031 exchanges. Go to **tinyurl.com/ps-1031-action** to find out how.

Have you discovered the Paper Source Facebook discussion group “Real Estate Note Investing? There are over 3,800 members, and it is growing! Go to facebook.com/groups/papersource and join the conversation. You can join for free, of course.

If you are one of the 5,000-some people who follow The Paper Source on LinkedIn.com and wonder what happened to our page — a few weeks ago I posted a video. LinkedIn told me that because of the video the Paper Source page has been permanently removed (not just the video — our whole page). Here is the video they do not want you to see:

tinyurl.com/ps-go-to-video

On May 1 Alison and I started a talk show on the most popular radio station in the Texas Hill Country. It’s what is known in radio as a “magazine” format, meaning we discuss all sorts of topics from politics, real estate, gardening, conspiracy theories, music, wine, UFOs, and anything else. If you have nothing better to do, tune in on Saturday mornings from 9-10 Central time at **www.HillCountryPatriot.com** We need the ratings!

Cheers,

Bill

W. J. Mencarow

If Fascism ever comes to the United States *“it is very apt to come in under the name of anti-Fascism.”* — H. L. Mencken, 1938. He foresaw the rise of Antifa, a collection of Fascist thugs. Fascism and Communism are two branches of the same poisonous plant.

No Note? No Quote!

by Tom Henderson

I recently received a request to value a note. The broker had all the information, but no note. I have a policy of *NO NOTE; NO QUOTE*.

The broker assured me all the information was correct and became a little hostile that I would require seeing the note before giving a quote. The note broker acquiesced and finally sent me the note. The note reminded me of why I have this policy. Without going into details, the note had three different effective dates and did not mention a deed of trust as collateral. While I am now personally working with the note seller to untie the knots, had I given a quote it would have been erroneous.

This brings to mind a situation that happened a few years ago, which not only points out why I have a NO NOTE; NO QUOTE policy, but also a creative technique utilizing the time value of money concept. A note seller listed his note on my website. All the payments, terms, balance and interest rate coincided with my calculations. Rounding for the sake of simplicity, the note was for $100,000, 20 years remaining, 9% rate, with payments of $899.93. To make the deal better, the payor had a 700+ credit score.

I knew the seller was shopping this note, so I cut corners, and without seeing the note, I gave a written contract for $92,000, which was the yield at the time (10.19%). Now all I needed was the documentation.

The note seller faxed me everything; the deed of trust, closing statement, lender policy, hazard insurance, proof of payments, etc. All that was missing was the note. The seller assured me he had the note somewhere, but wanted to open escrow because he was in immediate need of $85,000.

The note seller was so distraught, I thought we were going to have to put him on suicide alert.

Wanting to get the transaction closed quickly, I relented again and instructed the note seller to take our contract to the title company and order a "nothing further" commitment, which he did immediately. Three days later the seller found the note and faxed it to me. All is going well. Or so I thought. When I read the note, my jaw dropped. Plain as day, in bold font was the clause: "THIS NOTE IS NON-TRANSFERABLE. The balance of the note is to be paid on the sale of the property."

The note seller meant to say "NON-ASSUMABLE". But NON-TRANSFERABLE does not mean NON-ASSUMABLE. My legal department agreed. The note would have to be modified before we could move forward.

I informed the note seller of the problem: That as written, his note was not marketable to anyone. The note seller was flabbergasted because the note was drawn up by a title company. Going straight to the solution, I suggested the note holder go to the payor and ask him to sign a modification changing the language, but do not mention the note was being sold. Contrary to my suggestion, the note seller told the payor he was selling the note. The payor consulted his attorney who advised the payor not to sign anything unless "he got a piece of the action." The payor wanted $10,000 to sign the modification.

The note seller went berserk. He needed $85,000, not the $82,000 after the $10,000 is deducted from my note quote. At the same time the title company was grumbling that it had done its work and was eager to close. Nobody was smiling. The note seller was so distraught, I thought we were going to have to put him on suicide alert.

After negotiating, he got the payor down to requiring only $7,000 to modify the note. The note seller was satisfied; not happy, but satisfied. After subtracting $7,000 from my $92,000 offer, this would give the note seller the $85,000 he urgently needed.

The modification was signed and we were ready to move forward. Armed with the knowledge of the time value of money, I suggested to the note seller to offer to replace the original modification giving the note seller $7,000 at closing. Instead of giving the payor $7,000 at closing, the note seller would decrease the balance

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Lessons In Private Lending

The Ideal Fix And Flip

Part II

by Tom Van Erp

Making fix and flip loans can be an ideal "business/ investment" for people so inclined. The returns are high. The loans are short term. The collateral is generally a single family house. If made correctly virtually without risk.

So do I lend on just about any old house anywhere? Heck no. I decided long ago that my criteria were to be very specific:

My goal is to make the project a success for all parties: Me, my borrowers and the neighborhood. This is in other words *not* so-called hard money lending but actually lending as if you're a community bank with at least some concern for the outcome of the project. Saying to yourself "I can always foreclose" is really not a sound long term strategy that you'll usually come to regret.

1) You need to be in the one area of town you are familiar with: The lower end of the inner city ring of houses build during the building boom right after 1945 up until around 1980 is a prime location. Those houses were often just slapped together as starter homes back then. In my area (Greater Denver) those cookie cutter subdivisions often went into a kind of decline the past 40 years or so but have lately been

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Tom Henderson

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of the note by $5,000 but keeping the payments the same. This would reduce the number of payments from 240 to 210. If we multiply the number of payment decrease (30) by the payment amount ($899.73), the payor will save approximately $27,000 over the life of the loan, which appears to be higher than the $7,000 cash. The payor went for it, and a new modification was signed.

How did the note seller come out? By selling his note with payments of $899.73 for 210 months to achieve the original 10.19% yield gave the note seller $88,000 instead of $85,000. This is $3,000 more than the original modification of subtracting $7,000, which went to the payor, from my original offer of $92,000. The deal closed 6 days later.

Everybody was smiling again.

From my point of view, much of the aggravation could have been avoided if I had seen the note at the beginning of the transaction, instead of almost at the end. The same problem would have existed, but note seller would have had more time to negotiate with the payor to modify the note. Perhaps we could have done even better for the note seller and closed quicker.

This is another tool for your tool box. When a note must be modified to make it marketable, rather than offering cash to the payor, try reducing the balance, and therefore the number of payments. WIN/WIN for all concerned.

NO NOTE; NO QUOTE might appear to be a little stringent, especially in light of automated websites quotes (which BTW are not REAL quotes, but that is a different subject). However, I will always stick to my guns and never put my name on the dotted line until I have seen the note. I suggest you do the same.

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

Tom Van Erp

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"rediscovered" by new first time home buyers being somewhat close to the city core and being now so-called "affordable". In our city that means that the ARV, the "After Repair Value", better not be higher than $575,000 which happens to be somewhat below the average price of a house in our town at the moment.

2) I will make "no money down loans" and I will fund all the repairs as well to my steady customers if they pay no more than 75.00% of the ARV *less* the cost of the estimated repairs. Standard stuff, right? So if that house is estimated to sell for $575,000, 75.00% of that is $431,250.00 and if the repair costs are to be $75,000.00 the borrower is not permitted by me to pay more than $356,250.00. *Not permitted.* You read that right. From long experience I've learned that those projects will end in tears if this rule is not adhered to so why have a bad experience even if the customer agrees to pay down the difference if she wants to pay more for the property?

3) The reason I will pay (escrow) all of the repair costs as opposed to the customer promising to do so him or herself is that they seldom do. Flippers are notoriously poor money managers. Often they'll claim to have the money but in reality it's a buddy with a few bucks in his IRA trying to get a high return. That often ends up to be a second lien on the property causing all kinds of problems when the market slows down suddenly (which I'm certain will happen at some point in this cycle too). Those kinds of people might face a loss of principal when that happens and are particularly difficult to deal with when the market turns and you're

Saying to yourself "I can always foreclose" is not a sound long-term strategy.

then sometimes forced to foreclose them off, losing valuable time. Who needs that?

4) The very few *new customers* I *do accept* are generally required to put up equity in their home or a rental as additional collateral. A wonderful tools when you're making "no money down fix and flip loans" to strangers. You can then afford to be generous in your advances. It helps you sleep better.

5) For my good customers who put up extra collateral I often escrow 3 or 4 payments as well.

There is becoming to be a lot of competition in my business however. National Internet lenders are being very aggressive and are touting rates that are lower than mine. Many newly arrived private people also with a couple hundred thousand are advertising their eagerness to lend. As of this writing many are claiming to only charge you 8.00% with only 1 point or even less. Some *do* have a lot of fees which I don't have but they truly are real competitors. My rates haven't changed much the past 2 years and I'm lucky to still get 10.00% plus my 3 points for a 6 month loan. I don't charge for repair draws and I have no other fees except that I *do* charge interest on repair funds escrowed.

So how can I compete? Well, first of all I *always* have funds available when my customers stumble onto that killer deal for which they're always on the lookout and which generally require cash on the barrelhead in 2 or 3 days. How can I do that? Don't I sometimes run out of money? Yes, actually. I'm fairly often out of funds but they'll never know it.

There is of course nothing wrong with making a loan at your leisure only if and when you have the money but if you really want to be in this business you must always have funds available. *NOW.* So how do I solve that?

Now that I deal exclusively in my pension plan borrowing has become problematic. I know it's possible but then you have all kinds of tax issues with which I don't want to contend with. So I *participate some* loans. I've made it my business to court several folks who have lazy cash in search of yield. I make *them wait* until I bring them a deal and everybody is happy. I know there are a lot of calculator nerds out there who read this magazine so I'll let them tell you what the IRR is if you participate one of the loans I described above and didn't share in the points. I say the yield is *good enough.*

Tom is a long-time real estate and note investor from the Denver, Colorado area with a record of having made over 800 fix and flip loans since 1998. Although Tom tells people he's a retiree while he's on the road with his RV, don't let that fool you. He's still making over $500,000 worth of loans, mostly out of his retirement account, each and every month. He thinks that before he goes to the happy hunting grounds he needs to share his experiences and to convince you what a wonderful, profitable and useful business he's in.

Ways to Increase Note Business Profitability

by Jeff Armstrong

For every note business and entrepreneur, profit is a crucial part of being successful in the note business, or for that matter, any business. Fortunately, there are some strategies that you can implement to set yourself apart, create more value, and generate more transactions.

Before I share some strategies to increase profits in your business, I would like to point out the difference between making a profit and being profitable. When talking about profits, what might come to mind are the differences between income and expenses. However, as a business owner you should care not only about how much your business makes in profits, but also its profitability. As an example:

Business Name	Profits	Invested Capital	Profitability
Business A	$500,000	$5 million	10%
Business B	$250,000	$1 million	25%
Business C	$120,000	$3 million	4%

When we look at the profits of the companies above, it might seem that Business A is doing the best. However, when we consider how much was invested in each business and calculate their profitability (Profits/Invested Capital), we will see completely different numbers.

Now, one can realize that Business A is not doing as great as we originally thought. Surprisingly, the company that had the least money invested in it, Business B, made the most use of their invested capital. This business definitely knows what it is doing because it multiplied their money more. At the same time, if you do not increase your profits, your profitability will not be increasing either. Thus, profits play an important role in your profitability.

There is a difference between making a profit and being profitable.

Knowing that, how then do you increase your business profitability? In general, you cannot increase your profits directly, only indirectly. Nor can you do it without a specific strategy. Let's look at some simple ways you can increase the amount of money your business makes. Although these strategies are not complicated, they should be easier to implement and to achieve good results.

Marketing

This might be obvious for some, while others might consider marketing as just another expense. Businesses, though, especially note businesses, need to analyze their marketing strategies and get note holders to understand why they need and should use your service. If 3 out of 100 people who contact your business sell you their note and you attract 200 people instead of 100, you will increase the number of note holders who will actually sell their note to you. I say over and over again, the note business is a huge numbers game.

Efficiency

It is not just about cutting costs to increase your profits. It is about efficiency in the way that you spend money as well as your productivity and time management. Thus, you need to look for ways to stimulate better productivity and motivate yourself. This will allow you to cut costs per closed transaction and increase your profits. Even a small improvement can make a big difference.

Note Holders

A note holder (or customer) is the main source of income for most note businesses. Thus, dedicate yourself to serving your note holders in the best possible way and your closed transactions will take care of themselves. If you can convert contacts and visitors into note holders that sell you their note, you have effective marketing efforts. To achieve this, you need to have a marketing and business plan for yourself and anyone else who interacts with the note holder.

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Jeff Armstrong

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Transactions

Besides attracting new note holders, you should focus on increasing the number of closed transactions. If you closed 5 transactions instead of 3 for every 100 note holders that contact you, you would increase your revenue and profits accordingly. Either way, you will probably need to also increase your marketing budget to do so.

Referrals

You can raise your profits by setting up a referral program. A referral is the act of an existing note holder recommending or vouching for the value of your services to another. This takes some time to develop and is great for the long term. If you have a truly valuable proposition and your note holders walk away satisfied, you won't even need a special program to get referrals because the good word will spread on its own.

You need to have a marketing and business plan for yourself and anyone else who interreacts with the note holder.

Costly Services

You can also eliminate expensive services (unnecessary subscriptions, software, vendors, etc.) that you really do not need. Evaluate the costly services and see if there are any that you can discontinue without making your business suffer. Even small things can slowly eat up your profits without giving back much.

Dedicate yourself to serving your note holders in the best possible way and your closed transactions will take care of themselves.

Slippage

Profits are sometimes eaten away by what is termed slippage. This is the difference between what you have estimated the costs of a transaction might be and what the actual costs are. Start digging into the expenses of a closed transaction to better identify exactly where the overruns are happening and make adjustments to your costs and expenses in your pricing.

Break-even Point

You can reduce your break-even point, which is the point where the gains equal losses and the investment will start generating a positive return. In fact, look at all expenses that you incur to make more money as an investment with an expected rate of return that is greater than what you invest. Look at your activities and purchases and if they do not help you generate profit, eliminate or minimize them.

Prices

You might think that you cannot lower what you offer to the note holder in the note market. However, if you know that you offer a good-quality, worthy service and you are friendly and helpful, try to lower the price just a couple of percentage points at a time. Your note holders might not even notice.

Volume

If you are truly at the top of the market with your price, then you can increase the volume that you are producing to deliver the dollars needed. This means getting more note holders to accept your prices which in turn gives you the chance to close more transactions. This references back to the numbers game I mentioned previously.

There are many factors that influence the profitability of your note business. Increasing your profits is possible by changing the variable(s) you have control over. You might need to take just one of these strategies and it will make all the difference in your business. For others, it might be a little bit of each of these.

Whichever path you choose remember that you can build a business that can deliver a fabulous future, but it is not going to happen by itself. It is up to you to make it happen.

I hope these tips I have shared will help you guide it in the right direction. 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 the performing seller financed note industry since 1991. For more information on how he can help you with your note business, note investments, note appraisals or to request pricing options on a note visit ***www.armstrongcapital.c****om to email him and subscribe to Jeff's Weekly Training & Tips Newsletter.*

How I Would Invest $100,000

by B. H. Tilton

This is a timely question in these turbulent financial times: "How to invest $100,000, cash?" The answer has more than two sides. No, I am not going into the mathematics to explain a multi-sided equation (although I used to do that for fun). As I have grown older, I am slowly realizing that some fun things are getting beyond my mental and physical capabilities. Full disclosure, I was born in 1945. Do a little math there. Interestingly enough, in the late 1960's I did end up with $100,000, after taxes, as the result of selling a small engineering firm three of us had built up and subdividing a half section of land on a lake, all of this in Alaska. Well, as a friend of mine says "I may not be too bright, but I'm sure not smart."

With the "not smart" money in hand, and no responsibilities to any other human, soon there was a new airplane and a new pickup truck in the hanger and much less than $100,000 in the bank. A rude awaking when I had thought, how in the world could a person ever spend $100,000 in a lifetime? Having now realized that the lifetime was going to be awful short if I kept carrying on in this la-te-da fashion, I thought I had better do something to get more of those $100,000 paychecks. The question was how to do that. Never mind what I actually did; the important point is that I did it by doing some introspection. At that stage in life, slightly over a quarter of century old, I asked myself: What did I know how to do? What the heck was I good at, if anything? What did I like to do?

Be brutally honest with yourself. What do you know how to do? What are you good at? What do you like to do?

What I would recommend to someone that is now in my age bracket at that time, up to say 50 years old, with a $100,000 grubstake, is to be brutally honest with yourself. Look at designing a work lifestyle, after answering the questions I asked myself, that will develop a revenue-producing capital base. This means a tangible means of support that may be material or intellectual but produces real cash, something you will work every day, toward the goal of increasing the value of your holdings and acquiring residual income.

These are the first steps to a lifestyle from your 50's on where you can decide to not work every day if you do not want to. Of course, if you can do this all in a year, you certainly do not have to drag it out. When you have decided on a field of endeavor, you can roll the dice. $100,000 is just your grubstake, a base to allow you to multiply it many times. Lose a few times and you will make it back. Time is on your side at this point, because the only magic in this formula is your work ethic and time.

Acquiring $100,000 in your 50's to 60's or later requires a different strategy than when you were younger. The goal is the same, residual income, but frankly your prior work life should have produced work income, perhaps IRAs or 401Ks. With today's unbelievable path to inflation, the income from $100,000 will be more of a supplement,than the beginning of a capital base.

Do not get me wrong. If you want to go for it like you would have in your 20s, follow that path. But you must calculate how risk-averse you are. The simple way is to be hands-free, either because you do not want to do the introspection or you are very risk-averse. In that case, split the money in two and buy into a couple of stock index funds. You still will have to do a little research to see which ones you feel comfortable with. Also, read some books on just how these types of funds are organized. Then, two options: roll the dividends over to compound them for a while, or take them out to enhance your lifestyle. At some point, the income will be useful, not to increase your lifestyle, but to maintain it.

If your introspection shows you like to work with people on a one-to-one basis, look around in your area and see if you spot three or four developing entrepreneurs and look at lending them up to 30% of your cash, secured by tangible assets, on a short-term basis. Do not become good buddies. It is a business arrangement that will give you a higher return than the leave it alone index funds. The borrower may default and you will need to take the

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B. H. Tilton

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collateral and sell it. Again, no magic formulas. Life says TINFL: There Is No Free Lunch. No matter where you are in life, without effort on your part, no one will tell you to buy the house at 1234 Main St. because it is one-half price or to buy Amazon stock because it will go to $3,700 per share. Someone found out it was one-half price or going up in value and bought it themselves. They earned the discounted price by their effort.

I did take a little of my own advice, which means I managed to follow Jimmy Napier's advice, before I even met him, to learn everything about my geographic area. Fifty years ago I was in a rural area 50 miles north of Anchorage, Alaska. I developed large parcels, 80 to 320 acres, into recreational lots focused around lakes or aircraft runways, sold the lots on terms, then recapitalized by selling some of the notes created on the lots while keeping as many notes as possible for cash flow. This was a 15-year process that created residual income.

A combination of notes and rental houses producing continuing residual income worked for me. It may not work for you.

But, you say, "notes pay off and cash flow goes away." True, true, but the surplus cash flow accumulated, which then got moved into houses that became rentals. A combination of notes and rental houses producing continuing residual income worked for me. It may not for you. Pick what will.

Also, no sniveling that you live in an urban setting and cannot do what I did. Pick a block or three and learn everything about them. I never said you should do what I did specifically. I said find what feels right for you and create capital producing projects and residual income. Think of notes, stocks, bonds, real estate, IPOs, index funds or other financial instruments. Think of the things I was not smart enough to think of.

Put out the effort. You will never regret it!!

B. H. Tilton, Alaskan bush pilot.

B. H. Tilton began note selling and buying in 1965 in Alaska. This was coupled with the development of an engineering and seismic surveying business.

He began serious note creation by subdividing recreational and residential properties in the 1970s to the late 1980s and started to acquire and keep single family homes in the 1990s.

Sick of landlording, he sold off everything in the early 2000's (he says that's because he was not smart enough to have taken Dave Tillney's course on landlording but has since corrected that oversight. He started reacquiring homes around 2010. His sons and he now manage just under 100 homes and buy, on the average, 2-3 notes a month.

If you have a note, with the security in Alaska, and need to market all or part of it he would be happy to help. Email cci1@wwdb.org or (907) 376-2697- voice or (907) 376-7966-fax or snail mail to Cross Creek, Inc., P.O. Box 870948, Wasilla, AK 99687. Remember that he only deals with Alaskan properties — it does not matter where the note holder lives.

Is there a checklist for non-performing notes to tell the good from the bad? — Dan Bal

There is no checklist, but he here are some things to look for:

1. What is the value of the property the note is secured by? Look at both full market, and REO value comps. Think about who the buyer would be. Is this an upscale area where the buyer would be an owner-occupant or a investor-driven area where the likely buyer is an investor? Make sure you are buying at a discount to whatever your likely value is.

2. Confirm property taxes and municipal lien amounts and especially any past due.

3. Confirm chain of title is in order — meaning the firm you are buying the NPN from has the assignment recorded in the county — OR if there are other unrecorded assignments you are confident that your seller has all proper assignments and legal authority to assign the loan to you.

Value and title are the 2 major things to review. IF these are correct you are a long way towards picking good deals. — Jack Krupey

There is a real estate broker I might want to sign with as a licensed agent, and she believes her errors and omissions insurance does not cover her liability for my note brokering. Unless it does, she is not interested in being my broker. Any insights on E&O insurance as it applies to note brokering? — Robert Ostrander

As a note broker you are not filling out any legal documents that anyone is going to sign, nor are you creating any. The note investor is the one that prepares documents for the note holder to sign, and any errors and omissions would be on their part. I have never had a reason in 30 years of doing the business to have E&O insurance. — Jeff Armstrong

What payor criteria and note terms do you look for? — Phil Work

Credit and equity are some of the biggest indicators for our pricing at First National Acceptance Co. A shorter amortization is ideal. At the very least a balloon. Also, the higher the interest rate the lower the discount will need to be. We have a pretty hard time buying anything with a credit score under 555. We can buy longer amortizations, but the discount is usually steeper. Our company buys in all 50 states, any paper tape. — Will Hannah Henning

Why do so many people want to buy a non-performing note for their first note purchase? — Kenneth Spink

The process is fairly simple and a lot of remedies afforded to secured creditors. There is clearly more money in non-performing rather than being farther along the food chain and buying performing but also more risk; Manageable, predictable, and measurable risk...
Being a niche, nuanced and specialized investment, the yields and returns should reflect that reality.
— Matt Kelley

I think many people focus on it because they are more comfortable putting sweat equity in for the possibility of a higher return rather than a higher capital investment. — Jenni Rudder

Mainly because they took some weekend warrior training program that they dropped way too much money on and were told after the weekend you could be a note investor. — Christopher Seveney

How can I find a competent attorney whose practice is focused on the note business? — Vincent Razzano

I don't know of any attorney whose practice is focused on the note business, unless they work for a note investment company and thus are not in private practice. You need to find a real estate attorney in the state in which the security for the note (the property) is located.

If the property is in your state, you could attend local real estate investment clubs and ask people who they use. My favorite method is to find out who the attorney is for the board of Realtors where the security is located.
— Bill Mencarow

The Art of Negotiating

by Joseph M. Pepitone

The topic of negotiation is always controversial. The traditional school of thought is to obtain a good rapport with the seller and show the benefits of why the deal is in the seller's best interest. Next is you trying to explain the time value of money, and if that does not work, follow up, follow up, follow up until you overcome objections by stating the obvious benefits. The usual advice is, *“after all, it's a numbers game. Keep a thick skin, keep working hard and make lots of phone calls.”* **On the contrary, by doing this you wear the seller out, turn them off — and probably wear yourself out.**

My approach to negotiating has nothing to do with any of the elements above. When negotiating with a note seller there should only be one goal. **That goal is getting to the truth as opposed to pushing for the deal.**

When you do not push and have a conversation that is natural and just lets the note holder flow the direction of the conversation, their defenses will melt away. Sometimes having a little small talk without trying to accomplish a goal can be immensely valuable.

The key is getting a note holder to be comfortable with you. Only then should you talk about the note.

You should also let them know upfront that the market is going to discount the note. Whether they are dealing with you or someone else in the marketplace, they need to know

The typical approach to negotiation wears the note seller out, turns him or her off — and wears you out in the process.

that notes trade at a discount. You should always ask them how they feel about that.

The note holder usually asks what the discount is. You should respond that it depends on how desirable the real estate is, the credit quality of the payor and how much equity there is in the property. *(Editor’s note: If a note holder asks me what the discount is I compare it to them buying a used car. They would ask “what’s the model? What’s the year? How many miles? What’s the condition?” etc. I tell them I need to know the equivalent of that to price their note.)*

It probably is not a good idea to go into the time value of money conversation. I cannot recall that method ever working. I typically will tell the note holder that the people who tend to come to us are generally people who have a financial problem or a terrific business opportunity that cannot get financed by a bank, relative or friend. Only after they have explored those options should they even consider selling their note as an option. *I cannot state this enough.* We typically aren't their primary option but a secondary or tertiary option. I like to use the term that I am the Plan B option. I might say something like this: *"It sounds like you have a better option. If plan A does not work out, you are welcome to call me back to explore the Plan B option."* By doing it this way, you are upfront with your intentions, and you are asking the seller to be upfront with their intentions. Too many times we waste time with people who would never sell the note even if we gave them 100 cents on the dollar of their note balance.

Always ask the seller why they took back the note in the first place. When there is a good down payment, you may ask the seller why the payor never went to the bank. If you can get the seller to open up to you about this, you will find out the problem of why he took back the note.

Remember if you can get this information out of the seller, you will be in a better position to negotiate an effective discount with the note seller.

Joseph M. Pepitone has been in the alternative cash flow business for 22 years. His company R&P Capital provides innovative capital for real estate notes, business notes, structured settlements, annuities, contest or jackpot winnings, billboard leases, cell tower leases, sports contracts and other notes few investors will buy. Call 1-800-338-5815 for further details.

The Bank of Time

If you had a bank that credited your account each morning with $86,400, but carried over no balances from day to day, and allowed you to keep no cash in your account and every morning cancelled whatever part of the amount you had failed to use during the day — what would you do?

Draw out every cent, of course!

Well, you have such a bank, and its name is TIME. Every morning it credits you with 86,400 seconds. Every night it writes off as loss whatever of these you failed to invest to good purpose.

It carries over no balances.

It allows no overdrafts.

Each night it closes the record of the passing day.

Each day it opens a new account with you.

If you fail to use the day's deposit, the loss is yours. There is no going back. There is no drawing against tomorrow. You must live in the present — on today's deposit.

Invest it so to get from it the utmost in health, happiness and success.

God bless! — *Don Tauscher*