The Paper Game
Volume III

"Profits in Creating Paper"

by

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Please Note

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Many of the forms presented in this material have been developed and used by the author's company. The author is aware that her company is not the exclusive buyer of newly created notes. These forms are good models that you can use. However, other note buyers may use different forms or have other requirements. You should also consult with your own advisors, attorneys and consultants to insure that any forms you use are consistent with local law and practice.

Some of the forms presented in this volume are not directly applicable to simultaneous closings, but are presented to help you familiarize yourself with forms and information often seen in real estate or note transactions. The more you know about the entire real estate/note world, the better prepared you will be to position yourself to profit from new or unusual opportunities that may present themselves.

This book is dedicated in loving memory of my mother, Helen Guidry Shadden, who left this world way before it was time. Thanks for watching over me and giving me the inherent skills and desire to become a success.

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Foreword

Never before in the history of mankind has there been the opportunities and knowledge available to everyone as there is right now, today. More people are achieving success faster now than at any other time in written history.

Just look at what is available to all of us! It is the age of almost instantaneous communication and access to information. The Internet has brought the world to our fingertips: it has even been referred to as the Information Superhighway, and yet...***it is up to us what we do with, and how we benefit from, that information.***

The system you are about to learn can literally change your life. It has definitely changed my life and many of the people with whom I have chosen to surround myself. Everything in this system has been tried and proven to be a success in the training ground of real life. I would never attempt to teach you anything that I have not done myself. This system has been my success.

> ***"If I wanted to become a tramp, I would seek information and advice from the most successful tramp I could find. If I wanted to become a failure, I would seek advice from men who have never succeeded. If I wanted to succeed in all things, I would look around me for those who are succeeding, and do as they have done." - Joseph Marshall Wade***

The materials you are about to digest are the culmination of years of experience in the real estate and discounted mortgage business. Use them as a guide to your future successes. You have the ability to accomplish more than you ever thought possible. All you need to do is ***learn*** the system, then take ***action*** by ***using*** the system. The greatest tragedy would be for you to listen to one or two of the audio presentations and then put the materials away and do nothing.

PERSISTENCE + ENTHUSIASM = SUCCESS

When I first started in the mortgage business, I had very little in the way of financial strength and assets. Initially, I sought out an investor that barely gave me the time of day. Knowing that I had to persist in order to succeed, I was in his path at every turn, making sure he knew who I was and what I was trying to accomplish.

Recently, I ran into this same long-time investor at a social event. He congratulated me on my success and told me that had I not been so tenacious, he would never have afforded me the opportunities that he had due to my lack of experience and finances. The reason I share this with you should be obvious: you have invested hard earned money into this course, and soon-to-be a lot of time learning the course. You will hit some bumps along the way, but always remember: allow your enthusiasm and tenacity to guide you along your path.

WHY PAPER?

I have been involved in real estate in one form or the other since the early 1980s. As a CPA, I have put together large real estate syndications and built three hotels. Residential home building occupied most of the late 1 980s for me. But it wasn’t until I discovered the discounted mortgage business that I really began to understand that sticks and bricks are not the only things that real estate dreams are made of.

Discounted mortgages are an excellent way for the beginning investor to make great returns by buying low and selling high without any money of his or her own. They are also an excellent way to control real estate without actual ownership! You can make immediate profits or, if you choose to invest some of your own money, you can make yields in excess of 10%, 15%, 25% or much more. When you think of high returns, you immediately think of high risk. The beauty of this system is that I will show you how to get high yields with ***minimal*** risk.

There are two ways to make money with real estate: ***own*** or ***loan***. My niche has never been with tenants and toilets, so I ***loan*** or ***carry paper***. Paper is a valuable asset that can be sold or traded or kept for my own portfolio to generate high yields and cash flow. Almost every Fortune 500 Company, from insurance companies to automakers, is heavily vested in real estate mortgages. Even the federal government buys and trades billions of dollars of real estate secured notes annually. These trades are made through the Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Association (Freddie Mac).

WHAT THIS MANUAL IS AND IS NOT!

The objective of this course is to teach you the knowledge and help you develop the skills to allow you to participate in ***simultaneous closings*** or, the creation of paper and its subsequent sale. You can use these techniques to help you buy or sell real estate for your personal portfolio, or, if you prefer, you can use them to help others do the same.

Specifically, it is designed to allow you to work with the seller of a property to structure a note through the sale of real estate that you, or your back-end note investor, can purchase immediately after creation. This includes structuring notes for flipping and for personal investment as well as using these techniques to buy and sell property. In other words, they will help you structure seller financing for your own profit. Once you know the basics of paper, you will only be limited to your imagination.

This course is NOT...

This course is not a “get rich quick” scheme! As with any business, the profits you reap are in direct proportion to the amount of effort you put into the endeavor. There are courses in the marketplace that promise wealth without work. This system makes no such claim or promise. Only in the dictionary does *success* come before *work*.

This is also not a course in mortgage lending or being a mortgage broker. Any time a person arranges a loan for a consumer and quotes an interest rate to that consumer, he or she is acting as a mortgage broker. In most states, acting as a mortgage broker requires a state issued license.

On the other hand, we are dealing strictly with seller-financed paper where the seller of the property is, in this case, also the lender. A seller of personal real estate does not need to be licensed in order to carry a mortgage (as of this writing), nor does he need one should he ever decide to sell that mortgage.

This course will not cover the concept of "flipping" properties, also known as a double closing. Although buying a piece of property at one price and "simultaneously" selling it a higher price is not illegal or even unethical, it is frowned upon by most investors. This is due to the "stretching" of property values, which has caused substantial losses for many institutional investors. Because this course focuses only on seller-financed mortgages, this technique will not be covered.

There are several real estate courses that teach you how to sell property at above market value and have the seller carry a "phantom" second lien that is released after closing. Other so-called creative financing gurus brag that they will show you how to make huge profits using "double contracts". One contract is executed between the buyer and the seller of the property and another one with different terms is shown to the lender or investor. Some will even show you how to write "side contracts" to make up for the discount in the note purchase.

Without full disclosure to the lender or investor, these methods may constitute fraud. **Such fraudulent methods of conducting business will not appear in this course.**

This course *IS*...

This course ***is*** designed for the individual concerned about his financial future. It recognizes that success is the result of guided efforts consistently applied over a period of time.

The materials focus on the basic tenets of Simultaneous Closings, where a property is sold and a privately held mortgage is created; the newly created mortgage is then purchased immediately after closing. This tool enables real estate investors to purchase homes without jumping through the hoops of conventional financing, and helps them sell their homes to a wider array of buyers.

It has also been created to provide note buyers with an "added tool" in their business: using seller financing to facilitate real estate transactions, and providing benefits to the property seller and to the real estate community. Through this technique, it becomes possible for the note broker to "flip" these notes to an investor, invest in them for personal, long-term wealth building, or acquire properties for a personal portfolio.

The information and investment techniques provided are based on actual experiences and will provide financial return in direct proportion to the amount of effort and knowledge the reader applies to his or her business activities. This publication is a careful balance of theory and practical, down-to-earth techniques, which have been tried and proven successful not only at the company my partner and I started 10 years ago, but at other note buying companies across the nation. This course provides you techniques that have helped me, and many others, to become successful in this business.

The end result is ***action***. I want you to succeed. In fact, if you choose to have my company buy these notes, then our success literally depends on yours! This program is designed to prepare you for a new or improved role in the privately held mortgage business. It does not require any special "genius"... but it does require a solid knowledge of basic principles. Only when you acquire specific knowledge, apply a system, and fuse it with motivation and consistent action, will you realize your personal and financial goals.

"I studied the lives of great men and famous women; and I found that the men and women who got to the top were those who did the jobs they had in hand, with everything they had of energy and enthusiasm and hard work." -- Harry S. Truman

Welcome to the Game!

INTRODUCTION TO PROFITS IN CREATING PAPER

Welcome to the show! Every note deal really is like a magic show – there's all of the groundwork that must be done to make it come off just right. You need to make sure that you have all the right equipment, check for anything out of the ordinary behind the curtain, know what you are going to say and do at any given time, and remember that presentation is everything! Of course, there is a lot of preparation that goes into each illusion (*which is **not** to imply that the paper business is in any way an illusion!*), so let's take some time to prepare ourselves for getting through this course!

Imagine sitting in the hot seat in New York City having Regis Philbin ask if you want to be a millionaire! Of course it is possible but not likely. A major American newspaper recently took a poll and asked, "How do you plan to retire financially?" The majority of the responses were, "I plan to win the lottery!" Isn't that sad? You have a much better chance of being struck by lightening than you do of winning the lottery, yet people pin their hopes and financial future on something that may never happen.

I recently attended a seminar dealing with offshore asset protection. One of the attorneys lecturing pointed out that the majority of the American people have three plans for building wealth:

1. Winning the Lottery
2. Winning a Lawsuit
3. Inheritance

Can you imagine? Unfortunately, so many of us have the tendency to assume that the future will take care of itself, when, in fact, it really is a result of what we plan and put into it.

I'd like to *congratulate* you for taking action in your life to secure your own financial future. *Congratulations* for taking action and investing in materials to further your business and your education. *Congratulations* for taking action by actually listening to the audio materials and reading the manuals. By taking action in your life and applying that action to learning and most important, **doing**, you have taken the necessary first step to accomplish your goals.

"Can I really become a millionaire? Can I really make the money I deserve in the note business? Can I really buy real estate with little or no money out of my own pocket? Can this tape-set and manual really show me how to get it all together, and achieve the success in the note business I seek?"

These concerns are probably running through your mind as you start to flip through the pages of this manual. These same concerns were probably present in your mind when you decided to obtain these materials. Good for you! The people who ask intelligent questions and act upon the answers are the ones who make intelligent decisions.

Rest assured that the worst of your fears are unfounded. Really, isn't **FEAR** only ***"False Evidence Appearing Real"***? This course will show you how, with a little luck and a lot of effort, you, too can become a raving success in this business, and become financially independent. You **CAN** create your own note deals. You **CAN** purchase real estate with little or none of your own money. You **CAN** sell your properties faster. You **CAN** control your business and your financial security!

All of the above statements are guaranteed to work, but... only if you do! The definition of lunacy is doing the same thing (in your life or in your business) over and over again and expecting different results. Make these efforts part of your daily practice, and remember that **Small Steps** are **Big Deals**.

> ***"You don't just luck into things... You build step by step, whether it's friendships or opportunities." – Barbara Bush***

A Brief History

The note business is a totally different animal today than when I first started about eighteen years ago. Back then, the discount wasn't calculated by yield or investment to value. Take 30% off the face of the note and you had a deal. Major Wall Street-backed investors entered the arena; investors started buying at yields lower than ever before. They have certainly changed the face of the industry, but they aren't the only contributing factor.

In the last fifteen years, several marketing companies have come onto the scene, espousing the benefits of participating in the "discounted paper" market. They have held countless seminars, and have put thousands of potential note buyers into the marketplace. They all teach similar methods for finding notes, which means that a majority of note brokers are concentrating on the notes that comprise the "tip of the iceberg." Competition has heated up, and many new brokers are competing for the same deals. That's not to say that there aren't plenty of notes out there...

According to a huge major investor, there exists in today's marketplace approximately $400 billion in notes currently held by private sellers. And, it is estimated by another major investor that at the present level of serious buyers, 15 years would need to elapse in order to deplete just the ***current market!***

The Problem...

Of course, why settle for spending the day at a courthouse researching note holders when you can leverage your time and have people bring notes to you? Why settle for a mere 2% response on a mailing only to find a small commercial 2^{nd} lien behind a huge first (on a property with gas tanks!)? Why go through all of the efforts, only to find a note that:

A) You and your investor are unwilling or unable to buy, or...
B) Someone else is already competing with you on that note, or...
C) The seller wrote the note at such a low interest rate that the prevailing market yield creates a huge "discount"?

Competing with others on existing notes can, at times, be "challenging."

There's Also Another Challenge...

If you are a real estate investor that is trying to sell some of your properties, you have certainly experienced the difficulties in working with some of your potential buyers, as well as in working with their lenders! Aren't you tired of so-called mortgage professionals lying to you about the status of the loan? Doesn't it grate on your nerves to have a perfectly good buyer in place only to have the lender tell you that they can't work with him, ***because you haven't owned the property long enough?*** Or what if you are trying to buy a house, only to be told that the ***lender turned you down because you are a full time real estate investor?***

The Solution...

Simultaneous Closings! Back in 1997, many of us saw a change in the note industry, and wanted to adjust our business accordingly. Several of the major "institutional" investors had started buying notes with no seasoning requirements. We were, frankly, very excited at the prospect of being able to buy and sell "brand new" notes. Suddenly, we were able to help ***create*** the note, and in doing so, ***create*** our own business! The trend started, and continued, and now, it seems as if, all of a sudden, we are once again faced with a myriad of changes in our industry and in the way that we do business.

The Challenge...

Why not be different, and go in another direction? Wayne Gretsky, hockey's all-time leading hockey scorer, attributes his success to the following credo: "*Dont go where the puck* ***is****, go where it is* ***going*** *to be."*

If you are a property investor, why do the same old thing and with lenders, expecting different results? As a note investor, instead of competing with others chasing the same existing notes, why not create your own? Then, your competition becomes your clients (mortgage professionals will send ***you*** business), and you are providing a service to your real estate community by providing a financing alternative where none existed. As an added benefit, notes are being created that you know you can buy, because the seller structured them to meet YOUR criteria!

Are you willing to change with the times? Are you willing to be the best you can possibly be in your chosen profession? Are you willing to place yourself at the forefront of the industry, rather than follow the pack?

Let's assume "yes" to the previous questions, otherwise, you wouldn't have invested in this course. The next step is to undertake a thorough understanding of simultaneous closings, the latest trend in the note industry. We will explore some of the main issues surrounding this technique, as well as "right & wrong" ways to play the game. I will walk you through a deal from beginning to end. We will explore where to find the business (or how to have it find you!), as well as specific applications for this technique. In other words, we will tune in to that popular radio station: **WII-FM** (What's In It For Me?). Finally, we will explore specific transactions that will help you in your business.

Before we go on...

Now that you know where we are headed, here are ***Five Action Steps*** you should take into account to get the most from this course:

ACTION STEP 1: The first step is to create a framework for your newfound knowledge. You need to tell your brain what it is going to learn, then teach it, then review it and integrate your new knowledge into practical application. To create this framework: Thumb through the manual, and notice the chapter headings.

In other words, **Preview**, **Do,** and **Review**!

ACTION STEP 2: Review the existing note (pretty paper) business by reviewing The Paper Game – Volume 1: Profits in Pretty Paper. This is essential to solidify your knowledge base so that we can build upon it, as we get further into simultaneous closings.

ACTION STEP 3: Review the calculator materials as I've presented them in the accompanying course, ***The Money Machine***. Be sure and **DO THE EXERCISES** in the accompanying material. You may already be proficient with your calculator. If so, this material will be a very basic review. On the other hand, it is **ESSENTIAL** that you have these basic skills as you progress throughout the course.

ACTION STEP 4: Finish reading the manual, and... don't be afraid to ***mark it up and take notes*** in it! This is a learning exercise – not a neatness test!!

ACTION STEP 5: As the old adage says, "Practice makes perfect." Practice, practice, practice and apply what you have learned. And remember: *Rome wasnt built in a day!*

Let the Show Begin!

A REVIEW OF THE EXISTING NOTE BUSINESS

Every show has its grand entrance, every act a beginning. However, in order to move forward into simultaneous closings, we must first make sure that we are comfortable and familiar with the basics in the note business. In this section, we will review the following: the **elements of a note**, **ways to buy existing notes**, and the concepts of **Loan to Value** v. **Investment to Value**.

When we, in the industry, refer to a ***note***, we are basically talking about a receivable that was "carried" back by a seller when he sold his home. In other words, the buyer of the property, instead of going to a bank or lending institution to borrow the money, went to the seller and said, *Can I just owe it to you?* The seller agreed, and the buyer gave the seller an I.O.U. as evidence of that debt. In other words, a ***note*** was created, and now the buyer is making payments to the seller every month instead of to a bank. Because the seller is now receiving payments, he has something of value that he can sell.

Why would the seller sell the note?

There comes a time in the life of many sellers, when they tire of receiving those little monthly payments over a long period of time, and would really just rather have the cash. Often, they have a specific use for the cash – maybe there are bills to pay, or higher paying investments that need a cash infusion, or a multitude of other needs. Of course, in many cases, the seller didn't want to carry the note in the first place, but did so to facilitate the sale of the property. When giving someone cash NOW for the right to receive payments over a period of time, the **Time Value of Money** comes into play.

Giving someone a smaller lump sum of cash now versus small amounts over a long period of time is the same way that both Las Vegas and the State Lottery systems pay out their money. For example: if you were to win the State Lottery $30 million jackpot in your home state, you probably already know that you have two different choices on how you can receive that money. You can take $1 million per year for the next thirty years, or...if you want it all now, you'll have to take a considerable discount. The reality is that if you want it all now, the state will probably only pay out about $18 million (60%) in one lump sum.

PAPER MAGIC TIP: In our example, the more money you receive now, the less you get overall. The reverse is also true: the less you receive now, the more you get overall. In other words, if you chose to receive $18 million now, that's all you would receive (more now, less later). On the other hand, if you chose to receive less now ($1 million), you would receive $30 million over time (less now, more overall)!

The same goes for winning the jackpot in a large casino. The casino reserves the right to either pay you over a period of time, or to discount that amount to today's present value should you want a large, lump sum now.

In other words, both of these institutions use the benefits of the **Time Value of Money** in their favor.

PAPER MAGIC TIP: The buyer of the property cannot sell the mortgage. Only the seller, who is *receiving* the payments, has an asset that may be sold. In other words, if you win the lottery, you can first sell that receivable and get cash now. Then, to invest that money wisely, you should know that I'm open for dinner and know this great little restaurant in Paris...

Now then, the following will be a review for those of you who have read my materials covering the basics of paper entitled, ***The Paper Game***. For those of you who haven't, this section will make sure that we are all *singin' off the same page of the hymnal* before we move on, or, for those of you not from the South, this section will make sure that we are all *talking the same language and have the same points of reference.*

DEFINITION OF A NOTE

When we talk about a note, we are really referencing **three** major elements:

1. The **I.O.U.**, which is the evidence of the debt. This is often referred to as the ***mortgage note***. The person making the payments (usually called a mortgagor or grantor) executes it in favor of the seller. In other words, the payor owes the seller money, and this document is the proof of that debt.

2. The collateral or **security instrument**, which is the actual ***mortgage*** or ***deed of trust***. This is the document that basically says to the borrower: "If you don't pay, you don't stay!" This document is filed at the courthouse, and is a matter of public record.

3. The third element is one called "clear title." In other words, unless the grantor has unencumbered rights to the property (and therefore the ability to pledge it as collateral), then an investor's investment (the money they have in the note) is basically unsecured.

Collectively, we refer to all three of these items together as the ***note***, or as ***paper***. Now you'll know that if I say I am buying a *note* or dealing in *paper*, these terms (used here interchangeably) include all three of the components listed above.

PARTS OF A NOTE

Just as every magic trick has several parts that make up the whole, so every note has its parts. In fact, to be more specific, there are *four* parts to every note, and some of them actually have *five*. They are:

1. **Present Value (PV):** This is often called the "face" amount of the note. It is the amount that the payor originally "borrowed" from the seller, and is also referred to as the *principal balance* of the note.

2. **Number of Payments (N):** In the United States, most mortgages are amortized over thirty years, or 360 months. All this means is that the payor has 360 months to pay back what he borrowed plus interest, and that at the end of this time, the note will be paid in full. In other words, (N) stands for the number of payments allotted to the payor to repay the note.

3. **Interest (I):** The interest rate reflects the amount of "rent" the payor pays for the money. Oftentimes, in an ***interest-only*** loan, this "rent" is the only thing that is paid. At the end of the term, the payor still owes the full principal amount. (Compare to a fully amortized note in the previous paragraph.)

4. **Payment (PMT):** Determined by a combination of the three items mentioned above, this is the amount the payor is responsible to pay every period (usually every month). The payment will go ***up*** if the interest rate is raised. It will also go ***up*** if the amortization period is shortened. It will go ***down*** if either the interest rate is lowered, or if the amortization period is lengthened.

5. **Balloon (FV):** There may be instances where the seller did not want to wait for the full amortization period to pass (30 long years), and would like to get the balance of their money in a few short months. If there comes a time in the mortgage when a lump sum, or even the entire remaining balance, comes due before the amortization term, we refer to this as a ***balloon*** payment.

WAYS TO BUY A NOTE

As note investors, we look at notes as a series of payments available for us to purchase. If the note has a balloon in it, we look at that note as having a series of small payments, and one very large payment. We can buy all of the remaining payments or just some of them – depending, of course, on how much the seller needs from the sale of his note. Remember that if we buy just a portion of the payments, the note will revert to the seller after those payments have elapsed.

Just as there may be fifty ways to leave your lover, there are several ways to buy a note. I have tried to cover the basic ones below:

WITH NO BALLOON:

Full Purchase	-Buy all of the payments.
Partial Purchase	-Buy a series of payments.
Split Purchase	-Buy a part of *each* payment.

WITH A BALLOON:

Full Purchase	-Buy all payments and the entire balloon
Partial Purchase	-Buy a series of payments and all of balloon.
	-Buy series of payments and part of balloon
Split Purchase	-Buy part of *each* payment and all of balloon.
	-Buy part of *each* payment and part of balloon.

You get the picture! There are literally hundreds of ways to buy notes, depending on how many payments, how much of each payment and how much of the balloon you buy.

PAPER MAGIC TIP: Find out exactly what the seller needs. Only then can you exercise your creativity by structuring a note that meets the seller's needs.

LTV vs. ITV

The last part of the basic review includes two concepts:

Loan to Value (LTV)

Investment to Value (ITV)

Loan To Value: Also known as **LTV** (Loan to Value), this is the amount, expressed as a percentage, the payor ***borrows***, divided by the value of the property. As an example: if a borrower only put five percent down on a $100,000 property, the amount he owes the lender (or the seller, if the seller carried the note) in this case is $95,000, or **95% LTV**. Because the amount of money a buyer puts down on a house is directly associated with possible risk of default (let's face it – if you have $50K that you put down on a property, the chances of you walking away from that property are slim to none), so, too, is the LTV a direct reflection of that risk.

The higher the LTV, the greater the risk that the borrower will default, and the greater the risk that the lender will lose some money.

Investment To Value: This concept, known as **ITV** (Investment to Value), represents the amount of money an investor ***invests*** in the note, or pays for the note, again divided by the value of the property. In our above example, though the note may represent a 95% **LTV**, the investor may choose to buy only a portion of it, paying $70,000 for just that portion. In this case, the investor would have a **70% ITV.**

Now then, let's say that you go out and stumble across a note where several payments have already been paid. We refer to this existing note as a ***seasoned*** note, where the seasoning reflects the number of payments that have already been made (*That note has six months seasoning on it!*). On seasoned notes, note investors usually concentrate on their **ITV**. Because there is a payment history, **LTV** is no longer that important (see previous explanation of LTV). Therefore, a note investor may purchase a note that represents a 95% **LTV**, but because they are only buying a portion of the note, their risk, or **ITV**, may be limited to 75% of the property's value.

Simultaneous notes, however, present a different set of challenges. One of those is: *How much does the payor have into the property, and is it enough to discourage them from walking away from it if and when the going gets tough?* As a result, simultaneous closings also look to **LTV**, because they want to make sure the buyer is vested in the property. This is especially true if the payors have bad credit.

REVIEW

Now that you've reviewed the basics, we truly can, ***Let the Show Begin!*** Of course, if ***any*** of this sounds foreign to you, go back review this section. Then, be sure and review the calculator materials.

PAPER MAGIC TIP: If you need to stop and review, **DO IT NOW!** Don't go ahead – it will only confuse you. Please make sure that you grasp the basics before "levitating" to the next level!

Now that you have done that, let's move on to an overview of simultaneous closings, literally creating something from nothing. And while we're at it, remember the old Chinese proverb:

"The man who removes a mountain begins by carrying very small stones."

Magic Rules!

A WORD TO THE WISE…

Magic Rules! There's a phrase that can be interpreted several different ways: Either magic is really great and totally *rules*, or the rules themselves are magic. Then again, maybe we should be talking about the rules to *perform* magic! Personally, the last definition really fits, but it seemed so appropriate to use this phrase to name this chapter, because, in a way, all *three* definitions fit! This technique is really ***great***, the rules ***are*** magic, and you definitely need to ***play by the rules*** in order to perform this technique.

It seemed so appropriate: as both real estate investors and as note investors, you should appreciate this technique, be awed by its capabilities, and be aware that there are certain things that you ***should*** and ***should not*** do when conducting your business.

The creation of seller-held notes provides the unique opportunity of matching the buyers' needs with those of the seller, and creating solutions that work for everybody. In the process of creating that solution, however, keep in mind:

These closings must be done legally, ethically, and with full disclosure to all parties.

As with everything, there is a right way and a wrong way to do these. Before going any further, it is important for you to be aware of several issues that frequently arise regarding simultaneous closings. They're nothing to be afraid of, but you should be aware of them:

Usury: Usury comes into play when the buyer pays a higher interest rate than your state allows. It applies to the rate the borrower is *paying*, ***not*** to the yield the investor is *receiving*. Seller carried notes should be structured at a rate comparable to the sub-prime lending market, which is around 10.5% to 11% on a fixed-rate loan (Even though the banks offer lower interest rates, remember that the banks turned the borrowers down). Seller carried notes should also be structured to comply with your individual state's high cost lending and usury laws. **DO NOT**, under any circumstances, be involved in a transaction that "gouges" the borrower, nor should you charge the buyer any lending fees or points (especially if you are the seller of the property!). If you do, it could be construed that you are acting as a mortgage broker, which would most likely require you to be licensed in your state.

The seller is your contact: if you are a note buyer, make your profit on the discount to the seller, and make sure that the discount is ***not*** passed on to the buyer through an inflated price or a *double contract*. If you are a real estate investor, you will make your money off of the sale of the property, *not* off of the sale of the note. (That would actually be like robbing Peter to pay Paul!). UNDER NO CIRCUMSTANCE should a side agreement ever be made for a buyer to reimburse the seller for his discount. Your best bet on this one – let an experienced note investor guide you through the process.

Licensing: The gray area with simultaneous closings is whether the note investor is *lending* money, and should therefore comply with lending laws. Some note investors even require the first payment be made at closing, to prove they are buying an *existing* mortgage. The laws in most states, however, apply to third party transactions: i.e., when an outside lender comes in and *funds money directly to the borrower*. **This is *not* the case with simultaneous closings.**

Acting as a note buyer, you are buying an *existing* note. The ***seller*** owns the receivable, and as a note buyer, the ***seller*** is your contact. If you are unsure, your best bet is to check with your note investor, whose attorneys will not let them even draw closing

documents in states where it is against the law to fund without a license. *Stay away from straight loans* (you are ***not*** a lender), and learn how the law applies in your state.

Disclosure: This is an important issue – one often ignored in real estate transactions. Any time a private seller carries a note, and has sold more than five properties in a calendar year, federal regulations require that he/she must disclose interest rates and closing costs to the borrower (Reg. Z, TILA). Any licensed mortgage broker or lender is subject to the same laws. However, as a seller/buyer of real estate, and as a note buyer...

You are not a lender.

Doesn't it make sense, though, to make sure that the seller notifies the buyer, far in advance, what their interest rate and closing costs will be? It's last minute, needless surprises that cause trouble. Simply avoid them by letting all parties know the details well in advance (use a standard Truth in Lending Disclosure and Good Faith Estimate of Closing Costs), and, to avoid any misunderstanding, be sure to put it in writing!!

"Hey Jayme! This sounds really complicated. Should I be scared?"

NO! Not in the least! Don't let these issues scare you! When done properly, and under the guidance of an experienced investor whose attorneys make sure they are compliant with all laws (as you should be!), simultaneous closings are an exciting tool that is very beneficial to the marketplace. They allow people to get into homes who would not qualify for a loan through conventional lenders. We love them because of what they can do for everyone in the transaction: the buyer avoids costly lender's fees; the buyer does not have to qualify through traditional channels, the sellers get what they need, and so do any of the real estate professionals involved.

Where do simultaneous closings fit in?

There are several ways to view simultaneous closings:

1) Use them to "flip" to an investor for immediate profit; the way most note-buyers do with their current business.

2) Use them to build your own personal real estate portfolio by buying and selling houses through seller financed notes.

3) Or, if you prefer, personally invest in notes created by sellers in Simultaneous Closings. Not only does this technique help you with your goals, but also it allows you to offer solutions to the real estate community, including real estate brokers and mortgage brokers. Simultaneous closings allow them to close on transactions that they would not normally have been able to close!

PAPER MAGIC TIP: As a real estate investor *and* as a note investor, it is important that you become familiar with the programs that different lenders offer. As a real estate investor, you need to know the easiest way to get a willing buyer financed. As a note investor, you need to be able to know how this technique compares to other programs in the marketplace.

Through this course, you will learn that there is a major corporation in the country that provides a majority of the final funding on deals. This is where the "golden rule" comes into play. The Federal National Mortgage Association (Fannie Mae) has the gold...it makes the rules!

You will also learn that a large percentage of America's population do not fit in the *box* created by these rules. They may be self-employed and not show all of their income. They may have less-than-perfect credit. They may not want to reveal the source of their down payment. All of these things are stumbling blocks to getting a conventional loan – they now need to explore alternative forms of financing their real estate.

You will learn to compare simultaneous closings (seller financing) with “A” paper lending, as well as the now-defunct “B & C” lending (credit risk is graded as you would a report card, using A, B & C). Learn these comparisons, so that you can *talk the game*. And, always devote yourself to continuing education, so that you can become an expert in this, your chosen field. Don’t get caught-up in the following...

COMMON MISCONCEPTIONS

Quality of Borrower: A common belief is that these transactions only involve people who have bad credit. In fact, that very statement erroneously implies that all notes have bad credit. *Nothing could be further from the truth!* Most of our transactions center around two facts: The buyer did not fit traditional Fannie Mae guidelines, and/or the buyer was unable to obtain a loan conventionally. They may be self-employed and write off most of their income; they may own more than four properties; they may have used “mattress” money for their down payment. The list is extensive – the reality is that in a properly executed transaction, the payer is scrutinized even more closely than with existing notes.

Quality of Property: Another popular misconception is that the properties are in below-average condition, or are sold significantly above their value. We see properties in all conditions. Investors fund based on appraised value, from a nationwide appraisal company, and sometimes even with an appraisal review. Remember, investors are concerned with the marketability and safety of their collateral, and make decisions accordingly.

A PARADIGM SHIFT...

Finally, as you work your way through this course, you, as a note buyer, should view simultaneous closings as a ***shift*** in the way you do business. Don’t get caught up in the “old & cold” vs. the “simultaneous” debate which seems to have a chokehold on our industry. Rather than looking at simultaneous closings ***instead*** of existing notes, why not view them as an ***additional*** method of closing note deals? Existing notes are great – simply add simultaneous closings to your arsenal of ways to close transactions.

As a real estate investor, you should view simultaneous closings as a way to achieve several goals:

1. Open up the sale of your properties to a wider array of buyers by avoiding conventional financing.
2. Buy properties and get cash back at closing from your profit off of the sale of the note (more about that later...).
3. Make money by controlling the paper on the property, rather than owning the property itself.

By viewing simultaneous closings as a ***shift*** in your business, you are committing yourself to an ongoing, ever-changing process of keeping up with the market, rather than an "either/or" situation. Dealing in ***pretty paper*** is wonderful; ***creating your own*** can be even better. Both techniques have their rightful place, and even though you may prefer one to the other, at least have the good sense to carry both of these *tools* in your toolbox as a service to your buyers, your sellers, your customers, and to the marketplace.

In conclusion, simultaneous closings are a wonderful, profitable and effective alternative to conventional financing. If executed correctly, they can solve problems and provide a much-needed tool to the real estate community. Realizing that they are viable, legal and ethical, avoid the ***dark arts*** by always conducting yourself appropriately, and adhere to the following:

1) **Always disclose everything to all parties (up front!).**
2) **Be truthful in all statements, both written and verbal.**
3) **Close the transaction through a legal closing entity (title company or attorney), and most important...**
4) **Let an *experienced* note investor guide you through the process.**

And now, if you are ready to continue, remember the words of Samuel Johnson...

"Great works are performed not by strength, but by perseverance."

Potions & Spells

COLLECTING THE RIGHT INGREDIENTS

Just as it is important when creating a magical potion to gather all of the correct materials, so it is also important to gather all of the correct information when creating a simultaneous closing. First of all, let's review the definition:

A ***simultaneous closing*** consists of two separate transactions, which occur one right after the other, or, in effect...*simultaneously*.

1. **Step One** is the sale of the **property**, when the seller-held note is created. After the mortgage is created, the investor steps in and buys the newly created note (Step Two) from the seller/note holder.

2. It is best to view **Step Two** as the purchase of an ***existing*** note. The only difference is that this new note is *unseasoned*, meaning that no payments have been made. All normal rules still apply (See the ***Paper Game*** for a review of basic note buying principles):

A) You can still purchase all or part of the note; including partials, splits, and split-balloons.

B) You are still limited by your Investment to Value (ITV), and in some cases, also by Loan to Value (LTV).

The creation of a new note, however, comes with its own set of concerns. And the first step, of course, is to gather all of the pertinent information from all parties.

Instead of just focusing on his own needs, the seller also has to pay attention to those of the buyers. How much can they afford to pay per month? Do they have a down payment? Have they allowed for closing costs? How much do they want to pay for the home? Why are they seeking seller financing (in other words – why did the mortgage company turn them down)? All of these issues are important. That's why I've included a list of questions for the buyer *and* the seller, as well as a special worksheet to use when doing simultaneous closings.

Before going on, however, I'd like to share a little role-play with you that will help explain the ins and outs of simultaneous closings. Just as a magician involves audience members and assistants to help him tell his story, this play involves a cast of characters that will help clarify the concept. After the play, we'll take the time to review it, explore specific concepts, and teach you, too, to gather the right information or, in this case, the correct information.

MERLIN'S MAGIC...

This entire course has centered on the magic of paper, so I thought it only appropriate to entitle this little play, *Merlins Magic*. (Contain your excitement, please!) Seriously, and with all kidding aside, it is a play that was conceived by a note investor who has been in the business for quite a long time. With his permission, I use a modified version here (I have nothing better to do in the evenings than edit plays!), to put this whole technique in a clearer light. I've included it for several reasons:

1. Notice the way the hero, "CC" Cash, is portrayed, and pay particular attention to the things that he says, and the way he says them. "CC" is my version of Merlin, the Magician!
2. Keep an eye on Alex Agent (our "villain") and his reactions. Notice how "CC" keeps his cool in the eye of adversity, and even tries to get business from this grouchy realtor. (**Special note:** I have found that once turned in your favor, these make some of your best clients.)

3. "CC" works with the sellers, and yet emphasizes that he is not lending money. Watch him as he "works his magic."
4. There is an example at the end – work it out using your calculator, and even draw funny little houses if you need them to understand this transaction.

MOST IMPORTANT: Read the play a couple of times. It explains, in a fun way, the concept and application of simultaneous closings, and will answer a majority of any questions you have to this point. And so, ladies and gentlemen, we present...

"MERLIN'S MAGIC"

CAST OF CHARACTERS

C. C. "Chuck" Cash - Creative financier, saver of deals and all around good guy. A modern-day, *Merlin the Magician.*

Betty and Bill Buyer - Nice prospective buyers of a home located at 1110 Walnut Ave., now financially quite capable of purchasing a home but have had some hard luck in the past.

Rhonda Realtor - Flexible, open-minded real estate agent with a ′can do" attitude representing the buyers of the home at 1110 Walnut Ave.

Alex Agent - Rigid, conventional Realtor who thoroughly understands bank financing representing the property at 1110 Walnut Ave.

Shirley and Sam Seller - Agreeable but uninformed sellers of the home at 1110 Walnut Ave. who want cash to move into the retirement community of Shady Acres.

ACT I

Our drama opens in the office of C. C. Cash. The telephone is ringing (with three lines holding) as C. C. answers the phone:

C. C. CASH: *Hello, this is Chuck Cash. May I help you?*

RHONDA: *C. C., this is Rhonda. Rhonda Realtor. I have a couple who are trying to buy a home at 1110 Walnut Ave., and none of the regular lenders will qualify them for a loan. I was hoping that as a creative financier, you might be able to help them out. Will you loan money to people who have had some hard luck but have reestablished their credit within the last two years?*

C. C.: *Rhonda, its great to hear from you again. As you know, I am NOT a lender, but I may be able to help your clients using creative seller financing. What we do is work with sellers to help them structure a note between the buyers and themselves that we can then purchase at the closing. Are the sellers of the property willing to be flexible? Remember, I may not be able to do a deal unless the sellers have some equity in their home.*

RHONDA: *The sellers are represented by Alex Agent and so far, I have not been able to talk to them directly. You know how Alex is (HA!). The asking price of the home is $85,000 and I know the sellers have a first lien against the home of $31,000. They are anxious to sell because they have put a small deposit on a condo in Shady Acres.*

C. C.: *Rhonda, our next step is to set up a meeting with the buyers and see what we can work out. There must be a meeting of the minds of both the buyers and the sellers to structure a deal.*

RHONDA: *Great, Ill set up a time and give you a call back.*

Rhonda calls C. C. to tell him that the meeting is set up for 4:00 tomorrow.

ACT II

We are in the office conference room of Rhonda Realtor. The scene opens with introductions already made. Present are C. C. Cash, Rhonda, and Betty and Bill Buyer.

C. C.: *Mr. and Mrs. Buyer, its a pleasure to meet you and Im sure we can work out a way for you to buy the home on Walnut Ave. Do you know why you were turned down for a conventional mortgage?*

BILL: *Well, C. C., its like this. I lost my job a couple of years ago and we got behind on some payments. We even had to let our boat go back to the bank. On top of that, I started my own business two years ago so I am self employed, and you know how banks feel about that!*

BETTY: *We have been doing very well in the business and have accumulated some cash so we thought we might buy a home of our own instead of paying rent. Its kind of like pouring water down a dry well when you have to pay rent. We pay our bills right on time now but we were still turned down. Banks are such a pain! I hate banks!*

C. C.: *In all honesty, it may not be the banks fault. They have to abide by ~~strict~~ underwriting guidelines to sell their mortgages to large mortgage companies. Did you know that almost one half of the people that apply for a conventional loan are turned down?*

BILL: *Can you loan us the money to buy our home?*

C. C.: *Were not lenders. In fact, we are investors. The way we do deals is to advise the seller how to structure a sale using owner financing, so that we can buy the note at closing.*

Sometimes a seller is not interested in selling his home in that way because he may have some notion that he is unable to receive full value for his home. Nothing could be further from the truth! The deal can be structured in such a way that the seller gets cash, you are able to buy the property, the Realtors earn their fees, and we get a good investment. Its a win, win, win, win for everyone!

BETTY: *This sounds too good to be true! There must be some kind of catch.*

C. C.: *Theres no catch at all. We just try to play Merlin, the Magician, and simply work magic on our deals. We make deals doable. We determine what the seller needs and what you, the buyer, can pay, in order to structure a deal to meet everyones needs.*

I understand that the sales price of the home is $85,000 and that, if you could have done the deal conventionally, you would have put down ten percent ($8,500) and your monthly payment would have been around $560 per month. Since we are going to creatively finance this home, your monthly payment may be slightly higher, and you will have a balloon due in 7 years.

Dont let a balloon scare you. At the end of seven years, you will have cleaned up your credit report and will be able to refinance your home to pay off the balloon. Now, how much can you afford to pay per month and still be *comfortable? Remember, we dont normally collect for taxes and insurance at escrow.*

BETTY: *Gosh, C. C! Id have to redo our monthly budget, but we can probably afford around $675 per month.*

C. C.: *Thats great! Can you afford to put down more than 10%?*

BILL: *Our business has really been booming so we can probably put down $15,000 and still have enough to buy new furniture.*

C. C.: *Remember, even though your closing costs will be less than going through a lender, you are still going to have about **$1,500** in closing costs.*

BILL: *I know, Ive already thought about that and included it in the amount we have.*

C. C.: *OK, we have a tentative plan. Youll put $15,000 down and your monthly payment will be $675 with a balloon due in 84 months. The next step is to have you complete a pre-purchase application so that our investment group can run a credit check. If what you say is correct, you will have reestablished your credit for the last two years and thats good enough for us.*

BILL: *Whats the interest rate on this deal?*

C. C.: *Thats a good question. I really dont know yet. I need to talk to the sellers and find out what they need. Then Ill structure the note with as low an interest rate as possible. It will be higher than a traditional lender but remember, they turned you down.*

BETTY: *Oh, honey. Im so excited! Just think, a home of our own!*

Bill and Betty shake hands with C.C. and leave.

C. C.: *Rhonda, lets call Alex and see if we can meet with the sellers and wrap up this deal.*

RHONDA: *Alex Agent, please. Rhonda Realtor calling. (waits for answer) Hello, Alex, this is Rhonda Realtor. Im here with C. C. Cash and he thinks there may be another way to do the sale on the 1110 Walnut Ave. home for Shirley and Sam Seller. Ill put you on the speaker phone so we can work this out.*

C. C.: *"Hello, Alex, C. C. Cash here. I'd like to propose that we structure the sale using owner financing, and my investment group will give the seller cash at closing."*

ALEX: *(in his grumpy way)"You've got to be kidding! You guys discount those notes so much that I wouldn't waste my time telling the sellers about it. Besides, there's no hurry. I've already dropped the price on the house so I'm sure it'll sell soon."*

C. C.: *"Alex, I'm sure you may be right about selling the house soon, but if I were to show you a program that we offer to give the seller 100% of their cash, do you think they would be interested then?"*

ALEX: *"Yeah, but I don't know how you think you can do that."*

C. C.: *"We have a number of programs that might surprise you. Perhaps when you have time, I can show you a sample of what I can do with creative financing to enable you, as an agent, to close more deals. Since the Walnut Ave. is not under contract now, aren't you obligated to tell the sellers about all options open to them? You may have a sale in your pocket..."*

ALEX: *"I suppose I do have to tell them... though I **still** don't see how this is ever going to work, but I'll set it up."*

ACT III

Its now the next day at Alex Agents office. Present are Mr. & Mrs. Seller, Rhonda Realtor, and C. C. Cash.

ALEX: *"Mr. and Mrs. Seller, this is Rhonda Realtor, who brought us the contract, and C. C. Cash. He (she) has some **absurd** notion that we can sell ~~your~~ house using some cock-eyed **scheme** he dreamed up using seller financing. You know, I told you about that."*

C. C.: *"Hello, Mr. and Mrs. Seller. I'm sure that Alex told you that there may be a way to sell your house quickly and get the full amount of cash that you are asking for."*

SHIRLEY: *"He didn't say anything like that! He said we would have to take a big discount or continue to drop the price to sell the house."*

SAM: *"I'll tell you right now, I'll take a loss on this sale only over my dead body. What do you mean we can get all our money?"*

~~C. C.~~: *"Do you mind if I ask you some questions regarding your home first? I understand that when your house sells you are going to move to Shady Acres.*

*(Sam grunts a yes!) Ive also been told that the **payoff** on your home is **$31,000.** Is this correct?*

SHIRLEY: *Yes, and if we dont sell our house soon, we could lose our deposit at Shady Acres. Well be out on the streets! Can you help us? Were getting desperate!*

C. C.: *If you had sold your home on the original offer you would have netted $46,350 in cash. Were you going to invest all of this cash in your new home?*

SAM: *Heavens, no! We were going to put $14,000 down on our new home in Shady Acres, and invest the balance in a mutual fund with an insurance company. We can get almost a **4%** return on our money that way!*

C. C.: *So you really need **$31,000** to pay off the balance due on your old home, **$7, 650** or 9% of the selling price for closing costs and **$14, 000** to put down at Shady Acres. In total, you need $52,650 from the $85,000 selling price.*

SHIRLEY: *Sam, Im so confused. What the heck is he talking about?*

C. C.: *What I am proposing is that we create a note between you and Mr. Et Mrs. Buyer, payable in 84 payments of $675 per month with a balloon of $58,850 at the end of those payments. You will get $15,000 down from the buyers and my company will buy the next 84 payments for $38,266, giving you cash at closing of $53,266.*

*In 84 months, you will also get the balloon payment of $58,851, which will give you a total **$112,117.** Thats more than 100% of your money back! You are leaving the equity in your home, which is growing at a rate in excess of 8%, and its invested in real estate which is much safer than a silly old mutual fund.*

SAM: *What if these people stop paying?*

C. C.: *Thats a good question! Only four things can happen here:*

> ***One:*** *The Buyers pay like they agreed and we both get our money.*
> ***Two:*** *They pay off early and we get our money sooner.*
> ***Three:*** *You can buy the payments back at any time.*
> ***Four:*** *There is always the possibility of default. In that case we become partners and take the house back. We will work together as partners to sell it again as an owner financed deal and probably make money on the sale.*

SHIRLEY: *Oh, honey! This is so exciting! I don't have a clue what yall are talking about but it sounds really good. If we can get the cash we need, lets do it!*

RHONDA: *Mr. and Mrs. Seller, if you will press hard, there are six copies on this contract...*

-The End-

AN EXPLANATION

Okay, now let's take a look at the numbers that were mentioned in the play, and see if we can make some sense out of them. Here they are:

Sales Price of Home	$85,000
Down Payment	$15,000
Amount of New Note	$70,000

N	I	PV	PMT	FV
240	10	70,000	-675.52	-0-
84	10	70,000	-675.52	-58,851
84	12	38,267	-675.52	-0-

Buyer puts $15,000 down, and has payments of $675.52.

Seller receives at closing:

Down Payment:	$ 15,000
From Note Investor:	$ 38,267
TOTAL:	$ 53,267

In 84 months, seller receives:

Balloon:	$ 58,851

TOTAL received by Seller: $112,118

In other words, the seller carried back a $70,000 note at 10% interest, amortized over 360 months (30 years), making it all due and payable in 84 months. The note investment group came along and bought only the payments, for which they paid $38,267, leaving the sellers to collect the money on the balloon when it came due.

The sellers received $53,367 at closing ($15K from the down payment, and $38,267 from the sale of 84 payments of the newly created 1st lien). In 84 months, they will receive an additional $58,851 when the balloon pays off, giving them a total of $112,118 for the sale of their $85,000 home. Granted, they had to wait 84 months to receive all of their money, but the bottom line is that they were able to sell their home to a ready, willing and able buyer, and eventually received more than the asking price on their home.

Now then, if you were in C.C. 's place, and if you were to resell or option this note, the numbers would change, depending on how much profit you took for yourself. You would SUBTRACT your profit from the price your back-end investor was willing to pay you, passing the remaining amount on to the seller.

RECAPPING MERLIN'S MAGIC

Merlin's Magic probably won't win any awards... but I hope you got the message. It really is a great preface to this chapter on Information Gathering.

Brief Aside – I often have my students perform this play in class. A gentleman who played the part of C.C. was "discovered" at the class, and went on to sign a recording contract as a result! I should've been an agent...

Unlike the existing note business, there are several things to consider when you are working with simultaneous closings. No longer do you have just the seller and their needs to consider, but your ability to help the seller also has to satisfy the buyer's needs. I have always stated that simultaneous closings are a little bit more difficult to put together on the front end, but once you get through this stage, you know that the note that is being created is a note that you, as a note investor, can buy. Then again, if you are a real estate investor selling your property, the same applies to you!

You will find that there are a lot of buyers in the marketplace who absolutely love this technique. They pay less closing costs, and don't have to *jump through the hoops of conventional financing*. Sellers, on the other hand, need to be educated. Once they know, however, that they can sell their property in less time, and still get the money they need at closing, they are eager to participate. Notice I said, "Once they ***know***." It isn't enough for you to merely tell them – they need to completely understand and *know*.

GATHERING THE INFORMATION

As I mentioned earlier, it is very important that we gather all of the correct information from all parties before attempting to structure a simultaneous note transaction. The reasons are simple, but several:

1. We need to find out how much down payment the buyer can afford, and how much money they have actually set aside to cover both the down payment and the closing costs.
2. We need to know how much of a monthly payment the buyers can afford (*this will help us in working with the seller to determine the interest rate and payment amount on the new note*).
3. In working with the seller, we need to know how much they currently owe on the house (*we need to know this because we will be using the money from the sale of the newly created lien to pay off any existing liens on the property*).
4. We also need to learn from the seller how much of his equity he absolutely needs at the closing, and how much he can afford to receive over time. (*This will help us structure the note purchase correctly.)*
5. Finally, we need to know the yield rate our note investor requires.

PAPER MAGIC TIP: Simultaneous closings only work on properties where there is more than 25% equity! Even when there is a down payment, the down payment plus the seller's equity must be equal to, or exceed, 25% of the property value.

On the next few pages, I've included a sample of a form that we developed at my company for our customers who want us to help them structure simultaneous closings. Read the information carefully – there are blank forms in the back of this manual for you to use.

SIMULTANEOUS WORK SHEET

Even though this is an example of a worksheet that we use at *my* company, it also contains the pertinent information used by *all* note investors. Go through it; then turn the page for a further explanation. As this is the only way you can tell your note investor about the transaction, it is imperative that you fill it out **completely, legibly, and accurately!!!**

Date: ______________________________ Contract Buyer:

Name: ______________________________ Phone:
Company: ___________________________ Fax:__

SELLERS INFORMATION: ______________________________

(Sellers Last Name)

Asking Price/Value: $ _______________ / __________

(Asking price) (Value)

Amount of Existing Lien(s): $ _________________
Sellers Equity: $ __________________

***How much of equity (cash) does seller absolutely need at closing?** $ _______________

BUYERS INFORMATION: ______________________________

(Buyers Last Name)

Down Payment: **$** _________________________ %
Maximum Monthly Payment: $ __________________
Employed (please circle): **salaried** **self-employed**
Credit (please circle): a b c other

YOUR INFORMATION

Date:	The Date the Sheet is Prepared.
Contract Buyer:	Most investors will assign you a regular buyer to work with you.
Name:	This is YOUR name, NOT the name of anyone else!
Company:	YOUR Company.
Phone:	YOUR phone number, or the best place to get hold of you.
Fax:	YOUR fax number, or where you would like your offer faxed!

SELLERS INFORMATION

Sellers Info:	We ask for the sellers last name only to reference the file. We refer to the file in our office as "Buyer pays Seller."
Asking Price:	This is imperative, as we need to know what the seller is trying to accomplish by the sale of his home. Very often, sellers arrive at a sales price using strange methods – it is also important that we know the value of the property.
Existing Liens:	We need to know how much the seller owes on the property. As with the purchase of any other existing note, the note investor will want to pay off any underlying liens with the proceeds of the note sale.
Sellers Equity:	This is the difference between the ASKING PRICE and the EXISTING LIEN(S).
"How much…"	**This is probably the most important line on the entire form. The information on this line will allow you, or your note investor, to creatively price your note and your offer.**

SIMULTANEOUS WORKSHEET

(continued)

PROPERTY INFORMATION:

Type (please circle): sfh 2-4 condo/town home land improved land mobile home commercial

Owner Occupied (please circle): yes no (held for rental) $__________
(monthly rental income) $__________

Location:
(City) (State) (Zip)

SELLER NEEDS: $ ____________________ **NOTE BUYER NEEDS**: $______________

COMMENTS:

____

You will notice that there is quite a bit of similar information on this sheet as the existing note worksheet that you are used to. Also notice the differences.

____
____
____
____

PROPERTY INFORMATION

Type: The property is the collateral for the note, and the investor needs to know what their security is. Obviously, their risk is different with a single-family home as collateral than it is with a commercial piece of land. Different answers to this question determine different yields required by your investor.

Owner Occupied: This is, again, a risk-based question by the note investor. The risk is less if the new owner occupies the property, rather than if they are purchasing it for rental property. The rental income (if applicable) should be high enough to offset the payment on the note.

Location: While most investors invest all over the country, there are some areas that have actually *depreciated* in value over the last several years. Giving your investor the zip code of a property helps them make a more educated decision on how much to invest in the note.

NEEDS & COMMENTS

The comment lines are for you to give your investor any supplemental information about the property. The sellers needs are very important. This is a line most note buyers neglect, or they put in as much as possible. You and I both know that this is not really ascertaining their needs! So dont be afraid to ask! As for your needs, be reasonable. Two to four percentage points are a widely accepted fee, though you want to make sure you dont price yourself out of the market!

PAPER MAGIC TIP: A piece of the pie is better than no pie at all!

STRUCTURING NEW NOTES

As you can see from the ***Simultaneous Worksheet***, when structuring a new deal you only have four factors to consider: the needs of the buyer, the seller, your investor(s), and, of course, your needs.

The following is information needed on each:

Buyer: How much money they have saved for a down payment, how much monthly payment amount they can ***comfortably*** afford, and their credit history.

Seller: Amount of cash they need at closing and over time.

Investor: The investor's yield requirement for that particular investment. Remember that the note investors' required ***ITV*** (Investment to Value) will be based on information obtained from buyer and seller.

Yourself: How much profit or spread you need in the deal. (As obvious as this seems, I have seen individuals forget to build in their profit a number of times.)

When talking to a potential homebuyer, find out what size payment they can afford. Don't let them get all worked up over interest rates! If they really want the home, having an affordable payment is critical. You are going to help them get their dream and in order to do that you will help the seller structure a note that will work for all parties involved. Don't get into interest rates until you've got your proposal together; it will only confuse the issue. Remember: sell the payment, not the interest rate!

I have seen several situations where the buyer was trying to get into a $250,000 home with $5,000 down, but only wanted a payment of $500 per month! Obviously, this is not realistic! By getting the four basic categories of information initially, you will avoid mistakes and quickly determine if the deal is worth pursuing.

PAPER MAGIC TIP: I often use what I call the one-percent rule, which states that a person's monthly house payment will be approximately 1% of the loan amount. In other words, someone who has a $245K mortgage should expect monthly payments in the $2450 range...

QUALIFYING QUESTIONS

When filling out the worksheet, there are a couple of techniques you can use to get all of the information. You may simply tell the involved parties that you have a list of questions, and do they have time to answer them. On the other hand, you can "conversationally" ask those questions, building rapport as you go. I have included some pertinent questions below to help you in filling out the worksheet **completely, legibly, and accurately!**

You might want to start out the conversation by asking the sellers about the property itself, and what they hope to accomplish with the sale. This should elicit an open-ended response, allowing you to conversationally complete your task. If you want to use specific questions, try:

1. What is the sales price of the property? Have you had any offers on it? How much were they for? How does this compare with the value?

2. What is the true value of the property? How did you come up with that? Do you think it will appraise for that?

3. How much do you currently owe on the property? How much of your equity do you need at closing? (Most likely, the seller will say that he needs all of his equity now. Is that *really* the case?)

    A. If yes, then the borrower should seek conventional financing... or... the difference between the sales price and the value should be large enough to absorb the discount.

    B. If no, then we should see how much equity we have to work with and structure a deal to meet everyone's needs.

    C. An effective way to get a good answer on this question is, after asking the equity question, follow immediately with "The reason I am asking, Mr. Seller, is that we have many different ways to purchase your note. What I really wanted to know is: would you like to receive some cash now, and retain some monthly income?"

4. Mr. Buyer, how much money are you working with on this transaction, keeping in mind that this will include money for both the down payment and the closing costs?

5. How much are you currently paying for rent (or house payment)? How much can you comfortably afford per month for a payment on your new home?

6. Mr. Seller, have you had a chance to look at the buyer's credit? If you had to grade their credit like they do report cards, would you consider it to be A, B, or C credit?

These questions will give you almost all of the information you need to fill out the worksheet, which in turn will give your note investor what they need in order to help you structure the transaction.

PAPER MAGIC TIP: Fill out the worksheet **completely, legibly and accurately**, and fax it to your investor ***before*** you sign anything! Let your Note Investor's contract buyer give you feedback help you structure the transaction!

Now that you've gathered all of the appropriate information to structure a transaction, let's devote some time and actually structure one! Turn the page for a completed ***simultaneous worksheet*** that will introduce a *new deal* that we'll be discussing in the next chapter. You'll want to bookmark the page, as we'll be referring back to it as we go through the next section. ***Good luck!*** You've gotten to the *meat and potatoes* part of the course, so ***let's structure some deals!***

INSERT COMPLETED WORKSHEET HERE

Abracadabra – A Deal is Born

CREATING PAPER & PROFITS

Welcome to the real magic of the course. That's right – this is the chapter where we actually start creating deals! In it, you'll learn the players and what they are trying to accomplish, you'll learn the structuring technique, and then you'll see how everyone benefits. We'll carry the deal we introduced in the last chapter through this chapter and into the next, showing you all of the necessary forms you'll need in order to complete a transaction.

WHO NEEDS WHAT?

Referring to the ***Simultaneous Worksheet*** on the last page of the previous section, you'll see that in this new deal, it reflects the needs of both ***Betty Buyer*** and the seller, ***Willie Sellit***. We are going to do this deal as if you were buying this property (put yourself in Betty's shoes)! I've structured it so that you can purchase this property with nothing down. Stay with me, here, though, and I'll show you later in this section how to put money for closing costs back in your pocket at closing when you ***buy*** the property!

Looking back at the parameters of this deal, you'll see the seller's needs:

Asking Price:	**$111,000**
Seller Currently Owes:	**$ 50,000**
Sellers Equity He Needs:	**$ 20,000**
Seller Needs at Closing:	**$ 70,000**

In other words, Willie owes $50,000 to his current lender. He would like to get $111,000 for the sale of his property (but being a real estate investor, do you *ever* want to pay full retail price for a property?), and even though he would like it all right now, your talks with him have determined that ***he really needs $20,000 of his equity right now, and he is willing to receive the balance over time.***

PAPER MAGIC TIP: Do ***not*** use jargon! Instead, ask the question in simple English: *Mr. Seller, I have many ways of structuring this transaction. Are you in a position to receive a majority of your cash now, and the rest over time?*

Again looking at the deal parameters, you've also discovered the buyer's needs:

Offer Price:	**$100,000**
Down Payment:	**-0-**
Affordable Monthly Pmt.	**$ 900.00**

Put a different way, the buyer only wants to pay $100,000 for the property, doesn't want to put any money down, and, based on potential lease/option income, can only afford a monthly payment of $900. Oh, and to make things even more interesting, she doesn't want to go through traditional financing, and couldn't prove her income if her life depended on it! (**SIDE NOTE:** *As a former CPA, I applaud her for taking advantage of all of the legal breaks that are built into our tax system!*)

Finally, let's consider our note investor's needs. If you will remember from the original series, ***The Paper Game***, most note investors will not exceed 75% Investment to Value on owner-occupied property, and 70% ITV on property that will be used for rental. What this means to you is that, based on a sales price of $100,000, the ***most*** a note investor will pay for a note is $75,000 on owner occupied property, and $70,000 on a rental property. And, that is ***only*** if the credit is decent. If the credit is a true "B" (based on an A,B,C rating system), then the note investor may choose to invest even less.

HOW DO I STRUCTURE THIS NOTE?

The very ***first*** thing that you need to do is write down the fax number to your favorite note investor! Fill out the worksheet and send it to them – they can help you structure the note and its purchase! Then again...

Let's back into this from a different angle. Let's look at what we know, and then how to structure the notes. We ***know*** that the buyer will only pay $100,000 for the property, so we'll use that as the sales price. We ***know*** that the note investor will not exceed 70% ITV on property that will be held for rental, and that the ***most*** they would invest in this note is $70,000.

We ***know*** that notes are sold at a discount, so we ***know*** that we should create the note for an amount slightly higher than $70,000 to allow for that discount. We ***know*** that in order to meet the seller's needs, we need to come to the closing table with at least $70,000 in cash ($50K to pay off his existing lien, and $20K to meet his needs). And finally, we ***know*** that the seller doesn't want to wait thirty l-o-n-g years to receive his money!

PAPER MAGIC TIP: By the time the interest rate is taken into consideration along with the note investor's required yield, in most instances the note investor ends up paying somewhere between **88 and 94 cents** on the dollar for the note.

So... knowing what we do, I think you will agree with me that the best way to structure this transaction is as follows:

Sales Price:	**$100,000**
1st Lien (which will be sold):	**$ 75,000**
2nd Lien (which will be kept):	**$ 25,000**

Keeping this simple, if the note investor pays 92 cents on the dollar to purchase the 1st lien note, then the seller will receive $69,000 for the sale of the $75,000 lien. Of course, for those of you who want to see the actual calculations, here they are, in the format that I've used in both ***The Money Machine*** and in ***The Paper Game***.

N	I	PV	PMT	FV
360	10	75,000.00	-658.18	0
360	**11**	69,112.94	-658.18	0

In line one, you'll see where I created a $75,000 note, amortized over 30 years (360 months) at 10% interest. I solved for the monthly payment of $658.18. You'll also note the zero in the Future Value cell, which means that note has a zero balance at the end of 360 months (fully amortized.)

In line two, you'll notice that I put the '11' in bold, because I changed that number in my calculator. The reason I changed **[I]** from *ten* to *eleven* is that even though the note is written at a 10% interest rate, my company, which is buying this note, requires an 11% ***yield*** (or *return*) on our money. Amazingly enough, if you divide my pay-price of $69,112.94 by the original note amount of $75,000, you'll see that we are paying, in this case, 92 cents on the dollar! (**69,112.94 / 75,000 = .92**)

WHAT ABOUT THE 2ND LIEN?

"If the seller sells the newly created first lien at 92 cents on the dollar, what does he do with the newly created 2nd lien? He holds onto it for cash flow!" **[[Editors Note:** *Its bad enough when you start asking yourself questions, but even worse when you start answering them!***]]**

If we take our second lien of $25,000, and amortize it over 30 years, we'll get a monthly payment of $219.39. Remember, though, that the seller does not want to wait thirty l-o-n-g years to receive his money, so let's put an 84-month balloon in the note.

Don't let a balloon scare you! All this means is that sometime in the next seven years, the payor has to refinance the property to pay off the seller's note. Of course, he could also resell the property during that time if he so chose. If we look at this, once again in the calculator format I like to use, here's how the note is structured:

N	I	PV	PMT	FV
360	10	25,000.00	-219.39	0
84	10	25,000.00	-219.39	-23,662.34

In line one, we ***created*** the note, basing the payment of a thirty-year amortization, because that keeps our payment low. In line two, we changed **[N]** to 84 months and solved for **Future Value [FV]**, which tells us that in 84 months, the payoff on the note will be $23,662.34.

Now that we've structured the note (Now that wasn't *that* hard, was it?), let's move on to see how each party benefits:

THE SELLER RECEIVES:

In our example, the seller receives the following:

NOW	**$ 69,112.94 (from sale of newly created note at closing)**
OVER TIME	**$ 18,429.00 (84 monthly payments of $219.39)**
	$ 23,662.34 (lump sum payment in 84 months)
TOTAL	**$111,204.28**

You'll also note that the seller, over time, is receiving even more than his original asking price of $111,000!

THE BUYER PAYS:

Let's see what the buyer is getting:

VALUE OF PROPERTY:	**$111,000**
SALES PRICE:	**$100,000**
DOWN PAYMENT:	**-0-**
MONTHLY PAYMENT:	**$877.57 (combined 1^{st} & 2^{nd} liens)**

In other words, the buyer had the seller carry 100% seller financing on the property, which was divided into two liens. The seller kept one and sold the other. The buyer received the payment he wanted, got into an investment property for zero money down, and didn't have to jump through the hoops of conventional financing.

THE NOTE INVESTOR RECEIVES

Let's finish by talking about the note investor, and what they got out of this deal. Remember that they determine the property value as the ***lower*** of the *sales price* or the *appraised value*:

VALUE OF PROPERTY:	**$100,000.00**
FIRST LIEN PURCHASED:	**$ 75,000.00**
AMOUNT PAID:	**$ 69,112.94**
ITV:	**69.12%**
YIELD:	**11%**

They have a new first lien that is yielding them 11% return on their investment. This investment is backed by real estate, and their exposure is only 69% of the value of the property, which means that if they ever needed to foreclose, their chances of recouping their money are very good, even if they have to sell the property at a discount.

LET'S REVIEW

Willie Sellit (our seller) knows that one of the ways he can sell his property is the old fashioned, conventional way. Willie is also a pretty smart guy, and realizes that the chances of a person qualifying for a traditional bank loan are less than 50%. He also knows that he has the option of selling his home with owner financing and collecting monthly payments (which, by the way, is done every day throughout the United States). Willie realizes that if he offers owner financing, he has significantly increased the number of potential buyers, especially since they won't have to go to the bank and do it "the hard way!"

Along comes Betty...

Betty Buyer (our buyer) sees the sign that Willie has put in the yard announcing "NO BANK QUALIFYING" and sets a time to meet with Willie. Betty is interested in purchasing the property and is willing to pay Willie $100,000 for his $111,000 property (90 cents on the dollar) if Willie is willing to offer owner financing. However, there are a couple of problems that need to be resolved in order for this sale to work:

1. First of all, Betty has no money to put down on the property!
2. Secondly, Willie needs at least $70,000 in cash at the closing table. He needs to pay off his existing mortgage of $50,000 and have another $20,000 to put down on his new house.

The Challenge:

Now we're faced with a dilemma. Betty has no money for a down payment, and either she *cannot* qualify, or *doesnt want to* qualify for a bank loan. On a more positive note, Betty has told Willie that she can afford payments of around $900 per month.

The Solution:

Yes, Virginia, there is a Santa Claus and yes, this deal can be done! Here's how this transaction all worked out. Betty signs a ***Real Estate Contract*** with Willie, which stipulates the following:

1. She is willing to pay $100,000 for the property.
2. Willie will carry a 1st lien of $75,000, which he will sell at closing for $69,112.94. The terms of this note are 10% interest, amortized over 360 months with a payment of $658.18.
3. Willie will carry a 2nd lien of $25,000, which he will keep. The terms of this note are 10% interest, amortized over 360 years with a balloon due in seven years. The monthly payment will be $219.39, and the amount due at the end of 84 months will be $23,662.34

Willie will also sign a contract agreeing to sell his newly created first lien to a note investor. This document is called a ***Standard Option to Purchase Agreement***, and will be covered extensively in the next chapter.

When they go to the closing table, Betty will sign two separate notes (I.O.U.s) – one each for the 1st and 2nd lien. She will also sign, for each lien, a *mortgage* or *deed of trust* (depending on the state where she lives) that says, "If I as the Buyer do not make my payments to the Seller, then I forfeit my right to own this house." ***Or, as they say in Texas, "If you don't pay, you don't stay!"***

Once Willie has the signed I.O.U. in his possession, he'll assign it to a note investor in exchange for a lump sum payment. In essence, the assignment says, *in exchange for **$69,100 now**, I will give you, the note investor, the right to collect the next **360 payments of $658.18***

WHAT IF I WANT TO PUT MONEY IN MY POCKET AT CLOSING?

That's an excellent question, and the answer will hinge upon what you learned in ***The Paper Game***. If you will remember way back to note basics, a note buyer makes his profit off of the sale of the note. If you are a real estate investor who wants to put money in your pocket at the closing table, then you will need to act in a dual capacity: that of a real estate investor, and that of a note buyer. In other words, why not make some money off of the sale of the note! Let's look at this concept in light of our current example:

In our example, Willie Sellit sold his newly created $75,000 note for approximately $69,000. Granted, he didn't quite get the $70,000 he wanted, but it was darn close! If you, the buyer, want to put $3000 in your pocket to reimburse you for closing costs, you simply have to ***subtract*** that amount from the $69,000 the note investor is paying for the note. In other words, you would subtract $3000 from $69,000, and pass through to Willie the net amount of $66,000.

Is that possible? Sure it is! **[[Editors Note:** *There she goes again!***]]** All you need to do is negotiate with Willie and make sure that he is okay with receiving $66,000 at closing rather than his intended $70,000. You'd be surprised at what you can get if you only ***ask***! So... everything stays the same with the only difference being the amount that the seller receives for the sale of his note.

Keep in mind, too, that the $3,000 you put in your pocket at closing is ***tax free***! If you think about it, you are really borrowing $75,000 from the seller on the first lien, and are obligated to repay that. The $3,000 you are making is actually part of that money that you *borrowed*. In other words, that $3,000 is included in the $75,000 that you owe. ***And on borrowed money, you don't have to pay taxes!***

WHAT DO I NEED TO CONSIDER WHEN CREATING PAPER?

One of the biggest challenges facing the potential owner financed note holder is structuring the sale in order to comply with various state and federal laws. It is also important to create a note that follows standard underwriting practices whenever possible to later allow for maximum flexibility and liquidity, as a way of limiting your financial risk. To keep out of hot water, I would recommend you do the following two things:

1. Fill out a simultaneous worksheet, fax it to your note investor, and let them help you structure the note.
2. Make sure that an attorney actually draws up the note.

Finally, there are three other points that you need to consider when you are structuring a simultaneous closing.

1. *Realize that this technique does not work on all **properties***. You'll need at least 20-25% equity in the property in order to use it.
2. *Realize that this technique does not work with all **sellers***. Sometimes, the seller needs all of his money out of the property now. Obviously, with the note's discount, this is a physical impossibility. If this is, indeed, the case, the seller will need to sell the property to someone who can qualify for conventional financing.
3. *Realize that this technique does not work for all **buyers***. Even though note investors look at credit a little differently than traditional lenders, please understand that there are some buyers who, to put it politely, simply represent to much risk to justify buying the note.

MOVING AHEAD

Now that you've learned how to structure a deal, let's move ahead and discuss the art of ***presenting the deal***!

Presentation is Everything

NEGOTIATING FOR DOLLARS

Any magician knows that is isn't enough to merely know the mechanics of an illusion. In magic, as in real estate, presentation is everything. If I could give you only one piece of advice in dealing with sellers, it would be this, "*Dont tell them how to build a clock, just tell them what time it is!*"

Way too often have I seen enthusiastic note buyers try to give sellers an entire workshop on discounted paper in just a few short minutes! Think about it for a minute – you, the reader, probably have somewhat of a background in real estate, and yet, my bet is that most of the information in this manual is new to you. Imagine, then, trying to impart all of this to a seller in a few short minutes, and then, still trying to get him to say "Yes!" Not only will he not understand, but in most cases, he'll probably run in the other direction simply because it all sounds very complicated to him!

There is a lot better way to work with sellers: ***emphasize the benefits!*** The details will work their way out later on! Up front, all that the seller really wants to know is how he will benefit from the completion of this transaction. Keep this in mind as we explore the...

ADVANTAGES OF SELLER FINANCING

When speaking with the seller, it is important for you to show them the advantages of selling their home using this technique. Remember that radio station, WII-FM (What's In It For Me?). I have listed a few of the advantages below – use them ***all*** during your initial presentation (and real estate investors – pay close attention here, because you will, in many cases, be convincing sellers to sell you their property using one of these techniques)!

The buyer saves thousands of dollars in points, origination fees, etc. When simultaneous closings are utilized, the buyer no longer incurs all of the lender's fees, which can run up to **5%** of the purchase price of the property! The buyer no longer needs to pay points, origination fees, escrows and impounds, wiring, processing, underwriting and junk fees. If the buyer was "cash poor" in the first place, this helps them put more money into the down payment, or have more money left over at the completion of the transaction.

The seller, by offering flexible terms, will receive top dollar for the property. In many markets, appraisers even assign extra value to the property if the seller is offering financing concessions. This means that the property may appraise for a little bit more, and the seller can ask a little more for the property. Additionally, by advertising **OWNER FINANCING**, the seller will sell their home quicker, and maybe even without incurring the cost of a real estate agent.

The buyer will have mortgage terms that are better suited to his/her financial situation. This is very important in attracting more buyers to the property. Granted, there is a trade-off: if the buyer negotiates a lower payment, the note will be worth less, and the seller will receive less for its sale. The seller wants to receive as high a payment as the buyer can afford. Remember that "C. C. Cash" did not quote a rate to the buyers, but rather helped the seller structure the note for an optimal sale, keeping in mind the wants and needs of Betty & Bill Buyer.

The seller can defer taxes that would otherwise be due in the year of the sale. I have personally come across quite a few sellers that, for tax reasons, did NOT want all of the proceeds from the sale of their property in this calendar year. Their accountants had told them in order to avoid excessive taxation, they needed to defer the income to a future year. Of course, you would need to buy a or *split* (see my initial volume, ***The Paper Game***), but that is the beauty of the simultaneous close. If they had sold the property conventionally, they would have received all of their money now, which does not meet their needs.

It will increase the pool of potential buyers for the real estate. By offering less closing costs, the seller is opening up the sale to a group of people who, otherwise, would not have been able to afford the home. Additionally, by offering seller financing, these same people now no longer need to go to a conventional lender to get the financing. This is very important, when you consider that a national statistic recently showed that fully 64% of the applicants who applied for a FNMA loan did not qualify. This isn't to say they had bad credit: they merely did not fit the guidelines of conventional lending (provable income, self-employed, source of down payment, etc.)

The investor collects the payments and makes the distribution of funds. Many sellers do not want to carry paper because they don't want the hassles of collecting the payments every month. That presents no problem to us, because when an investor purchases all or part of the note, the ***investor*** collects the payments, or *services* that loan. In case of a split funding, where the investor only purchases a *portion* of each payment, the investor collects the full payment every month; then passes the seller's share onto the seller.

Closing time is greatly reduced by not having a large lending institution involved. Though the investor will still do their *due diligence*, the process is much more streamlined than that of a conventional lender. A word of caution though: more note investors are beginning to sell their mortgages on the secondary market to large companies who also buy loans. Thus, the investors are starting to ask for more documentation than they used to, because it makes their files more marketable. If the buyer drags their feet in getting that documentation, the transaction may take a little longer to close.

NEGOTIATING WITH THE SELLER

How much is a note worth? This is an important element to grasp if you are going to get your offers accepted. The principal balance, or ***present value***, of a note is the amount due if the payor were to pay off the note. It is the amount the payor ***owes***. It is ***not*** the market value of that note. Many individuals holding notes, and more than a few note buyers, fail to make this distinction.

Let's think about what gives any asset its value. What established the sales price of the real estate that secures the note? Any asset (house, car, painting, stock, bonds, or even a note) is worth what the market will pay for it. Your job, as a note buyer, is to tell the note seller this in a non-threatening, non-confrontational way.

KEEP THE PROPER PERSPECTIVE...

The best way to accomplish this is to refer the seller back to the sale of the underlying real estate at every opportunity. This is most effectively done by comparing your offers to the sale price of the property, ***not*** the remaining balance of the note. The sale price of the real estate is an established figure that the seller has, in effect, already agreed to. Take time to help them see how much cash they are getting from the ***sale of the real estate*** when they sell you the note, ***not*** how much they are getting for the note.

REVISITING BETTY AND WILLIE

Remember that our example house is selling for $100,000 with nothing down. Willie is taking back a 1st lien for $75,000 with terms, (30 years at 10% with a payment of $658.18), as well as a 2nd lien for $25,000 (30 years with a 7 year balloon at 10% with a payment of $219.39). Willie is selling the first lien at closing, and keeping the second lien for cash flow! You (if you are the note buyer) offer $69,000 for the remaining principal of

$75,000. If Willie looks at what he's getting for the note, he might think that he's "losing" $6,000. This is untrue!

The seller is receiving $69,000 from the sale of the note. If he holds onto the 2nd lien, it will generate an additional 84 payments of $219.39 ($18,429) and a balloon payment in 84 months of $23,662. If you add all of this together, he is receiving a total of $111,191! *Remember, he only wanted $111,000 for the house in the first place, and had agreed to take **$100,000**!* If someone came along and offered him $111,191 for his house, do you think he'd sell? In a heartbeat!

This principle applies whether you are dealing with seasoned notes or with newly created ones. Make sure that you help the note holder to see things in the proper perspective. ***You*** are the professional; it's ***your*** job.

Everything you've done up until now has been to position yourself as the person with authority and knowledge. You are the expert that the note holder is waiting to deal with. You have invested time, energy, effort and expense to put yourself in this position. Now is ***not*** the time to blow it. Now ***is*** the time to be extra sharp. Make sure that you present the offer in a fashion that makes it easy to accept. You should be easy to work with and exciting!

WHAT'S THE DEAL?

When working with sellers, your conversation should be to gather information and make sure that it's accurate. You don't want to put the seller through a lot of hassles, but you do want to get all of the information that you need in order to structure a deal that is good for him, for the buyer, and for the note investor.

If you ask the right questions in the right manner, you will usually be able to get the information quickly over the telephone. Remember, on the first call, all your really trying to accomplish is to find out what they need in order to do the deal. In other words, answer all the questions to complete the ***Simultaneous Worksheet*** that I introduced a couple of chapters ago.

And even though I covered this in that chapter, we need to go over, one more time, the most important piece of information from your initial call: How much cash does the seller need from the sale of this note? (This is another way of asking the seller, "*How much of your equity do you need at closing?*")

Let's talk about that first. The amount of cash they need isn't something most people are readily going to tell you. They've been told their whole lives not to trust strangers. They've also been told that people are "out to get you" when you deal in finances. And here you are, a stranger talking to them about their finances! It's important that you phrase things in a non-threatening way.

Instead of asking bluntly, "*How much do you need?*" try engaging them in conversation by asking why they are selling their property. This will very often lead to what they actually need.

If, for instance, they tell you that they're selling the note to buy a new house, you can then respond with "*How much do you think you will need for your down payment*?" Or, if they have already set money aside for their new house, they may have the money from their current house earmarked for another purpose.

They may say "*My daughter is going to college in the fall and I need some extra cash*." You should then ask them how much that tuition is going to be and they'll usually answer you with a number. Now you know how much cash they need. The bottom line is that they're going to respond with the reason that they are selling the property (and the note) and you need to investigate further by asking questions. By being a little creative, it's easy to find out the actual dollar cost of their intended objective.

There will be instances where they tell you they're just looking to see how much they can get. Yes, it's worthwhile to give them a price, because very often those inquiries will result in actual deals. The bottom line is to take the time and truly find out the seller's needs. It is impossible to make an effective offer without some feeling for what the seller is trying to accomplish.

Once you have obtained all of the information on the simultaneous worksheet, make sure that the seller understands that these are the numbers you are working with, *and that any differences could result in a change to your offer*. Don't make a big deal out of it; simply make sure that you don't leave yourself open to the problems later on if the numbers change.

Tell the seller that you have several investors that you are going to check with, because you want to get them the best possible price for their note. You will contact them within a day or two to let them know what the price is. Thank them for their time and move on to the next prospect.

MAKING THE OFFER

Your second contact with the prospect should be to present the deal structure to them and to make your offer on the note. Do everything you can to make it exciting for them and to make an event out of it. When you call somebody with a price - no matter what the price is - you've got ***great*** news!

It's important for ***you*** to have the right mental attitude so that you can get your client into the right mental attitude. You are offering your client ***United States currency*** (the most liquid of ***all*** assets) in exchange for a piece of paper with some typing on it! Don't get caught up in comparing your offer to what the principal balance of the note is. Never, ever make an offer with a "hat in hand" attitude!

Very few people understand the nature of a debt instrument as an asset and the people you are talking to certainly do not. ***Make sure that you take the time to refer them back to the real estate***. Take the time to add up the amount of money you are giving them, the amount of money that they're receiving from the down payment, the amount they'll receive from carrying a 2nd lien (if they plan to do so), and any future balance that might revert back to them on a partial. Make sure that you give them *this entire lump sum figure.* This is what they're getting out of their real estate and is a true representation of the note purchase.

Amateurs will very often look at a $100,000 note balance, see that they are only offering $85,000, and feel embarrassed about making the offer. It's easy in those situations to feel like you're offering a low amount of money to the client. This type of thinking, though, is erroneous. It doesn't take into account any down payment on the property, or any payments that the seller has received or may receive in the future.

Don't make God-like decisions for your client by looking down on your own offer. Make them that offer with all the enthusiasm you can muster! That $85,000 may save their life. It may be all that stands between them and foreclosure on their property. It may be that they're delighted with that offer! Don't make decisions on behalf of your client - let them make their own decisions! ***Don't confuse their needs with your opinions.*** It's your responsibility to professionally present every offer to them with as much excitement as you can.

Once you've made the offer over the telephone, tell them that you will be getting a letter out to them because you understand that it is difficult to discuss financial matters over the telephone and you want them to see the offer in writing. Remind them to call you with any questions. The following works wonderfully:

> **You:** *Mr./Ms. Seller, I am going to put this offer in a letter and send it over to you. I know that this is important to you and I want you to have my offer in writing. This way you can look it over thoroughly at your convenience, and if it*

makes sense to you, we can go to the next step. Also, if you have any questions, I will be right here to answer them. There s no rush.

This approach will give you an enormous amount of credibility with the client. You have been clear and concise. You have taken away all the pressure, which makes them comfortable with you. When they receive your letter, they will recognize that you lived up to the promise you made to them. To top it all off, that letter will have a much greater psychological impact than anything you could ever say. (Refer to the **Sample Offer Letter** at the end of this section.)

A letter presented to them in this format accomplishes two things. ***First***, everyone appreciates an offer in writing. It seems to carry more weight. ***Second***, they can't argue with a letter.

THE SELLER'S PERCEPTION...

You're a stranger discussing financial matters with them. In their mind you are probably telling them things that are untrue and you're not to be trusted. However, something magical happens once something is written down on paper. It's irrefutable. When they see the amount they are selling the property for, the amount they'll receive for a down payment, the amount that they will receive in payments, and the amount you are offering them, it suddenly becomes very real.

Many people who are not excited about your verbal offer over the telephone, when forced to face the situation in writing, very often will have their own mind go to work convincing them to sell their note to you. The proper letter will generally triple the results of your telephone offers.

Once you've sent out your letter, if you get no response from the party within one week, place a follow-up call to make sure they received the letter. Never, ***ever*** press for acceptance of your offer. It's okay to tell them that you have a number of deals you are reviewing and you'd like to know if theirs would be included in your purchases for the month, but don't give ultimatums. People have to make decisions in their own time at their own pace. People may receive an offer from you and not respond to it. Six months later, they call back wanting to sell the note immediately because they thought you were fair with them and didn't push them.

Very often, when you call to make sure they received your letter, they will engage you in conversation, wanting to know how the closing process works. At that point, it's important to "*lead them down the path*" and make it simple for them to sell their note to you.

THE OPTION TO PURCHASE AGREEMENT

Once the seller agrees to the structure, there are two things he must do: *First*, he'll need to sign an agreement agreeing to sell you the note once it has been created. The document that he will use for this is called a ***Standard Option to Purchase Agreement*** (*more about that in a minute!*). The *second* thing he'll need to do is enter into an agreement with the buyer of the property to sell the real estate. He'll use a ***Real Estate Contract*** to do so. ***Even though I've included one at the end of this section, you should NEVER be involved with filling out the RE contract unless you are the buyer or the seller!***

You, the note buyer, are only concerned with the ***Standard Option to Purchase Agreement***, (a.k.a. **S.O.P.A.**) as it outlines the agreement you have with the seller to sell you the note. This document gives you the option to purchase the note once it is created, and once you have analyzed it and performed due diligence to your satisfaction. Even though I've included a copy in the back of the manual, I'd like to devote some space and briefly explain it.

PAPER MAGIC TIP: You should have your attorney prepare your own purchase document with the necessary changes made to conform to your applicable state and local laws.

PURCHASE AGREEMENT FOR PROTECTION

You need to enter into a contract with the seller for the purchase of the note for two reasons:

1. To gain control of the note and effectively take it “off the market", while you get your financing together or procure a buyer for the note.
2. You will also need time to review the particulars of that specific note to make sure it meets your investment objectives. By obtaining an option to purchase the note, you are then able to conduct your pre-purchase review of the note, the person making the payments, and the property securing the note.

This purchase agreement should provide for sufficient time to close the transaction, particularly if you are selling the note to an investor. Far too many times we have seen note buyers lose deals because they did not allow themselves enough time in case something went wrong.

Never crowd yourself

The option agreement should also clearly set out the terms of the purchase and any contingencies that you may require. You should make sure the seller understands that your pricing is predicated on you checking the documents for accuracy, confirming the value of the real estate acting as collateral on the note and checking out the person making the payments.

The **S.O.P.A.** (*as I affectionately call it!*) is divided into seven major, yet simple to understand sections. Let’s look at each one of them:

Section 1 . Involved Parties: In a nutshell, this section simply states who the players are, lists their address, and identifies the city and county where the note is located. It also states the intention of the note seller and note buyer to enter into an agreement.

Section 2 . Sale & Consideration: This section outlines the transaction's terms, including how many payments are being purchased, and for what price. It also lays out some stipulations, including the point that the property must appraise for at least the sales price in order for the Option to be valid.

Section 3 . Exclusivity: In this section, the note seller promises not to sell the note to anyone other than the note buyer who has signed the agreement. I put this in because so many sellers will enter into sales agreements with multiple note buyers, and then try to play one off of the other.

Section 4 . Remedy for Payment Default: This one is a biggie, and is designed to prevent the sellers from deliberately providing false information. Most payment defaults can be attributed to fraud; by asking the note seller to buy the note back in case the buyer defaults within three months, he, too, has a vested interest in the note's performance.

Section 5 . Closing Costs: My Company will pay for all costs associated with the transfer of the note. All costs stemming from the property transfer, however, as in any normal real estate transaction, will be the responsibility of either the seller or the buyer of the property.

Section 6 . Remedies for Breach: I've only had a couple of deals where the seller backed out of the transaction at the last minute. What really upset me was that I already incurred actual costs on the deal. This clause gives me the right to collect 15% of the outstanding note balance in case the seller tries to break his contract with me, and yes, this has already been tested and upheld in court!

Section 7 . Time and Binding Effect: As in all contracts, time is of the essence, and this agreement is binding on all parties.

Look on the next several pages for a sample ***Standard Option to Purchase Agreement*** and for a sample ***Offer Letter*** and ***Real Estate Contract***. You'll see that they refer to the sample deal with Betty Buyer and Willie Sellit that we started a couple of chapters ago. Pay particular attention to the way that they are completed.

And, just so that you don't worry, there are plenty of blank forms in the ***Forms*** section for you to use!

[Today's Date]

Mr. Willie Sellit
456 Househunter Lane
Anytown, TX 78XXX

Dear Mr. Sellit,

Thank you for allowing Superior Note Buyers to assist you with your alternative financing needs!

I understand that you are selling your property located at **456 Househunter Lane** in **Anytown** for **$100,000** and that you have a buyer, Ms. Betty Buyer, in mind. It is also my understanding that the purchaser of your property does not have any money available for a down payment. In order to facilitate this purchase, it is my professional opinion that the transaction be structured as follows:

> Create a first lien of $75,000 at 10% interest for 30 years and a second lien of $25,000 at 10% with a 7-year balloon. My company will purchase the first lien for $69,100 cash at closing, and you will retain the second for cash flow.

What does this mean to you? As the seller of the property, you will receive the following ***cash*** payments:

Cash at closing	$ 69,100	($**69,100 CASH NOW**!)
2nd Lien payments	$ 18,429	($219.39 X 84)
Balloon payment	$ 23,662	(in 84 months)
	$111,191	**TOTAL CASH**

This is ***more*** than ***100%*** of the asking price of your property! In addition, you will receive cash flow of ***$219.39*** *per month for the next* ***84*** *months*.

Enclosed please find my ***Standard Option to Purchase Agreement*** ready for your signature. Please fax the completed agreement back to me at **(512) 345-XXXX** so that we may get started on your deal immediately.

I look forward to closing and funding your transaction as quickly as possible. If you have any questions, please give me a call at **(512) 345-XXXX**.

Sincerely,

Jayme Notebuyer

REAL ESTATE PURCHASE CONTRACT AND RECEIPT FOR DEPOSIT

This is a legally binding contract. If not understood, seek competent legal advice.

1. DATE AND LOCATION OF OFFER: __________ , 20_____.

2. THIS CONTRACT IS MADE BY AND BETWEEN: ________________________________
Hereafter referred to as BUYER, and ____ (list names of all owners) hereafter referred to as SELLER upon terms, provisions, and conditions set forth herein.

3. BUYER AGREES TO PURCHASE FROM SELLER AND SELLER AGREES TO CONVEY TO BUYER, that certain real property located in , County of __________, State of , commonly known by the street address of , and further described as (attached legal description and tax parcel number if available), with a complete legal description to follow in escrow; together with the following items, if any: permanently installed heating, air conditioning, electrical, plumbing, security, fire detection, appliances, including stove, oven dishwasher, trash compactor, water heater, water conditioner, garage door opener and controls, landscape and shrubbery, wall-to-wall carpeting, window coverings, light fixtures, fans, television antennas, and other fixtures permanently attached to property. All of the included items, together with the real property and improvements, shall be referred to hereafter as the SUBJECT PROPERTY.

4. CONTRACT SALES PRICE AND FINANCING SUMMARY:

A. EARNEST MONEY DEPOSIT INCLUDED HEREWITH $
(Payable to: ____)

B. ADDITIONAL DOWN PAYMENT DUE ON OR BEFORE CLOSE OF ESCROW: $_________

C. SUM OF ALL FINANCING DESCRIBED IN PARAGRAPH FIVE BELOW: $ ____________

D. OTHER (Describe) ____ $ ____________

E. TOTAL SELLING PRICE CONSIDERATION (A + B + C + D + E + F) $ ____________

5. FINANCING (Note: The obtaining of BUYERS financing is a contingency or condition of this agreement.)

A. $ __________ BUYER to qualify for and obtain a new first loan in this approximate amount from a lender of BUYERS choice, payable at approximately $ __________________ per month including interest (_______fixed rate _______ adjustable rate) not to exceed _____________per annum, all due and payable _________ years from close of escrow. BUYER to pay a maximum of $ ___________ as points (discount points in the case of FHA or VA) or origination fees on behalf of the BUYER. BUYERS signature on loan documents will be deemed as BUYERS having obtained financing.

B. $ __________ BUYER to ______ assume/ _______ take title subject to the existing first loan of record on SUBJECT PROPERTY, in the approximate balance of $, in favor of , payable at approximately $_________________ per month, including interest and at _________% (_______fixed rate ______ adjustable) with all remaining principal and interest due , 20____. In the event the loan balance or payment differs substantially from that which is indicated above, this contract may be terminated at BUYERS option and earnest money shall be refunded to BUYER without delay. BUYERS fees to take over the existing loan not exceed $.

C. $ ___________ BUYER to execute a note secured by a FIRST (mortgage or deed of trust) in favor of SELLER, payable monthly at $ or more, including _______ principal and interest _______ interest only, the interest being _______% per annum, the remaining ~~balance of principal and interest all due~~ ______ ~~years from the date of origination. Other~~ terms and conditions:

.

D. $ ___________ BUYER to execute a note secured by a SECOND (mortgage or deed of trust) in favor of SELLER, payable _______ monthly _______ quarterly ______ annually at $ or more, including _______ principal and interest _______ interest only, the interest being _______% per annum, the remaining balance of principal and interest all due ______ years from the date of origination. Other terms and conditions:

.

E. $ _____________ BUYER to _______ to assume/______ take title subject to the existing _______ second, ________ third loan of record on SUBJECT PROPERTY, in the approximate balance of $, in favor of , payable at approximately $ ________________per month, including interest and at ____% (______ fixed rate _______ adjustable) with all remaining principal and interest due , 20___. In the event the loan balance or payment differs substantially from that which is indicated above, this contract may be terminated at BUYERS option and the earnest money shall be refunded to BUYER without delay. BUYERS fees to take over the existing loan not to exceed $.

F. $ __________ O~~THER (Describe):~~

$ ___________ TOTAL FINANCING

6. TITLE: SELLER shall furnish BUYER with title that is free and clear of liens, encumbrances, restrictions, rights, and conditions other than property taxes not yet due and restrictive covenants, conditions and restrictions of record, including public utility easements, if any, provided that some do not adversely affect the continued use of the property for the purpose for which it is presently being used. BUYER shall have _______days to reasonably disapprove of preliminary title report furnished at _______________ expense. SELLER shall provide and pay for a standard title policy or an abstract brought current on the SUBJECT PROPERTY.

7. ESCROW INSTRUCTIONS: BUYER and SELLER shall open escrow with , the escrow holder, and shall deliver signed instructions to escrow holder within _____calendar days of the acceptance of this offer, and shall provide for closing within _____calendar days of acceptance. Escrow fees to be paid as follows:

____

____

8. POSSESSION: Possession and occupancy shall be delivered to BUYER _______on close of escrow, or ________not later than _______ days after close of escrow. SELLER shall maintain the property in its present improved condition.

9. PERSONAL PROPERTY: The following items of personal property, free of liens and without warranty of condition, are included:

____

____

10. EXCEPTIONS WHICH DO NOT REMAIN WITH THE PROPERTY: BUYER and SELLER hereby agree that the following items are not included with the sale of the property, and may be removed by the SELLER:

____

____

11. SELLER TRANSFER/DISCLOSURE: SELLER agrees to provide BUYER with a Transfer/Disclosure statement (and to use the official form as may be required by state law.) Said statement shall include the identification of equipment and items contained in the residence and lot and whether such items are operational; any significant defects in structural components of the residence; information regarding the improvement and alterations made to the property including compliance with building codes and issuance of building permits and any items of concern regarding health, safety, regulation, violations, existing or potential lawsuits to the SUBJECT PROPERTY, nuisances or neighborhood problems which may affect the BUYER'S decision to purchase the SUBJECT PROPERTY. Upon receipt of the Transfer/Disclosure statement, BUYER shall have _______ calendar days to review and to disapprove the property because of the disclosed conditions and defects, and to terminate the agreement by delivery of written notice to the SELLER. Should BUYER not disapprove the property within the prescribed limits of time, the conditions described in the Transfer/Disclosure shall be deemed to have been approved by BUYER.

12. SUPPLEMENTS: The following supplements are incorporated as part of this agreement: ____

____

13. INSPECTIONS: BUYER shall have the right, at BUYER'S expense, to select a licensed contractor and/or other qualified professional(s) to make "inspections; BUYER shall keep the property free of liens, and indemnify and hold SELLER harmless from all liability, claims, demands, damages, or costs, and repair all damages to the SUBJECT PROPERTY arising from said inspections. All claimed defects concerning condition of SUBJECT PROPERTY, which adversely affects the continued use of the property for, which it is presently being used for, shall be in writing and delivered to SELLER along with written reports within _______ calendar days. If SELLER is unable or unwilling to correct the deficiencies within _______ calendar days of receiving notice or to agree in writing to escrow sufficient funds to correct them, or BUYER and SELLER fail to stipulate in writing as to what defects are accepted "as is" and/or what adjustment is to be made in the purchase price, then before close of escrow, or before any extension mutually agreed upon by both BUYER and SELLER, BUYER shall have the exclusive right to terminate this agreement. SELLER shall make the SUBJECT PROPERTY available for all inspections upon reasonable notice. BUYER'S failure to notify SELLER in writing of the defects, which are unacceptable to BUYER within the time limit indicated, shall be deemed approval.

14. PEST CONTROL INSPECTION: SELLER agrees, at SELLER'S expense, to provide within _______calendar days a written certificate from a licensed pest control operator that SUBJECT PROPERTY is free of wood - destroying organisms. SELLER shall make necessary repairs as required for certification within _______ calendar days, up to a limit of $500.00. In the event the cost to repair exceeds $500.00, then BUYER has the right to accept the property "as is" and receive credit from the SELLER, in escrow, or BUYER and SELLER shall, within said days, mutually stipulate in writing as to what repairs SELLER will perform and pay for and what items BUYER will accept "as is," or the BUYER may terminate this agreement.

15. OTHER TERMS AND CONDITIONS:

____

____

____

16. TIME LIMIT OF OFFER: The SELLER shall have until _______ (_______am/ _______pm) on _____ , 20 , to accept this offer in its entirety by delivering a signed copy to the BUYER. If the SELLER does not accept the offer as written within the time limit prescribed, then SELLER shall immediately cause BUYER'S deposit to be refunded to BUYER.

17. BOTH BUYER AND SELLER RESERVE THEIR RIGHTS to assign their respective interests and agree to cooperate in effecting an Internal Revenue Code 1031 exchange or similar tax-deferred arrangement prior to close of escrow, provided, however, that such arrangement does not adversely affect the basic agreements contained in this contract, and that said arrangement does not incur additional expense on the cooperating party. BUYER'S

obligation under this agreement is further contingent upon and subject to BUYERS first obtaining within _______ calendar days the following approvals:

18. REAL ESTATE COMMISSION: SELLER shall pay a _______% real estate commission on the total selling price as follows: $ ___________ . ____ is designated as BUYERS agent and shall receive _________ % of all commissions paid. ___________________________ is designated as SELLERS agent and shall receive _______% of all commissions paid.

19. GENERAL AGREEMENTS: Upon approval of this offer by the SELLER, this agreement shall become a contract between BUYER and SELLER, and shall inure to the benefit of the heirs, and administrators, executors, successors, personal representatives, and assigns of said parties. Time is of the essence and an essential part of the agreement. This contract constitutes the sole and entire agreement between the parties hereto an no modification of this contract shall be binding unless attached hereto and initialed by all parties to the contract. No representations, promises, or inducements not included in this contract shall be binding on any party hereto.

20. BUYERS STATEMENT AND RECEIPT: I/We hereby agree to purchase the above SUBJECT PROPERTY in accordance with the conditions stated above, and acknowledge the receipt of a completed copy of this agreement, which I/We have fully read and understand.

Dated ___________, 20________ Hour: ___________

Address: , City: , State: _____ Zip Code:

BUYERS signature: ____

21. SELLERS STATEMENT AND RECEIPT: ____I/We approve the above offer, which I/We have fully read and understand, and agree to the above terms and conditions this day and time. Or ____I/We approve the above offer with the additional provisions and modifications set forth in the attached and signed counter offer.

Dated: ___________, 20 _________Hour:___________

Address: , City: ___________ , State: _______ , Zip Code:

SELLERS signature:____

22. BUYERS RECEIPT FOR SIGNED OFFER: The BUYER hereby acknowledges the receipt of a copy of the above agreement bearing the SELLERS signature in acceptance of this offer.

Dated:_________ , 20____ BUYERS signature:

SELLER and BUYER acknowledge a receipt of a copy of this agreement, which consists of a total of pages.

________SELLERS initials

________BUYERS initials

OPTION TO PURCHASE AGREEMENT

THIS IS AN OPTION TO PURCHASE AGREEMENT dated this ________ day of ________ ,20____ by and between: _______________________ the note owner (hereinafter called **OWNER**) whose address is _________________________________ and _______________________ the note buyer (hereinafter called **BUYER**) whose address is ________________________________ for the purchase by BUYER of a certain MORTGAGE held by OWNER. It appears that OWNER is the owner and/or creator of a FIRST MORTGAGE (Mortgage / Deed of Trust / Contract for Deed) (hereinafter called MORTGAGE), which secures a promissory NOTE in the original amount of $ (herein called NOTE), copies of which NOTE and MORTGAGE are attached hereto and incorporated herein on the property located at , County, . It also appears that the OWNER desires to transfer and assign the MORTGAGE and NOTE to BUYER upon the terms and provisions more specifically set forth herein. Now, therefore, in consideration of the mutual covenants contained herein, the parties agree as follows:

Sale And Consideration. For legal and valuable consideration given and hereby received, the OWNER hereby agrees to sell and/or assign _______ monthly payments of $ ________ plus the balloon payment of $ __________________ of the MORTGAGE and NOTE, beginning with the payment due on the _______ day of __________, 2000 to BUYER for the sum of $_______________. OWNER hereby acknowledges the option price is subject to receipt, review and approval by BUYER of all required documentation. OWNER acknowledges that BUYER will require as a condition to its exercising this option the following:

1. Satisfactory appraisal of the real estate described above by a nationwide appraisal service with a value of at least $ _______________. In the event the appraised value is less than OWNER represents and OWNER does not agree to an adjusted note purchase price, OWNER agrees to pay BUYER an amount equal to the cost of the appraisal, title commitment and all other costs incurred by BUYER in connection with the purchase of the NOTE,
2. Satisfactory receipt and review of a mortgagee's title insurance commitment,
3. Proof of property's hazard insurance with a value equal to or greater than the remaining note balance,
4. Satisfactory review of MORTGAGORS credit report.

Exclusivity. OWNER hereby grants BUYER and/or assigns the exclusive right to purchase the NOTE and MORTGAGE. Any payments on the NOTE received by the OWNER during the term of this Agreement or any extension thereof will be credited to the cash required of BUYER at closing and deducted from the OWNERS proceeds. If BUYER has not exercised this option within forty five (45) days from the in-office receipt by BUYER of all required documentation, then OWNER may extend or cancel this option.

Remedy For Payment Default. In the event the Borrower fails to make any of the first three payments due to the Purchaser within thirty (30) days of the payment due date, regardless of whether such payment is subsequently paid by the Borrower, the Buyer, at its sole and absolute discretion, shall have the right to have the Seller repurchase said Note(s) at the repurchase price of the unpaid balance plus accrued interest, less the escrow balance.

Closing Costs. All normal closing costs will be the responsibility of the BUYER/OWNER with the exception of any additional or unexpected costs necessary to clear or perfect title. If no current title policy is in effect, the OWNER will be responsible for the cost of a new mortgagee policy. This Agreement shall be governed and enforced in accordance with TEXAS law. All sums due and payable by OWNER to BUYER under this agreement are payable in Travis County, Texas.

Remedies For Breach. Should OWNER refuse to close this transaction and BUYER is ready, willing and able to purchase the Note, then BUYER may elect a remedy that in cludes, but is not limited to specific performance, 15% liquidated damages, actual damages or combination thereof permitted by law.

Time And Binding Effect. Time shall always be of the essence and this Agreement shall inure to and be binding upon the respective heirs, representatives, successors and assigns of the parties hereto.

The parties hereto have set their hands and seals the day and date above written, each with the interest to be legally bound.

NOTE BUYER:

Signature ______________________________ Print Name ____________________________

Date ________________

NOTE OWNER:

Signature ______________________________ Print Name ____________________________

Date ________________

NOTE OWNER:

Signature ______________________________ Print Name ____________________________

Date ________________

Page 2 of 2

As you can see, the ***Standard Option to Purchase Agreement*** is pretty straightforward. It protects all parties and more important, clarifies expectations to all parties. In most cases, your note investor will have their own version of this document. It would be best to let them originate it, for the simple fact that if someone has to go after the seller for fraud or for a first payment default, it would be better if the note investor did so, because their pockets are deep enough to cover court costs, etc.

A FINAL CHAPTER NOTE

When you encounter people who have expressed no interest in selling at this time, or just need to think it over some more, simply let them go and move on to the prospect that *is* interested. There's no sense in beating up yourself and your prospects. Don't go around alienating people when there are over four million people in this country who hold notes, and thousands more who create them every day. The time to push comes ***after*** they've accepted your offer, which we will discuss later in the manual.

Now You See It... Now You Don't

ONLY SOME DEALS MAKE SENSE

A BRIEF REVIEW...

Congratulations! You've hung in there, and have actually made it this far! Consider yourself one of the elite! **[[Editors note:** I have a friend who recorded a six-tape series, with Side B of Tape Six accidentally blank. Out of several thousand tapes distributed, only three people ever complained... amazing, isn't it?**]]**

You, on the other hand, by applying yourself diligently, are obviously very seriously dedicated to making this work for you. Good for you! Now, as far as an ***actual deal*** is concerned, let's review the steps we've covered so far (*I'm really into that* **Preview**, **Do***, and* **Review** *thing..):*

1. **Find clients; then find their needs.**
2. **Gather all of the pertinent information.**
3. **Fill out a worksheet with basic information; then fax it to your investor.**
4. **Receive an answer/structure from your investor.**
5. **Present the offer to the seller get a commitment from them in writing.**

Hopefully (*and I hate to burst your bubble here!*), you understand by now that note investors simply don't buy every deal that comes along. Speaking throughout this chapter as a note investor, keep in mind that we don't make ***any*** money whatsoever if we turn away a deal. And yet, we often do!

Why would we do such a thing? ***Because in some cases, the risk of us not getting our money back outweighs the benefits of doing the deal.*** That is why we analyze deals according to *risk*.

Keep this in mind: the higher the risk, the higher our required yield and the lower our ITV. If our risk goes up, then our default rate goes up. If our default rate goes up, we lose more money, and have to offset that loss by charging higher yields! So... let's discuss why some deals make sense and others don't!

ITV NEVER EXCEDES 75%

If you are unfamiliar with ITV (Investment to Value), I highly recommend that you review chapter two of this manual or, review the concept at length in my course, ***The Paper Game***.

Now then, it is very important for you to realize that, in order to do a simultaneous closing on a property, the property has to have at least 25% equity in it. In other words, if the seller owes $90K on a house that is worth $ 100K, we are unable to do a simultaneous closing on it! And again, I know that you are asking "*Jayme, why is that?*" **[[Editors Note**: *Now she claims to be clairvoyant!* **]]**

Let's think about that answer for a minute: If the ***most*** I, as a note investor, can bring to the closing table is $75K (which represents my company's 75% ITV guidelines), then who is going to come up with the money to pay off the underlying lien? You see, this type of transaction is very similar to a normal real estate transaction. When someone, such as a lender, brings money to the closing table, the first thing that money goes toward is paying off the existing liens, and in this case, $75K is not enough to pay off the existing $90K lien!

Maybe the buyer will bring the other $15K to closing – if so, then this deal would work. Then again, if you are thinking this through with me and are answering "*the buyer* *wouldnt do that*," you would probably be right. Very seldom does a buyer come to the closing table with 25% as a down payment! Here's a great rule-of-thumb to remember:

> ***The seller's existing equity must be 25% of the property value or greater. The exception to the rule would be when the buyer brings a down payment to the closing table. Even then, that down payment, plus the seller's equity, must still equal 25%.***

The point of this part of our discussion is that many novice real estate investors and note buyers try to apply the same technique to every deal they find. It's my job to bring this to your attention and make sure you don't do it! This technique is an excellent one, but for heaven's sake, it doesn't work all the time! That having been said, let's go on...

DEAL ANALYSIS

When I as a note investor, evaluate a note for purchase, I look at two major items:

1. **PROPERTY (or collateral)**
2. **PAYOR (BUYER)**

Remember, this is a ***risk***-based business, and I'm not any different than any of my competitors. If the investor feels comfortable with the level of risk on a certain note, they will purchase that note. If they don't, they won't!

It's face the hard, cold reality of it all: **The note investor is the one writing the check**. The note investor is the one who is shouldering all of the risk. And finally, the note investor's version of the Golden Rule applies, "*He who has the gold makes the rules!*" If you don't like the rules, you don't have to play. When you reach the point where ***you*** are writing the check and ***you*** are taking the risk, then ***you*** can set your own rules. **'*Nuff said?***

Let's take a look at each of the categories I've listed above (**Property** and **Payor**), and analyze the different types of risk associated with each one. We'll start with the **Property**...

ANALYZING THE PROPERTY

The property is our collateral; if the buyer defaults on his obligation, the sale of the property is the ***only*** opportunity we note investors have of recouping our money. That is why we look so carefully at the property securing the note. The sooner we can resell the property, the sooner we can get our money back (or at least most of it) and move on to other investments.

Different types of property represent varying degrees of risk. While that risk may be associated with environmental issues and liability (is it a gas station with leaky underground tanks?), in most cases, it is determined by how difficult it would be to resell the property in case of default. **Case in point:** There are a lot more potential buyers for an undeveloped build-able lot in a residential neighborhood than there are for 500 acres of raw land in the middle of Montana. That is why the Montana property represents more risk. And, as I stated earlier, the higher the risk, the lower the ITV (most note investors will only go to 50% ITV on raw acreage).

As you can see below, each property type represents a different risk. I've ranked them below for you, so that you will know what to expect when you send a deal to one of your note investors for pricing. Keep in mind that the list is ranked from least risky (#1) to most risky (#8):

1. Single Family Home
2. Condos/Townhomes (in most markets, these appreciate slower than a SFH)
3. 2-4 Units (less potential buyers for these than for SFH's)
4. Residential Build-able Lots
5. Large Multi-Unit Apartments

6. Small Multi-Use Commercial (such as strip centers)
7. Single Use Commercial (restaurants, bowling alleys, churches, etc.)
8. Raw Land

Other property factors that affect risk, again for a lack of potential buyers, are very unusual residences (log homes, geodesic domes, etc.) and properties for which there are no comparable sales within miles!

ANALYZING THE BUYER (PAYOR)

When it comes to analyzing the risk associated with a particular payor, there are several things that represent that risk to us as note investors. Let's look at ***occupancy***, ***seasoning***, and then... let's sharpen our ***S.A. W***.

OCCUPANCY

When we talk about risk associated with the payor, one of the first things that comes to mind is, "*What is the likelihood that this person will continue to pay his mortgage, and what is the likelihood that he will walk away when the going gets tough?*" Let's consider occupancy as part of this equation.

Who is more likely to walk away when the going gets tough: a man who is living in the property, or a man who is renting it out to someone else? Let me give you a hint: The law of self-preservation usually wins! In other words, someone will walk away from a being a landlord far sooner than they would walk away from their own home. The *non owner- occupied property* therefore represents a greater risk than the *owner-occupied property*!

NOTE SEASONING

You've previously read that one of the reasons I like simultaneous closings so much is that we note investors now have the ability to buy notes that are brand new. In "note-buyer-speak" we refer to this as buying an *unseasoned* note. That doesn't, however, address the fact that these notes represent a greater *risk*.

When a payor has made at least a year's worth of payments, we know that he is used to the payment, and is used to paying it every single month. On the other hand, a simultaneous closing represents a note where the payor is ***not*** used to the payment, and has not yet demonstrated his ability or his willingness to pay the note.

SHARPENING THE S.A.W.

When I, or any other note investor, evaluate risk on the mortgagor (you'll remember from ***The Paper Game*** that a mortgagor is another name for a payor), we look at three major areas. I use the acronym S.A.W., which stands for:

1. **STABILITY**
2. **ABILITY TO PAY**
3. **WILLINGNESS TO PAY**

Each one has proven to be an indicator of whether or not that payor will be faithfully making the payments on the mortgage; let's take a look:

STABILITY

While the note investing community doesn't evaluate notes exactly the same way as the lending community, both of us, however, consider similar risk factors. One of these risk factors is the ***stability*** of the payor. Who is more likely to walk away when things get tough? Would it be a person who has been on the job for fifteen years and lived in the same house for 10 of those years, or would it be someone who has had several jobs in the last year and has never lived in one place longer than six months?

I'm sure that you can see that the second person represents the higher risk, and is less likely to get approved for either a loan or a note transaction.

ABILITY TO PAY

The next item that my fellow note investors and I consider is whether or not the potential payor (mortgagor, grantor, etc.) has the ***ability*** to make the house payment every month. For instance, "What if the payor currently pays $500 per month in rent, and wants to move into a house where his new monthly payment is going to be $3500 per month? I'm sure you would agree that something substantial needs to have happened in that payor's life that will allow him to make such a huge jump and afford the higher payment.

WILLINGNESS TO PAY

Throughout this course, I have stated that as note investors, we can work with people who "*dont want to jump through the hoops of conventional financing*," implying that we will work with just about anyone. This is only true to an extent, because when the risks outweigh the benefits, even *we* have to draw the line *somewhere*.

There are some people in this world who have made a point to pay their obligations in a timely manner. When we see this ***willingness to pay***, we know that we are taking a relatively safe, calculated risk by working with that person. On the other hand, there are some people in this world who, for one reason or another, appear never to have paid a bill in their life, yet these are the folks who always want to buy a property with no money out of their own pocket.

If you were in my shoes and this was your money, w*hat would you do?*

DOWN PAYMENT

Another factor that reflects the payor's ability to pay is whether or not they have shown the ability and the willingness to save money for closing costs and/or a down payment. You'll admit that a person who has some of their own money invested in the property is far less likely to walk away than a person who has nothing vested in the property!

It isn't enough that the buyers have a down payment; a *provable* down payment is an entirely different issue. So often, we see people with bad credit, having not paid a bill for the last several years, trying to buy a house with no money down. Better yet, the seller says that he has already "received" a $10,000 down payment (*wink, wink*)! By the way, the buyers only make minimum wage! Doesn't make any sense, does it?

Keep in mind – **if you wouldnt invest in this deal, chances are your investors wont either!**

DISPOSABLE INCOME

I also want to make sure that there is enough money left over at the end of each month (ha!), after all of the recurring bills are paid, to pay the other bills and feed the family. We refer to this as *disposable income*. Let me give you a true-life example:

Around Thanksgiving, a lady who was supporting herself and her four children on $800 per month of social security income contacted me. According to her credit report, she had never paid a bill in her life (okay, so maybe I exaggerate a bit, but you get the picture). Anyway...

This woman won an insurance settlement of $110,000, which she promptly spent: $60,000 on a house (that needed a new roof), $40,000 on a new car (which depreciated invalue as soon as she drove it off the car lot), and the final $10,000 on miscellaneous *stuff* for her and her family. Then, she came to us and wanted to borrow money to fix her house, which wasn't a problem... except for one thing: her new payment would be $500 per month.

So, we've got a family of five living on $800 per month, with a potential $500 going out on a new house payment. That left her $300 per month for everything else: food, clothing, heating oil (it was a bitterly cold winter), car insurance, house insurance, utilities, etc. Here's a scenario and a question for you:

You are now the note investor, and ***you*** finally have the ability to write a personal check for $40,000 to loan to this woman. ***You*** have the gold; ***you*** get to make the rules. Here's the question: "*Would you loan this woman $40,000?*" Yes, you can foreclose (and you probably will, because in my opinion, this is a foreclosure waiting to happen), and yes, you can hopefully recoup your money. But the question is whether you are willing to loan someone money, just so that you can kick them out of their home at Christmastime.

It's your decision...

Peeking Behind the Curtain

UNCOVERING SECRETS WITH DUE DILIGENCE

One of the beauties of magic is that nothing is as it appears. In other words, there are many instances where there is something going on behind the curtain that you don't know about, something that affects the outcome of the trick. Wouldn't it be great, just once, to be a little mouse in a corner and peek *behind* the curtain during a show? Imagine what you would discover!

The note business is very similar to that magic trick. Even though the seller, and often the buyer, tells you things up front, things are not always as they appear. We have a saying in the note business that jokingly says, "*Buyers are liars, sellers are worse!*" Okay, so maybe I sound a little jaded, but you would be surprised at how many times both buyers and sellers have misstated their information. It may not sound like a big deal, but every time I make a buying decision based on incorrect information, my risk of default increases, and when *that* happens, I lose money, and that does *not* make me happy! **[[Editors Note:** *And when Mama ain't happy, ain't* ***nobody*** *happy*!**]]**

So wouldn't it be great if we, as note investors, could look behind the curtain and, by doing our homework (*due diligence*), find out what really is and isn't true? Sure it would, and that's what this chapter is all about!

THE IMPORTANCE OF DUE DILIGENCE

Now that you've "struck a deal" with the seller, it's time to review all of the facets of this note in detail ***prior*** to purchasing it. Your purchase agreement with the seller provides for a sufficient amount of time to review the information prior to closing. You certainly need to provide yourself and your investor an adequate amount of time to do ***due diligence*.**

WORKING TOGETHER FOR CLOSING

Once the seller has signed the agreement, it's important to head off potential problems. ***Don't let them set their own closing date***. Your investor has the money, and that money isn't being sent to anyone until all of the conditions have been met.

Anyone reading this who has done deals has probably had an experience of having a seller pester them to death about when the deal will close. The best thing to do is to provide them with a checklist that will detail the entire closing process and show what steps must be completed in order for the transaction to close. (For example, see the ***Documentation Checklist*** in the Appendix)

The purpose of giving them this checklist and reviewing it with them is to give them an understanding of what's about to occur. People only get scared when they don't understand things. Help them to see the process you're going to go through for them. Educate them as to how you are going to actually utilize your own funds, your own contacts, and your own investors to get them the money they need. It's not a bad thing to let them see the complexity of the transaction; then they don't take it for granted.

As you go through each process, write down a specific date. Ask them to help you fill it in. For instance, concerning documentation received from them (the seller), ask them when you can expect it and then get a commitment. Write that date down and have them do so on their copy as well.

Appraisals can take anywhere from three to fifteen days, and more in some areas. Give yourself enough time so that you know it will be feasible, and make a commitment as to when the appraisal will be ordered. (*Dont make a time commitment until you know how long it will take*.)

The same goes with title insurance and documentation for the closing. The point is that you can reasonably establish how long an appraisal and title work will take, even when dealing with institutional investors. The *variable* in almost every note transaction is how long it takes the ***buyer*** and the ***seller*** to get the documentation together. That means ***all*** of it, not part of it now and part of it later. I've personally been in situations where the individual received my offer, waited three months to sign the agreement and then accused me of taking a long time to get their deal closed, telling me that I had it for over three months!

What Documents Do I Need To Get?

First of all, make sure that you lay the groundwork so that the note holder clearly understands their responsibilities so that they can live up to them and not be disappointed. You will request that the note seller provide you the necessary information, including the borrower's information, as soon as possible so you can fully review the deal prior to closing. Among the documents you should request from the note seller:

1. Copy of ***real estate contract*** between seller and buyer.
2. Copy of photo identification, for the title insurance company.
3. Name and phone number of the title insurance company or closer.
4. Original signed ***Option to Purchase Agreement***.
5. Information on underlying liens, as these will be paid off at closing.
6. Brief description of property.
7. Photographs of the property (only if there are any special conditions).
8. List of any improvements made on the property since its sale that may add to its value.

You will also need some items from the buyer (*the seller should get these for you, as he is the one carrying the note*). These include:

1. Signed credit application, filled out ***completely***, ***legibly*** and ***accurately***!

2. Past rental or mortgage information (name and phone number) to verify a payment history on their primary residence.
3. If employed, most recent pay-stub and most recent year's W-2.
4. If bad credit, verification that the down payment, at least 5%, is really coming from them! (i.e. bank account withdrawal slip, etc.)
5. Copy of photo identification, and permission to pull credit.
6. Name and number of company providing homeowner's insurance.

GATHERING THE INFORMATION

You should make every effort to review the requested documents as soon as possible after you receive them. Once the seller has agreed to a pricing on the sale of the note, it is up to you to always keep the transaction moving forward. Accomplish this by getting ***all*** of the requested information ***quickly***; then efficiently evaluating the information. Allowing the buyer and the seller to "piece meal" the information to you will only slow you down.

An even more serious consideration is that the ***closing cannot occur until all the required steps are completed***. This is particularly true when selling or flipping the note to another investor. The seller you allow to slowly provide the needed information, will also be the same seller who will get upset if the deal does not close on time (even though you did not receive the information in a timely fashion). This compilation of documents and material allows you to fully evaluate the quality of the note as well as confirm the information previously provided by the seller and the buyer.

PAPER MAGIC TIP: Get ***all*** of the information as quickly as you can after you have cut the deal. Waiting on information in this business is a formula for disaster. Do ***not*** let it happen to you!

THE THREE P'S OF PAPER

As note investors, we divide this evaluation process of reviewing the information (a.k.a. *due diligence*) on the note into these three categories:

1. **The PAPER:** All documents relative to the transaction.

2. **The PROPERTY:** Information on the property that secures the note.

3. **The PEOPLE:** Information on the person(s) making the payments.

Let's review the action steps necessary to perform the three "Ps" of paper...

The PAPER

REVIEWING THE DOCUMENTS

Every transaction has its paperwork, and simultaneous closings aren't any different. Let's take a moment to review the pertinent documentation. In a simultaneous closing, you will review these documents ***before*** they are signed, as they really don't go into effect until the transaction closes. The documents will include the following:

1. **Mortgage or Deed of Trust:** If you've read ***The Paper Game***, you'll remember that the mortgage or deed of trust is the document that pledges the property as collateral for the loan. Because these documents provide the security for the loan, it is important that they be fully reviewed prior to closing.

2. **Promissory Note:** The note contains the all-important payment terms, and is the evidence of the debt. The note investor's pay-price is dependent on these terms;

therefore, it is important that this document receive careful scrutiny before the transaction closes.

3. **Copy of Title Insurance Policy:** When a property is sold, there is generally a mortgagee (lender) title insurance policy issued on the transaction. This policy insures the lender, who, in this case, is the seller, against any potential title problems. A note buyer will want to review this policy to determine any problems or potential problems there may be on the title of the property. Note buyers require a title policy on ***all*** transactions.

4. **Evidence of Hazard Insurance:** The buyer should have in his possession evidence of hazard insurance on the property, which names the seller on the policy as the mortgagee. This will eventually be transferred to the note buyer. The insurance policy protects the mortgagee in the event the property is damaged by fire, wind storm, etc. (*In certain areas, you may also want to assure that flood insurance is in place*). Be attentive to the amount and type of coverage on the property.

5. **Copy of Closing Statement (Settlement Statement):** Prior to closing, you or your investor will review the closing statement and look for any discrepancies in the information that was provided by the note seller. You can verify the purchase price, the down payment, the mortgage amount and other costs relating to the transaction.

6. **Information on any Existing Liens:** As your note investor will be paying off these liens from the proceeds of the sale of the note, it is important to get the contact phone numbers, so they can verify the correct payoff amount.

READ THE DOCUMENTS

As a *real estate investor* and possible *note seller*, it is very important that you read all of the documentation provided to you by both the buyer of the property, and by the note buyer. If you plan on carrying paper, you'll want to know the creditworthiness of

the buyer. Additionally, you'll want to know exactly what the note buyer is offering you for the sale of your note.

Now then, as a *note buyer*, it is imperative that you read all the documents involved with the purchase of the mortgage or trust deed note. You never want to become so lackadaisical in your investment pursuits that you fail to pay careful attention to the content of the documents involved in your note purchase. If you are not well versed in the legalities pertaining to the documents involved in the transaction, you would be well advised to have an attorney review this information (particularly in your early note purchasing endeavors).

Please be aware that each mortgage and note can potentially contain clauses that may adversely affect your investment. In conjunction, the omission of various clauses in the instruments could prove disastrous to your investment. Never make the mistake of not carefully reviewing the documents. ("*My attorney made me say that*.)

The PROPERTY

DETERMINING VALUE

As a *real estate investor*, you are probably very familiar with the appraisal process. In this section, we will be covering appraisals in depth – my suggestion to you is that you learn the ins and outs well enough that you can talk intelligently with both your appraiser and with any financial institution involved in the transaction. ***Remember that the pay price on your note is dependent on the property appraising for at least the purchase price!***

As a *note buyer*, you interests are a little different. At this point, you will want to determine the true value of the real estate securing the note you are considering purchasing. One method we frequently utilize is to get a third-party *appraisal* performed on the property.

PAPER MAGIC TIP: You will notice that I have devoted a lot of print space to appraisals. Note investors require less documentation from the borrowers; therefore, we need to look to the property value to offset that risk. Our only accurate source for determining value is a licensed appraiser who is familiar with the area.

PROPERTY APPRAISALS

While there are a couple of types of appraisals, we prefer a ***quick sale*** appraisal. A quick sale appraisal is one that is performed by a licensed real estate appraiser, with the value based on the scenario that the property had to be sold in a relatively quick period of time. This type of appraisal differs from an ordinary appraisal, which would indicate a value of the property when time would *not* be of the essence.

The ***quick sale*** appraisal approach best suits paper investors. If you were forced to foreclose on a property to protect your position, you would probably want to sell the property as quickly as possible to recoup your invested capital to keep it working for you.

On all simultaneous closings, your back-end note investor will require a full ***in-house*** appraisal, where the appraiser can make an interior inspection. This type of appraisal will address the outside condition of the house as well as the general neighborhood. Based on the floor plan of the house, his review of the outside of the house and his research of recent sales of comparable properties in the immediate and surrounding neighborhoods, the appraiser will determine the value of the property.

The appraisal report will be on the appraiser's letterhead, and should contain information and photographs on three comparable property sales. The appraiser will most likely use a FNMA (Fannie Mae) short form for the documentation. It should also contain a written explanation, called a *narrative,* which will include the following:

1. **Description of property**
2. **Condition of property**
3. **Location of property**
4. **Description of surrounding area**

The appraisal will also contain a location map showing the location of the subject property and the comparable sales. Finally, after including his/her resume, the appraiser will indicate the value of the property and will sign and date the report.

WHERE TO FIND AN APPRAISER

Most investors require you to use a national firm when ordering the appraisal. I have listed four of these to assist you:

U.S. Property and Appraisals
1-800-837-8450

First American Real Estate Service
1-800-972-9127

Lender Services, Incorporated
1-800-722-0300

Nationwide Appraisal
1-800-920-0050

Even though these are national firms, please understand that they sub-contract to a local appraiser who is familiar with the area in which the subject property is located.

IMPORTANCE OF THE APPRAISAL

The reason I constantly emphasize the importance of being able to obtain an accurate estimate of the value of the property is that the real estate is the *secondary repayment source* in the event of default by the person making the payments. The strict adherence to your preset investment-to-value (ITV) ratios will provide the necessary insurance that your secondary repayment source (i.e., the real estate) will allow you to recoup your invested capital in the event of a default. When investing in real estate secured notes, you have a tremendous advantage compared to other investments in that it is relatively easy to ascertain the value of the real estate that secures the investment.

An appraisal provides the investor a method to determine the value of the real estate and the safety of their investment. By setting the investment parameters and then strictly adhering to the criteria that has been established, the investor should be able to minimize the risk in the investment. The note investor utilizes his preset investment to value criteria to provide a ***protective equity*** buffer in event of default.

Many of you with real estate backgrounds in the geographical area where you will be investing may not require an appraisal for notes you will be holding in your own portfolio. You may feel very comfortable in determining the value of a particular property by reviewing previous sales price information on comparables in the area and by checking the assessed value of the property at the county recorder’s office. With all of the information on the Internet, you can also find property valuation websites that can help you.

For example, let's say you have the opportunity to purchase a $70,000 first mortgage note for $50,000. The house sold four months ago for $100,000, and you are going to keep this note in your own portfolio. You may very well elect to forego the additional cost of a drive-by appraisal for this acquisition. It is always a good idea for you to physically review the property, if at all possible.

Particular caution should be utilized when buying property out of your immediate investment area. Procuring an appraisal of the property is a relatively inexpensive method of insuring yourself that your investment is secure. Choosing to cut costs in the short run by not taking underwriting seriously may cost you more money in the long run.

An appraiser will prepare his/her estimate of value by reviewing the property, the socioeconomic trends occurring in the neighborhood, the conformity of the property to other properties in the neighborhood and determine the highest and best use of that piece of real estate. He generally compares the subject property to several other sales of similar properties in the area (known as "comparables") to determine the value of the real estate. Investors should recognize that appraising is not an exact science and should not depend totally on that value when making a buying decision.

VALUES VARY AROUND THE COUNTRY

Please do not make any negative assumptions about a house that secures a note simply because you feel it is an inexpensive (or cheap) price for a house. This word of caution is particularly applicable for people who live in higher priced areas of the country. Some investors are guilty of saying "*Oh, my gosh! This must be a low-income area!*" when reviewing notes securing lower priced housing.

You should be aware that it is quite possible to purchase homes in some parts of the country, at a mere fraction of the cost of housing in other areas. While sales price *is* relevant, remember that just because the price does not happen to fit within your own personal parameters for housing does not make that house a *bad* deal in its own area of the country.

Our office receives numerous submissions every day, and they vary a great deal in the sales prices of the homes. We have purchased many quality notes on houses (particularly in rural areas) that are in the $40,000 to $50,000 price range. You should recognize that this $40,000 to $50,000 home in the rural area might be a very good piece of real estate while a $50,000 house in a large metropolitan area may not be a particularly sound investment.

PAPER MAGIC TIP: You owe it to yourself to become comfortable with the values in the area in which you elect to invest. It is ***imperative*** that you get a handle on the values of the real estate in those areas.

GET AN APPRAISER IN YOUR CORNER

I encourage you to develop an ongoing, working relationship with an appraiser in your area, whether you are a note investor, real estate investor, or both. This is particularly important if you plan to purchase most of your paper in your immediate area.

There are several benefits to finding an appraiser you can work with in your area. You should be able to negotiate a favorable rate on your appraisals since you will provide the appraiser with ongoing business. The appraisal is one of the few major expenses you will have in this business so it is important that you cut the best deal you can. You will want the appraiser to understand your investment objectives and have him be able to literally "see the property through your eyes" so to speak.

By developing a good working relationship with a local appraiser, chances are you can get an appraisal completed in a minimum amount of time, and on very short notice, when the occasion dictates. You never want to miss out on a great deal simply because the appraiser you utilize cannot provide the information you require fast enough. Since my company purchases notes nationwide, we utilize several appraisal firms that can provide a quick turn around time on deals. You will always want to be able to receive an appraisal in the shortest time possible once it is ordered.

The importance of knowing the value of the property securing your mortgage cannot be overemphasized. Determining the value of the property is a necessary and very important part of the note evaluation process. ***An appraisal or accurate estimate of value must be one of your primary purchase requirements***. Should you elect to sell your note to other investors, you will find most of those investors will require an appraisal. Let's face it: procuring an appraisal of the property is a relatively inexpensive method of insuring that your investment is secure.

PHOTOGRAPHS OF THE PROPERTY

A picture is worth a thousand words... or something like that. If you are purchasing a note secured by a property outside of your immediate area, please request that the note holder provide you with photos of the property if at all possible. Photographs are invaluable in the verification stage, particularly when you are unable to physically inspect the property yourself. Without the photos, you could be in for a big surprise if you later find out the deal that looks so pretty on paper is, in reality, a "dog!"

BRIEF DESCRIPTION OF IMPROVEMENTS ON THE PROPERTY

Please have the seller give you as much detail as possible about the property. Information you would like to know about the property includes: type of property, number of bedrooms and bathrooms (if residential), size of lot, carport or garage and other improvements. ***The more you know about the property, the better***. The seller should also be queried as to whether there have been any improvements since the sale took place. Additions or improvements may very well enhance the value of the property.

LOCATION MAP

If the note is outside of your immediate area, a location map depicting the location of the property can prove helpful. It is also extremely helpful for the appraiser when the property is in a rural area.

PAPER MAGIC TIP: Perhaps the best way to determine if you need additional information about the property is to ask yourself, “If I were ***buying*** this property, what else would I want to know?” It is a good question because if the Payor defaults, in all likelihood you will be buying the property.

The PEOPLE

THE PERSON MAKING THE PAYMENTS

You also need to check out the person(s) making the payments on the note you purchase, or, if you are a real estate investor, on the note you are considering carrying. This portion of the information verification process focuses on the creditworthiness of the mortgagor and his or her payment history on the obligation.

PAYMENT HISTORY

When you are in the business of buying notes, it is imperative for you to take every precaution available to protect your investment. It is very important to know the payment history of the person making the payments, since your primary repayment source (person making the payments) depends on their creditworthiness.

Because this is a ***new*** note, you will not have a pay history on it, but you *will* have a payment history on the buyer's current and former residence. The buyer may offer the phone number of their mortgage company or landlord, or may have cancelled checks to prove their payment consistency. These forms of payment records provide the note buyer a verification of the payment history and the dates the payments were actually received. If the mortgagor has been habitually tardy with his payments, it will show up here. A good payment-verification will indicate how prompt the person making the payments has been in the past.

We are all creatures of habit. The person who has made payments on time in the past will generally continue to do so in the future. Conversely, a person who has exhibited a poor payment history in the past will, as a rule, continue to be a problem. Unless you are very comfortable with the property and would not mind owning the property through a foreclosure proceeding, we recommend you steer clear of any notes with mortgagors who have a spotty payment performance record. This is particularly true if you plan on flipping or selling your note to other private note investors.

PAPER MAGIC TIP: The way a person has paid their past housing obligations is the best indicator of how they will treat these obligations in the future – regardless of their credit!

While some note investors will purchase notes where the payor has a poor payment history on his primary residence, the vast majority will be seeking a sound, safe investment with a good payment history. Purchasing notes where the payor has a poor housing payment history is just asking for trouble unless you are hoping to foreclose on the property. Problem notes can be good opportunities for profit, but should be left to real pros in the business (more about that in ***Paper Magic's*** other volume: ***Profits in Ugly Paper***).

If you are purchasing a second position note, I recommend that you check the payment history on the first note as well. The payment history is no guarantee of future payments, nor is it relevant should the property securing the note be sold and your note assumed by someone else. It is however, an important part of your pre-purchase checklist and provides an additional safeguard to keep you out of trouble.

THE CREDIT REPORT

The credit report on the mortgagor will show if he or she has a large amount of outstanding liabilities (high credit card balances, for example) and other facets of their credit history (payment history, accounts sent to collection or written off by lender). If you are purchasing a lot of notes, or if you are an active real estate investor, it could be advantageous to join a credit-reporting agency in your community so you can quickly obtain credit reports on mortgagors of notes you are considering for purchase. Generally, the better the person's credit, the less likely they will default on their payments to you.

Even though you are buying notes and not actually lending money, it is important to take all the steps available to you to protect your investment. In order to *pull* a credit report on a mortgagor, ***you must have an authorization to do so***. A signed purchase agreement for the note provides the written authorization necessary to check the credit on the person making the payments, since you have ostensible ownership of the note and are thereby standing in the note holder's shoes. I have also included a credit authorization form in the ***forms section*** of this manual, which the seller can have the buyer fill out prior to signing the real estate contract. This allows you or your investor to ascertain creditworthiness before structuring a note purchase.

OTHER IDEAS

You may also want to check out the mortgagor's employment history, particularly if the mortgagor has little or no credit or even bad credit. You could find out where he or she is employed, how long they've been working and what their long-term prospects are for continued employment. You might even consider a face to face meeting if appropriate so that you can judge the mortgagor for yourself.

PAPER MAGIC TIP: You never want to meet or talk to the mortgagor until you have the note purchase agreement signed by the seller. Why? The answer is simple: I don't want you ever crossing the line where you could be misconstrued as a lender or mortgage broker. Remember what I said earlier in the materials, and do not, under any circumstances, quote interest rates to the buyer unless, of course, you are the seller of the property and will be carrying the paper.

TITLE COMMITMENT / INSURANCE

Now that you have received all the requested information outlined previously and have initiated the appraisal of the property, you will also want to procure a title insurance commitment on the note purchase. It is not advisable to purchase a note without having a mortgagee's policy insuring the title on the note. This title insurance policy, which goes into effect at closing, will protect you against defects in the title that could pose a problem to your investment.

The title commitment will outline the status of the title on the property securing the note including any defects in the title, liens or other issues that may represent a problem to you. You can review this information prior to closing. The title commitment will convert to a title insurance policy at closing by payment of the appropriate fee. ***It is very important to conduct a title search prior to closing***. Failure to do so could result in purchasing a note that has title problems that may jeopardize your investment.

CONCLUSION

We have now outlined your basic action steps that you will need to take during your information verification stage. As I emphasized earlier, the more efficient you become at moving your deals along, the more money you will make in the business. These action steps truly require some ***action*** on your part, but you will find *a little effort can generate huge benefits*.

As we head to closing, keep in mind the following: No matter how well prepared we think we are, often there are little *glitches* right before a deal closes. My editor, who has skydived (*Not me! I see no reason to jump out of a perfectly good airplane!)* tells me that there are two times when you need to be aggressive and prepared when you jump out of a plane: when you first leave the airplane, and again right before you land. It is similar to doing note deals – you need to be prepared when you start a deal, and especially when you are close to the end. Some of these inevitable glitches can be helped; a lot of them cannot. As long as you know this ahead of time, you can deal with them more effectively.

PAPER MAGIC TIPS:

1. Don’t over-promise.
2. Let your investors set the closing – they have the money.
3. Remember the words, **A diamond is a chunk of coal that performed well under pressure.**

The Grand Finale

"WHEN EVERYONE GETS PAID!"

Before going on to the Grand Finale' let's recap where our journey has taken us so far. If you've been following along (*you have, havent you?*), you'll notice that so far, we have accomplished the following:

1. **A signed purchase agreement with the seller.**
2. **Reviewed the information and documentation relating to the note.**
3. **Procured an appraisal or estimate of value.**
4. **Received a title insurance commitment or conducted a title search.**
5. **Checked the credit and payment history on the mortgagor.**

At last, we are finally moving into the closing stage. (*Notice I didnt say, Closing **the** stage*) You've collected and reviewed all of the required information, and have identified a title or escrow company to work with you on the transaction. The seller's attorney should now prepare the **note** and **mortgage / deed of trust** (this document is state-specific).

You, or your attorney, or your investor's attorney, should now prepare the following documents (for your reference, they are included in the back of this manual):

1. **The note** and **mortgage/deed of trust.** (*both explained earlier in the manual*)
2. **The *assignment* of the trust deed or mortgage.** After the buyer signs the I.O.U., the seller, who is the payee, uses this document to assign the mortgage to whomever is buying the note. Remember that the seller is exchanging ***cash*** for ***cash flow***.

3. **Mortgagee affidavit or estoppel letter.** When a mortgage is transferred or sold, the note buyer wants to make sure that everything is crystal clear. By signing an estoppel letter, the seller is acknowledging that his/her ownership of the note ends (or *stops*) at a certain point.

4. **Letter to the payor informing him of the assignment.** Signed by the note seller at closing, this document is sent to the payor informing him of the sale of the note. It directs the payor to now make payments to you (or your investor if you flip or broker the transaction).

5. **Notification letter to the insurance company.** If the collateral burns down, it's pretty apparent that whoever has put up the money for the note would like to get paid! This letter is forwarded to the insurance company advising them to issue a change endorsement naming you (or your investor) as the new mortgagee.

6. **Promissory note endorsement.** The I.O.U. (or note) is endorsed to the note buyer, just like you would endorse a personal check written to you over to someone else. Actually, the two are really the same, as both personal checks and mortgage notes are *promises to pay*. Your attorney (or you) can prepare a promissory note endorsement. Many note purchasers prefer to have the note endorsed to them directly on the note itself. An endorsement on the note itself would prevent a lost-endorsement problem later.

THE ACTUAL CLOSING

Remember, in a simultaneous closing, there are actually **two** closings. First, the real estate exchanges hands and the note is created between the buyer and seller of the property. If you are a real estate investor and are acting as either a buyer or seller, this part of the transaction is very important to you!

The second transaction involves only the seller of the property (who is now also the note seller) and the note buyer. ***As note buyers, we are only concerned with the second closing, where we are buying the note.*** A definition of this second closing might be: *all parties sign documents regarding the sale and transfer of the note and mortgage*. In other words, the note and mortgage is conveyed to you (or to your investor) and the check is given to the note seller. The ***buyer*** signs the note and the mortgage at the 1st closing. The ***seller*** assigns his rights to these documents to you (or your note investor) and the 2nd closing.

PAPER MAGIC TIP: Closing generally takes place in an attorney's or title company's office, and should be scheduled by the person buying the note. Only they know when they are ready to fund!

The closing can be a face-to-face variety or can be conducted by mail. In a face-to-face closing, the parties usually meet at the closing location. When you conduct a face-to-face closing, try to keep the atmosphere congenial and light. Some note sellers will be uncomfortable and tense and you certainly do not want the deal to blow apart at the closing table. If you elect to have a face-to-face closing, make sure the note seller has received copies of the closing documents in advance so they can familiarize themselves with the paperwork before the actual closing.

PAPER MAGIC TIP: The closing should be a pleasant experience, so just relax and the seller will probably feel more at ease too.

When you close by mail, the documents are signed and forwarded to the closing agent by mail. When the closing agent has received all the documents, properly signed and notarized, and also has received the purchase funds, he/she will proceed with the actual closing. The agent will then forward the documents and funds to the appropriate parties per the instruction letter and record the necessary documents.

INSTRUCTION LETTER FOR THE TITLE COMPANY

The instruction letter for the title company and/or escrow agent will outline how you want the closing procedure to take place. The funds for the purchase will be transferred to the note seller by the closing agent when all documents are completed and executed and in the hands of the closing agent. You want to be sure that you or the closing agent send the letter to the person making the payments at closing, informing them of the transfer of the note. The letter of notification to the insurance company must be forwarded at closing as well. The closing agent will have the assignment of the mortgage recorded in public record.

Never be intimidated, particularly if you are new to the business, by the paperwork required to close a transaction. ***If you are flipping or optioning the note, the investor usually prepares and coordinates all of the second closing for you (where the note itself transfers).***

PAPER MAGIC TIP: A note purchase closing is very similar to a real estate closing and a solid relationship with a closing agent can be an invaluable aid in completing your transaction.

PROPER CLOSING & RECORDATION

Once you have purchased a note, you must see that your interest in the note and mortgage is recorded at the County Courthouse where the property is located. (In many states, you will do so at the County Recorder's Office). This will put your position of ownership of the note into public record, preventing the person who sold you the note from selling to multiple parties. This recordation is formal notice of your interest. The title company, investor, or closing attorney should immediately record all pertinent documents after closing.

POST CLOSING CONCERNS

After the note purchase is completed, you need to make sure several post-closing documents are received. This would include making sure you receive the *title insurance* *policy*, the *completed closing document package* and the *certificate of insurance* from the insurance company naming you as co-insured. Last, but certainly not least, you need to monitor the deal until you receive your first payment on the note. This first payment will provide proof-positive that the payor knows that he now makes the payments to you.

POST CLOSING LETTERS – "THANK YOU.'.'.'"

After a successful closing, make sure you thank ***everyone*** in sight. Thanking people is almost a forgotten art in today's business climate. And by thanking them, I do ***not*** mean e-mail! You will find that providing *thank you notes* to all who participated in the closing will be greatly appreciated by the recipients and can prove to be an invaluable marketing technique for future deals. Thank the title company, the seller of the note, the mortgagor, your note buyer/investor, the appraiser and anyone else you can think of who was involved in the deal.

PAPER MAGIC TIP: Please recognize that "thank you" letters are another facet of your ongoing marketing campaign. The first paragraph of your letter should thank them for their participation. The second paragraph should be a solicitation, asking them to remember you in the future should they ever come across a deal meeting your parameters. This often-overlooked marketing effort can provide you tremendous dividends. It is simple, easy and it works! Try it!

CLOSING OVERVIEW

As you've learned, there are quite a few steps that you need to take to get a file to closing. Of course, if you have surrounded yourself with professionals like good appraisers, closing agents, note investors, etc. your job will be considerably easier. Even better, those same professionals will handle all of the following items (show here to summarize this process):

1. Information verification (review of all documents)

2. Credit check

3. Title commitment

4. Appraisal

5. Letters to underlying lien holder (if applicable)

6. Selection of Closing Agent

7. Preparation of closing documents

8. A. Instruction letter to closing agent

- **B. Assignment of mortgage/trust deed**
- **C. Mortgagee estoppel letter**
- **D. Payor notification letter**
- **E. Insurance company notification letter**
- **F. Promissory note endorsement**

9. Communication to payor (regarding estoppel letter if necessary)

10. Communication to seller with copy of closing documents (if closing by mail, have seller execute documents and forward to closing agent)

11. Closing

12. Funds transferred after all documents executed

13. Notice-letters sent out

14. Post-closing considerations:

- **A. Change endorsement received from insurance company**
- **B. Receipt of closing package (executed documents & title policy)**
- **C. Receipt of first payment**

15. Thank you letters!

MANAGING YOUR MORTGAGE INVESTMENTS

The importance of efficient and accurate record keeping cannot be overemphasized. You should set up a system that allows you to efficiently monitor your note investment portfolio or real estate portfolio, and you may elect to hire a servicing company to handle your account. The main consideration is to always keep accurate records on any investment.

CONCLUSION

If you really want to be a note professional, I strongly suggest you review this chapter a number of times to get a real feel for the closing process. You will want to identify title companies or escrow agents and area appraisers with whom you can work. I strongly urge you to have an attorney adapt your purchase and closing documents so they conform to your local laws.

The ultimate objective of ***all*** note buyers is to get the note purchase to the closing table and consummate the transaction in the shortest possible time. The more deals you do, the better and better you will get at this process. It is kind of like swimming: you don't learn to do it by reading about it. Regardless of what you have learned in this course, experience is the best teacher. Just remember **– Preview, Do,** and **Review!**

Pulling Coins Out Of Thin Air!

MARKETING YOUR SKILLS AND CREATING RELATIONSHIPS

Normally, I would put a chapter about *finding* the deals at the ***beginning*** of the course rather than at the end, because for me, it is the *first* step in doing this business. Then, my editor asked me to rethink it: his premise is that, in order to be effective at finding deals, you ***first*** need to *know what you are talking about*, and therefore it makes more sense to place MARKETING at the *end*. I'm not saying that he actually *won* this debate, but he *did* pose a good argument... **[[Editors Note:** *Every once in a great while, she lets me win!***]]**

REAL ESTATE INVESTOR

If you are a real estate investor and are using this technique to ***buy*** a house, it's just a matter of adequately conveying the benefits to the seller and meeting his/her needs. On the other hand, if you are a real estate investor and are using this technique to ***sell*** a house, then it becomes even simpler! What buyer in their right mind wouldn't want to buy a house where they had less closing costs and they didn't have to qualify for a loan?! And, to quote a paragraph from an earlier chapter:

> **The buyer saves thousands of dollars in points, origination fees, etc.** When simultaneous closings are utilized, the buyer no longer incurs all of the lender's fees, which can run up to **5%** of the purchase price of the property! The buyer no longer needs to pay points, origination fees, escrows and impounds, wiring, processing, underwriting and junk fees. If the buyer was "cash poor" in the first place, this helps them put more money into the down payment, or have more money left over at the completion of the transaction.

NOTE BUYER

Then again, you may be approaching this technique not as a real estate investment tool for yourself, but one that you can apply toward helping ***others*** achieve the same goal. In other words, you may decide to become a resource for the real estate professionals in your area and help *them* close their *own* deals! If that is the case, then you'll really want to pay close attention to this chapter. And while you read it, think about your potential customers (real estate agents, rehabbers, real estate investors, mortgage brokers, etc.), where you will find them, and what this technique means to ***them***!

> **PAPER MAGIC TIP:** As a note buyer, you will make your profit off of the sale of the *note*. In other words, you'll take the price given to you by your note investor, *subtract* your profit, and negotiate the adjusted price with the seller. **Most note buyers make 3-5% of the note balance as their fee.**

Now that you understand the basics of creating paper, the business comes down to the age-old concept of marketing your services. You've honed your skills and now it's time to tell everyone about your newfound knowledge. The truth is that marketing really isn't about "marketing". It's about ***relationships***: establishing and creating them. Taken a step further, it is about changing lives...in particular, ***yours***.

The more value you give to the marketplace, the more valuable you become. Zig Ziglar, one of America's premier authors and sales trainers, tells us in his book ***See You At The Top***, "*You will get what you want if you give enough other people what they want*." That puts "marketing" in a whole different light. It is the premise behind relationship marketing, a concept centering on building long-term relationships with your clients. I **KNOW** what simultaneous closings can do – they allow transactions to close that would not have otherwise. And I **KNOW** that every real estate professional in the market place will do business with me if they know what I have to offer.

A few years ago, I developed a relationship with the top producing Realtor© in Austin. I sat down and explained how we (me and my investment group) could help him close at least one more deal per month using a simultaneous closing to close a sale where the buyer did not qualify for conventional financing. His response was "*Yeah, sure*." But, I didn't give up. Every time I saw him over the next few months, I reminded him that I could help him close more deals.

I was teaching a workshop in Dallas, Texas and this Realtor© happened to be there on other business. He was invited to attend the workshop at his own convenience and actually came in on the morning of the second day. I'll never forget him sitting in the front row and after a few hours he jumped up in class as if the room were on fire! He exclaimed, "*Why didnt you tell me about this technique? I could have been using this in my business to sell more houses*." The bottom line is that, until he attended the workshop, this Realtor© simply wasn't ready to listen. After all these years, he still sends us deals that he can't get closed with traditional bank financing.

PAPER MAGIC TIP: Develop an explanation about what you do that is consistent with who ***you*** are. Memorize it so that it comes easily and consistently whenever someone asks about your business.

Every company in the world has a story to tell: about whom they are and what they do. Marketing creates a message that tells this story. Marketing also defines the process that will be used to deliver this message. ***Action Step***- What is your message? Write it down!

Marketing is like fishing. If you only have one line in the water, you'll only catch one fish!

WHO ARE YOUR CUSTOMERS?

Fishing is a great analogy for several reasons. Obviously, the more lines you have in the water, the better your chances of bringing home dinner! It's also a good analogy in that different fish prefer different kinds of bait. In marketing, you need to determine the type of fish you are going to catch, and the type of bait you'll use to do so. In other words, define your customers, and figure out the benefits specific to each one of them.

Let's take some time and define our market. ***Who*** *will benefit from this technique and why?* ***Where*** *can we find them?* ***How*** *do they benefit from our services?* Let's go over examples of the ***top three sources*** who can bring you ***long-term business*** and ***multiple deals***:

MORTGAGE BROKERS

My partner was a mortgage broker for many years, and one of the jobs that I had early in this business was to process mortgage loans and work with lenders in trying to get buyers approved for conventional financing. Talk about being a pain in the neck! (not *me*... the ***job***!) Anyway, those days are long gone, but even today, mortgage brokers make up a large segment of my note customers.

At the time of this writing, interest rates are down but steadily climbing, and there are more lenders lending *outside of the box* than ever before. At the same time, though, the incidence of fraud has skyrocketed, and because of that, lenders, while offering more programs, have tightened their guidelines considerably. What does all of this mean to you?

Mortgage brokers are constantly looking for a source to do their deals. When a deal doesn't close, they don't make any money, the buyer doesn't get into the home of their dreams, and the real estate agent often moves on to another mortgage broker. So...if you can provide a service to them that helps them close more deals, they'll love you for it.

You don't have to look far to find them – they're everywhere. And if you want to do business with them, I would suggest the following:

1. Be sure and tell them that you are part of an "investment group" (and no, they do not need to know who your investors are!).
2. Tell them that you have ways that may help their borrowers who have been turned down elsewhere. Make sure, however, that you don't lead them on with the idea that you can do every deal that comes along – that isn't true, and saying so will take away from your credibility.
3. Tell them that your investors don't have the same (and use these exact words, here), chain-of-title issues or DTI (debt-to-income) issues that traditional lenders have.
4. To be even more specific, tell them that, in most cases, your investors don't even need to prove income!

REAL ESTATE AGENTS

You read the play and saw how C.C. Cash helped not only Rhonda Realtor, but also her clients, the Buyers. Heck, he even helped that old grouch, Alex Agent by putting a sale in *his* pocket! I suggest that you re-read the play, and pay close attention to the way that C.C. interacts with the real estate agents and then, ***emulate his actions***.

Obviously, real estate agents are in the same boat as mortgage brokers – if a deal doesn't close, not only do they have unhappy customers, but no one makes any money! And by the way, both mortgage brokers and real estate agents work on a straight commission basis, which means they depend solely on the deals they close to earn their living. If that's not motivation to close as many deals as they can, I don't know what is!

Getting to talk to real estate agents can be somewhat challenging. Please realize that they are bombarded ***daily*** by mortgage brokers seeking their business. The only way you can effectively get in to see them is by offering them something *different*! You are ***not*** a mortgage broker – you are a *private note investor*, and you also work with an *investment group*. (As before, they do ***not*** need to know who your investors are!)

They, too, are everywhere. If I were you, I would make it a point to leverage your interaction with them, and speak to them in groups, usually at their weekly sales meetings. You should also pursue both ***buyer's agents*** and ***seller's agents***. Let them know the following:

1. You are a ***private investor***. Additionally, you work with an investment group to fund your larger transactions.
2. You are ***not*** competing with their usual mortgage broker. In fact, you should *encourage* them to tell their mortgage broker about you, so that he, too, can use your services.
3. You have ways of helping their buyers get into homes "*without jumping through the hoops of conventional financing*." In fact, you have helped many people that have been turned down from conventional financing.
4. You don't worry about proving income, nor do you care how long the seller has owned the property (this is a very important point, because some lenders will not finance a property where the seller has owned it less than six months).
5. The agent will get 100% of their commission.
6. Finally, the buyer will save thousands of dollars in closing costs.

REAL ESTATE INVESTORS

Most of you reading this manual are already real estate investors, and are using this technique as an additional *tool* in your *toolbox* of financing options. I'm sure that you would agree that there are others, just like yourself, who could benefit from this. Wouldn't it be great if you could help them and make money off of their deals, too, by structuring a note purchase for them? Just think, they could sell their houses quicker and you can make money helping them!

The benefits to the real estate investors are similar to those of mortgage brokers and real estate agents: ***no one makes any money unless the house is sold and funded!*** And real estate investors are even more pressed – when they're not closing deals, not only are they *not making* any money, but it is also ***costing*** them money! When they buy a house for resale, *they have to make payments on it while they own it!* If it takes three months for them to resell it, then they will be out-of-pocket for those three months' payments, as well as for the property taxes and insurance payments that accrued during that period of time. Those costs eat directly into their potential profit! So, it behooves them to resell that property as quickly as possible.

That brings us to the benefits this technique offers them, and some points that you can make during your presentation:

1. By offering owner financing, they ***open up their sale to a wider range of potential buyers*** (because buyers no longer have to fit within the guidelines of conventional financing).
2. Their buyers will save thousands of dollars in closing costs, making the house more affordable to a wider range of buyers.
3. Most newly created notes are only discounted 6-8 cents on the dollar. In other words, they can sell their house more quickly than if they had used an agent, and still net out about the same amount of money from the sale.
4. They can ask and get full price for the house, because they are offering concessions to the buyer through seller financing.

Finally, when you are looking for real estate investors, I would very strongly urge you to join a local real estate investment club. The easiest way to find one is to look in the Yellow Pages and/or perform an Internet search (real estate investment club and "your city"). You can also go to an excellent website, www.creonline.com. It has a link that points to specific states and areas to help you find local clubs.

OTHER POTENTIAL CUSTOMERS

There are a lot of sources of business if you will just look for them. ***Sellers often advertise in the newspaper that they are willing to carry paper!*** Don't you think that they would rather have *cash*? *Shouldnt you call them and see what they are planning on doing with that paper once it is created?* And they're not the only ones! Just think of anyone who sells more than one home on a regular basis, and you have a potential customer. You should be thinking about mobile home dealers, builders, developers, as well as For-Sale-By-Owners (F.S.B.O.).

Of course, it isn't enough to have identified who our potential customers are. Now we need to talk about how to find them, and how to create relationships with them once we do.

MARKETING VEHICLES

When delivering a message in today's marketplace, there are a variety of vehicles from which to choose. Many note-buyers use newspaper advertising, telemarketing, yellow-page advertising, and letter campaigns. With simultaneous closings, you are targeting people who will bring you deals on a regular basis. You are building *long-term* relationships with these people. Which media you use depends on how effectively it will attain the desired reach and frequency. "*Reach*" is getting to your target audience. "*Frequency*" is how often you get their attention.

THE MARKETING CHALLENGE

On average in the U.S. in 2009, it took 12 impressions to close a sale. That's 12 times you have to call, mail, visit, or be seen in advertising by your prospect before he or she is ready to do business with you. The good news is that 90% of your competitors give up after the fourth contact. About 90% of that group gave up after the first contact!

How do you get from the fourth presentation to the 12th without letting the prospect slip through the cracks? One answer is to leverage the power of relationship marketing, and create ***mutually beneficial, long-term*** relationships. I have personally used relationship marketing with great success mainly because I am willing to help my prospects with their business. (Remember what Zig Ziglar said?)

WHAT IS RELATIONSHIP MARKETING?

Many marketing experts who promote the concepts of relationship marketing use a metaphor of gardening to illustrate how this “drip marketing” technique works. Imagine a garden in which you grow a variety of vegetables. Between the rows of radishes and onions you place a hose with tiny holes through which water will drip. Between the rows of tomatoes and cabbage you place a hose with larger holes through which water will flow.

The radish-and-onion hose is connected to a timer that turns on the water once per day for five minutes. The tomato-and-cabbage hose is connected to a timer that turns on the water twice a day for ten minutes.

Once properly set up, this irrigation system (referred to as drip irrigation) is totally automatic. It assures the right amount of water is delivered to each crop at the proper intervals.

Now consider your marketing plans. Imagine the marketplace in which you target a variety of prospects. When prospecting to potential sellers, you use letters that talk about the time that will be saved by using simultaneous closings, and how much quicker they can sell their home. When prospecting to real estate professionals, you use letters that talk about competitive advantages and bottom-line performance achieved by using simultaneous closings. The *radishes* get what they need, and the *tomatoes* get theirs!

[[Editors Note: *I recently saw those same vegetables racing each other. When last I looked, the cabbage was* ***ahead****, and the tomato was still trying to* ***catch up*****.]]**

Private sellers should receive some kind of contact from you every few days for a month. Your *long-term clients,* who will bring you repeat business, should receive some type of contact every week for six months. This communication should include one of the following forms of contact:

1. A postcard reminding them of your business and how you can help them.
2. A "value added" letter that gives them some tip to help them in their business.
3. A phone call offering to help them on specific deals.
4. A meeting with them to determine their goals, and how you can help them meet those goals.

PAPER MAGIC TIP: ***Remember:*** "Don't tell them how to build a clock – tell them what time it is!" Stress the ***benefits*** and ***not*** *the mechanics* of the

In other words, sell the *sizzle*. If someone is confused about your service and your abilities, they probably won't take advantage of it. Remember, do ***not*** use jargon – keep it simple, and tell them the benefits. For instance:

Bad Idea: *Mr. Seller, we can do a simultaneous close on your home for people who have B&C credit so that they can get in on a no-doc program, where you will carry a first and a second mortgage, and sell us the first while you keep the second.*

Good Idea: *Mr. Seller, we have a way to attract more buyers to your home. You will get the cash you need now, and receive the balance in payments over a period of time.*

You get the picture – the simpler the better!

SIX STEPS TO ACTION

While theory is one thing, taking ***action*** is something totally different and a lot more rewarding! To simplify the process, here are six specific action steps that you can take to catapult your business to the next level:

1. ***Identify your target audience*** (Realtors? FSBOs? Attorneys? Etc.).

2. ***Develop a database***, be it on paper or in a computer. Pick a target number and aim for it. Stretch yourself – the more people that know what you do, the more that can bring you business.

3. ***Pick your initial method of contact*** – I would make an initial phone contact to get the ***correct spelling*** (*wink, wink*) of the person's name, then I would follow it up with a welcome letter. Be sure to put it on stationery with your company name and information on it. Make sure it looks professional, and everything is spelled correctly!

4. ***Send an initial letter***, wait three days, and send a follow up letter.

5. Wait three more business days, and ***follow up with a phone call***. Decide ahead of time exactly how you will start the call. In your database, make notes of the conversation. Ask for the business.

6. Depending on the results of that call, ***follow up with another letter***. If rejected (they didn't reject you, just your idea!), send a letter of thanks, but follow up again six weeks later. Use this letter to hint at a future meeting. If the call went well, set up a meeting.

Congratulations! You have started your database; you've defined your basic marketing plan, and tied all of that in with the benefits you can offer the marketplace. Now what????

Now you have to actually ***talk*** to people! No mystery, and maybe not what you were looking for in a marketing section, but seriously, ***talking*** to people is the ***only*** way to develop relationships.

HOW DO I TALK TO PEOPLE?

That's kind of a crazy question, considering that you talk to people every single day, and usually about all sorts of things. When discussing your business, now is certainly ***not*** the time to keep your mouth shut. Tell **EVERYONE**!

You need to develop a stock answer to the question, "*What do you do?*" I have often used: "*I buy privately held mortgages on the secondary market*." Granted, they usually have no idea what I am talking about, but it really opens up the conversation. Then, in the arena of simultaneous closings, I go on to add that because I buy mortgages, I have different criteria than conventional investors, and that by using these techniques, I can ***"get borrowers into homes without jumping through the hoops of conventional financing."***

A LITTLE EXTRA...

When using the phone, always ask if the time is convenient, and maybe follow it up with a quick explanation. Phrases like, "*Did I catch you at a good time?*" work well. Of course, then I tease a little (building rapport) and say, "*Is there ever a good time?*" If rapport has already been established, try the following statement, or better yet, make one of your own:

> ***"It has come to my attention that you are one of the top real estate agents in the area. It's been my experience that people reach your position because they are always open to new ideas that will keep them on the leading edge. I realize that you have a busy schedule and so do I.***

That's why I am contacting you first by phone rather than just dropping by. The purpose of my call is to show you a system that will allow you and your agents to close more deals and earn more commissions."

PAPER MAGIC TIP: If a real estate agent says "*no*" it is because you have not given them enough reasons to say "*yes*."

CONCLUSION

I truly hope that this section has helped you think about marketing in different ways. It is the key to building any business, and is an essential part of everything that we do.

"Our greatest glory is not in never falling, but in rising every time we fall."
-Confucius-

Putting it All Together

"WHERE DO YOU GO FROM HERE?"

The first thing that I would like to do is *congratulate* you for making it to the end of this course. The unfortunate truth is that, historically, 90-95% of the people go 90-95% of the way and only achieve about 5% of the results. It's the winners who go the extra 5% of the way who achieve 95% of the results. You are a winner!

In putting this manual together, I wanted to make it as easy as possible for you to grasp and, more important, *retain* the information contained herein. Throughout the materials, I have stressed the concept of ***Preview***, ***Do***, and ***Review***. And so what better way to bring this volume to an end than by doing a short review, then previewing where we are headed in the ***Paper Magic's*** next volume: ***Profits with Ugly Paper***.

Let's start with a mini-quiz! The questions stem from frequently asked questions posed to the *contract buyers* at my company. I would like you to read each question carefully, and try to answer it yourself ***before*** looking at the answer that I have provided for you. Each answer has been covered in the course – ***good luck!***

PAPER MAGIC'S MINI QUIZ

What is a Simultaneous Closing? A simultaneous closing is actually two transactions: 1) The property is sold, and the seller carries back a mortgage. 2) The newly created mortgage is sold soon after, usually within minutes. Many note investors require at least one payment be made on the note before it is purchased.

Are they only for people with bad credit? A popular misconception, but this is definitely ***not*** the case. On the contrary, many creditworthy buyers are simply unable to qualify for a conventional loan because they don't fit lender's guidelines. Multiple income properties, self-employment, "creative" reporting on income taxes, ability to prove income... all of these are reasons why buyers seek seller financing as an alternative to the traditional lending market.

Are note investors lending money? They are ***not*** lending money. Just as with *existing* notes, they are purchasing a closed loan, or an *existing* asset. This is a fine, and often-debated, line to walk. The ***seller*** is your client. Be sure and ***work only with the seller on the transaction***, and, to really be on the safe side, make sure the seller gives *full disclosure* to the buyer.

How do I create the note, and what will you pay for it? Start by finding out the needs of both the buyer and the seller. Communicate those to your investor, using the Simultaneous Worksheet. Your note investor will offer to pay a certain price, based on the terms of the note. As with *existing* notes, you may offer a ***Full*** or ***Partial*** purchase. The pay-price of the note will depend on how the note is structured, but will usually vary between 88 and 93 cents on the dollar. Your best bet is to get this information ***before*** the deal is closed. This avoids any last minute surprises, and assures the seller that he/she has a marketable note.

Is there any recourse to the seller? Normally, there is no recourse to the seller. Major note investors, however, have a first–payment-default clause written into their purchase agreement. This serves to keep the buyer and the broker honest, and helps to prevent fraud.

What type of appraisal do I need? As with existing notes, most note investors require an appraisal by a nationwide company (US Properties, LSI, First American, etc.). *Some note investors will allow you to use a local,* **state licensed** *appraiser on most* *simultaneous transactions.* Unlike existing notes, simultaneous closings (here's the difference) require an ***interior*** inspection.

Does this work for everyone? Although it is a great alternative, not every buyer is a candidate, nor is every property a candidate. *Sometimes*, there is too little equity in the property to meet ITV requirements. *Sometimes*, the seller needs all of his/her cash now. And, *sometimes*, you will come across buyers who have never paid a bill in their life and have little or no money to put into the transaction. These people are extremely high risk (!) and should seriously consider postponing their purchase until they are more prepared to take on the liability.

What is the next step? Start talking with Real Estate agents, Mortgage Brokers, rehabbers, and FSBO's in your area. Maybe you fall into one of these categories, and are, yourself, acting as the seller. Whatever the case, gather all of the pertinent information, and fax it into your note investor. That's it! Their experienced in-house *contract buyers* will help put the transaction together, and will walk you through the entire process. The best part is that ***all*** parties will know *ahead* of time and *before* any contracts are signed, ***exactly*** how much they can expect to receive when the deal closes.

Now then, let's continue our review by going through a specific, step-by-step process for ***selling*** your house using this technique. We are going to assume that you have either just purchased this house, are in the process of purchasing it with the intention of flipping it, or, you've had it for some time and want to sell it quickly.

I'VE GOT A HOUSE UNDER CONTRACT... NOW WHAT?

1. Place an ad in the paper, or use another marketing method stressing "*Owner-Financing . Low Down Payment*" and **order the appraisal from a *state licensed* appraiser in your area**. Remember, appraisals can take *up to ten* business days.

2. Prescreen your prospective buyers and give them an ***Authorization to Obtain Credit*** form (see the ***Forms*** section in the back of the manual). Have them fill it out immediately, then pull credit from your normal sources. Fax the credit report, along with a completed ***Simultaneous Worksheet*** and a ***Simple Application***, to your note investor.

3. If the note investor can buy a note on your prospective buyer, they will inform you of the approved *loan-to-value* & the *interest rate*. If the numbers are acceptable, and if you haven't already done so, then ***collect your buyer's earnest money and receipt it to the title company or attorney.*** **(***Earnest money and down payment* ***must*** *go through the closing agent.***)**

4. Make sure the buyers complete the following forms, both of which may be found in the ***Forms*** section at the end of the manual:

   a. Simple Application
   b. Authorization to Obtain Credit

   Inform them that they will need to pre-pay ***one-year's property insurance*** *at closing.*

5. You will receive from your note investor:
   a. A ***Pricing Sheet*** confirming the terms
   b. A ***Standard Option to Purchase Agreement*** where the Investor agrees to buy the note subject to their due diligence

   The Standard Option to Purchase Agreement must be signed and faxed to investor in order to proceed.

6. Choose a closing attorney or title company. Your transaction will proceed more smoothly if your closing agent has worked with investors or done note deals in the

past. One of their representatives will contact your agent and guide them through the process.

7. Once the appraisal and title are completed, and verification of the down payment source is received, the closing department will set the closing. ***Down payment funds must be paid at closing*** (and may *not* be receipted by the seller prior to closing).

8. Make sure that all of your paperwork has been faxed or e-mailed to the investor at least ***five*** days before closing. In this way, any errors will be detected and corrected before close. If errors are discovered after closing, ***funding will be delayed until they are corrected***. An easy to follow checklist will simplify this process.

9. Closing: When all of the file conditions have been met, the underwriters will give your file to the closing department. The ***closers will set the closing***, as *they are the ones actually writing the checks*. Most files close within 48 hours of the **final conditions** having been met.

TAKE THE NEXT STEP

There are several "next steps" if you so choose. Obviously, the most important one for you to choose is the ***Take Action Now*** step. Unfortunately, there are a lot of educated people who are out of work; it isn't enough to have the knowledge. In fact, here's something for you to remember: ***"The system only works if you work the system!"*** It's a little corny, but it will help you to keep your priorities in perspective.

There's another next step as well. Most likely, you've received the complete ***Paper Power*** set, in which case, you need to go through the second volume, ***Profits with Ugly Paper***. In it you'll find advanced paper techniques, including how to control property with paper, making money with defaulted paper, realizing substantial profits from paper ownership, and much, much more! **[[Editors Note:** *Ignore the info-mercial! Just read the materials . youll love them!***]]**

FINAL THOUGHTS

As I come to the end of this manual, I find that there are a lot more thoughts that I would like to share with you, thoughts for *success*, thoughts for *sticking with it*, thoughts for *effectiveness* and *customer service* and *attitude* and *morality* and...

You get the picture: suffice it to say that you have come a long way, and the only thing left for you to do is go out and do it. In the beginning we talked about a road map, a ***system*** if you will, to help you reach your goals. Well, now you have the road map in your hands. You have read it. Will you use it?

Only you can decide... but I *can* offer you this support: Please feel free to contact me at any time via email at **AskJayme@aol.com**for clarification and understanding. No matter which note investor you use, most contract-buyers will be more than happy to help you structure a note purchase! In fact, I think you will find that there are many investors in this business who want to *give back* and help the beginning note buyer.

I wish you the best as you travel on your journey, and leave you this thought by Hamilton Holt:

"Nothing worthwhile comes easily. Half effort does not produce half results; it produces no results. Work, continuous work and hard work, is the only way to accomplish results that last."