

PAPER POWER

Module 1

An Overview of the Paper Business



Jayme Kahla



Bob Leonetti

4 Parts to this System

- **Short Paper**
 - 2 Modules
 - Note as an Alternative to Short Sales
- **Pretty Paper**
 - 2 Modules
 - Trading Existing Performing Notes w/ OPM
- **Ugly Paper**
 - 2 Modules
 - Trading Non-Performing Pools
 - Do Your Own Loan Mods
- **Creating Paper**
 - 2 Modules
 - Buying & Selling Houses – CREATIVE financing!!



Paper Power

Module 1 – Getting Started

How Banks Operate

Lender
Secures Line
of Credit

- Lenders Borrow Money from Other Banks
- They Use That Money to Make Loans

Uses Credit
Line to Make
Loans

- Each Loan DEBITS the Line of Credit
- Each Loan CREDITS the Assets Secured by LOC

Sells Loans

- Create Profit
- Replace Funds in Credit Line (Liquidity of Capital

Paper Power

Module 1 – Getting Started

How Notes Trade

- Loans Usually Trade at a Premium
- Notes ALSO Trade at a Discount
- You'll be dealing with the WHOLESale dept.

•Loss Mitigation
•Business to Consumer
•Lengthy Decisions
•Deals Directly With
Retail Consumer

RETAIL DEPARTMENT



•Secondary Marketing
•Business to Business
•Quick Decisions
•Deals Only With Other
Businesses

WHOLESALE DEPARTMENT

Paper Power

Module 1 – Getting Started

Short Paper

- **Short Paper v. Short Sales (2 modules)**
 - Notes as an Alternative to Short Sales
 - Buy the Paper – Not Loss Mitigation
 - Negotiate With the Secondary Department
- **How to Make Money with Short Paper**
 - Short Sale the Note when You Sell the House
 - Make Money from the Sale of the NOTE – not the house.



Paper Power

Module 1 – Getting Started

Compare to Short Sales

- Lender doesn't have to foreclose
- Lender doesn't incur foreclosure expenses
- Property stays in better shape
- No Crazy Short Sale Laws
- Homeowner Can Stay in Property (though you can certainly foreclose if necessary, or get a deed in lieu of foreclosure – keeping folks in property NOT recommended)
- No Deficiency Judgment
- Shorter Timeline
- **Bottom Line – You Should Do BOTH**

Paper Power

Module 1 – Getting Started

Pretty Paper

- **Existing Performing Notes (2 modules)**
 - Buy from Private Sellers Only
 - Buy at High Yields / Significant Discounts
 - Buy Portions of Notes (partials, splits, etc.)
- **How to Make Money with Pretty Paper**
 - Trading Existing Performing Notes with OPM
 - Institutional Investors
 - Investing for High Double Digit Deals



Paper Power

Module 1 – Getting Started

Seller's Motivation to Sell

- **Time Value of Money (TVM)**
- **Why would the seller take a discount?**
 - Wants Cash Now Instead of Long Term Income
 - Trouble Collecting Payments
 - Needs Money for Emergency
 - Needs Money for Project or Other Investment
 - Cash is King in Today's Market

Paper Power

Module 1 – Getting Started

Ugly Paper

- **Existing Non-Performing Notes (2 modules)**
 - Alternatives to Short Sales
 - Work with Secondary
 - Steep Discount
- **Making Money with Ugly Paper**
 - Trading Non-Performing Pools
 - Do Your Own Loan Mods
 - Workout for High Yields



Paper Power

Module 1 – Getting Started

Bank's Motivation to Sell

- **Why would a bank short sale?**
- **Why would the bank sell the note/Notes?**
 - 12+ months of interest on the money loaned out
 - Warehouse Line / Liquidity of Capital
 - Lost profit revenue from sale of note
 - Don't Want Foreclosure on Their Books
 - Accrued Taxes
 - Property Damage Repair
 - Force Placed Insurance

Paper Power

Module 1 – Getting Started

Creating Paper

- **Brand New Notes (2 modules)**
 - Get Seller Financing When You Buy Property
 - Offer Seller Financing When You Sell Property
- **Making Money with Creating Paper**
 - Use the Equity in a Property to Help you buy.
 - Use the Equity in a Property to Sell More Quickly
 - Put Notes into a Self-Directed IRA you Buy



Paper Power

Module 1 – Getting Started

3 Ways to Make Money with This System

1. Using other people's money, you can *flip* notes to a Note Investor for a quick cash profit. This includes single PRETTY Notes and pools and singles of UGLY Notes!
2. You can *invest* in notes for a long-term, high yielding investment.
3. You can *buy* and *control* real estate, creating both long and short term profit, by CREATING notes and using SHORT PAPER.

Paper Power

Module 1 – Getting Started

First – Learn the Basics

- Up to now, if you've been doing short sales, you've been dealing with a salaried minimum-wage type employee in the loss mitigation department.
- From here on out, you you'll be dealing with the Bank Professional who does business with other institutions or...private note holders
- Either way – You have to learn to communicate on his/her level by learning the right TERMS or...

They'll have you for lunch!



Paper Power

Module 1 – Getting Started

Basic Note Terms

- Note
- Five Parts of a Note (N, I, PV, PMT, FV)
- Mortgage / Deed of Trust
- Foreclosure
- Lien Position
- Loan to Value
- Investment to Value
- Assignment
- Discount



Paper Power

Module 1 – Getting Started

What is Your Ultimate Goal?

- a) Cooperating with Home Owner
Reselling the Property
(Or Short Sale)
- b) **Flipping** the Defaulted Note(s) to Institution
(Commercial Only)
- c) **Flipping** the Defaulted Note to Private Investor
(Rehabber – Residential Only)
- d) **Keeping** the Homeowner in the Property
(Profit from Refi/Loan Mod/
Eventual Note Sale)
- e) **Flipping** the Performing Note to an Institution

Paper Power

Module 1 – Getting Started

Your Homework Assignment

- Read Profits in Pretty Paper – Ch. 1-5
- Read Profits in Ugly Paper - Ch. 1-3
- Go to www.bizfilings.com (or vendor of your choice)
 - Set Up LLC or Corporation (if you haven't already done so)
(ex: ABC Asset Management / ABC Asset Services / ABC Management Services, etc.)
- **SIGN UP FOR UPCOMING WORKSHOP**

Paper Power

Module 1 – Getting Started