

PAPER POWER



Jayme Kahla

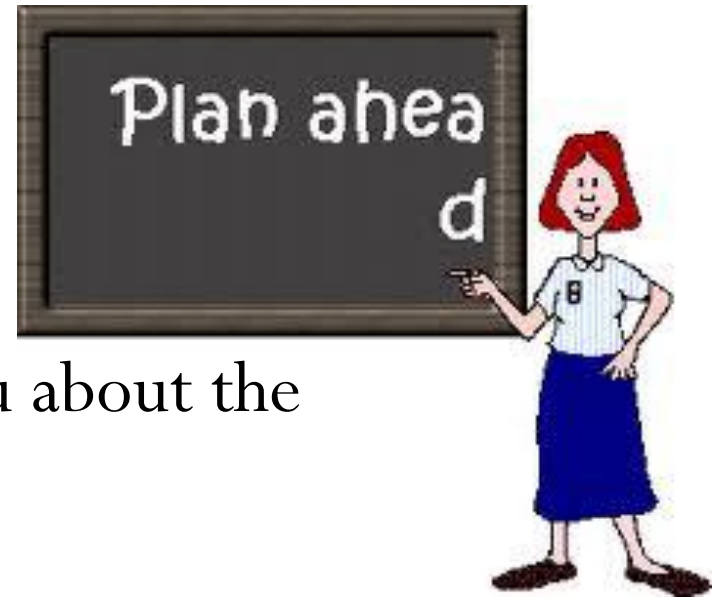
Module 3 SHORT PAPER Part 2



Bob Leonetti

Things to Check BEFORE You Buy

- Do you want the property?
- Can you work with the payor?
- What does a title search tell you about the property?
- After factoring in all of the costs, does the deal still make sense?



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Do You Want the Property?

- Only buy an ugly note on a property that is within a 25-mile radius of where you live or work.
- Only buy an ugly note on a property that you wouldn't mind owning.



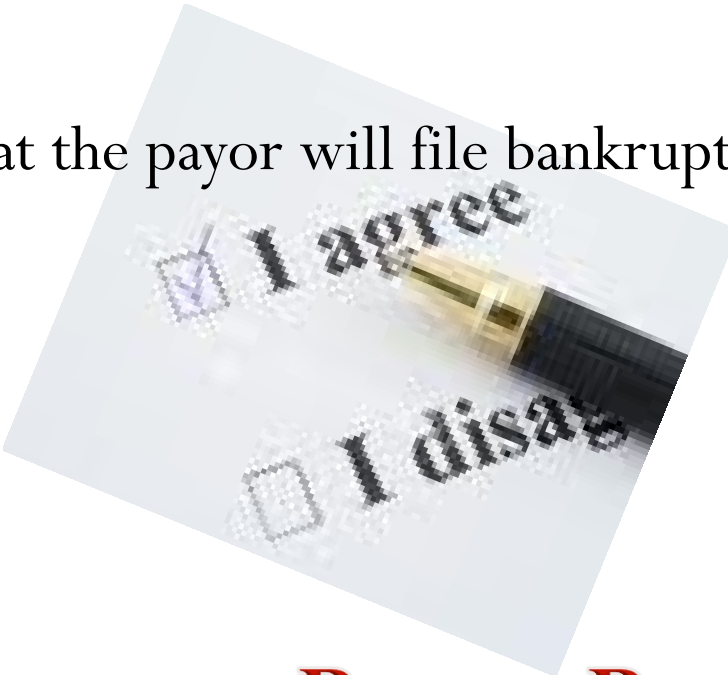
Only buy an ugly note after you have an exit strategy in place!

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Can You Work With the Payor?

- Will the payor cooperate and sign the deed to the property over to you in lieu of foreclosure?
- What is the likelihood that the payor will file bankruptcy to forestall foreclosure?
- Short Sale vs. Equity Sale



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Be Sure and Check Title!

Is the note that you are considering a first lien or a second lien?



If the note is a *first* lien, you'll want to find out if there are any junior or subordinate liens on the property. If so, you will need to foreclose them out, or buy them at a steep discount.

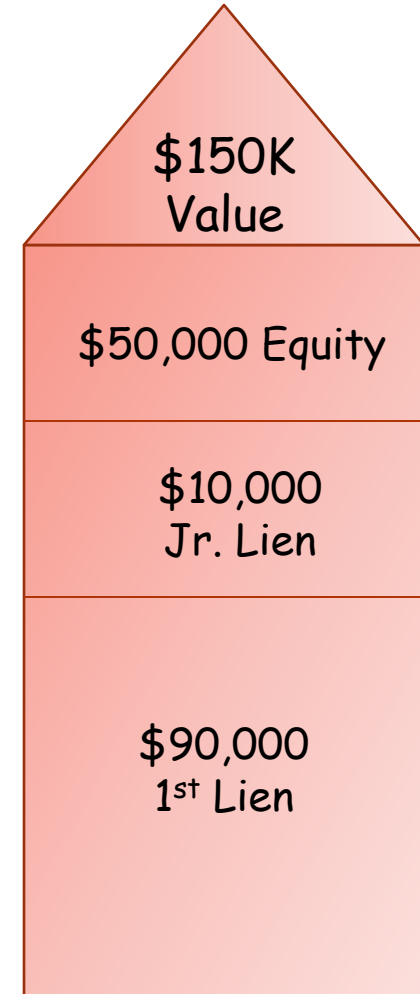
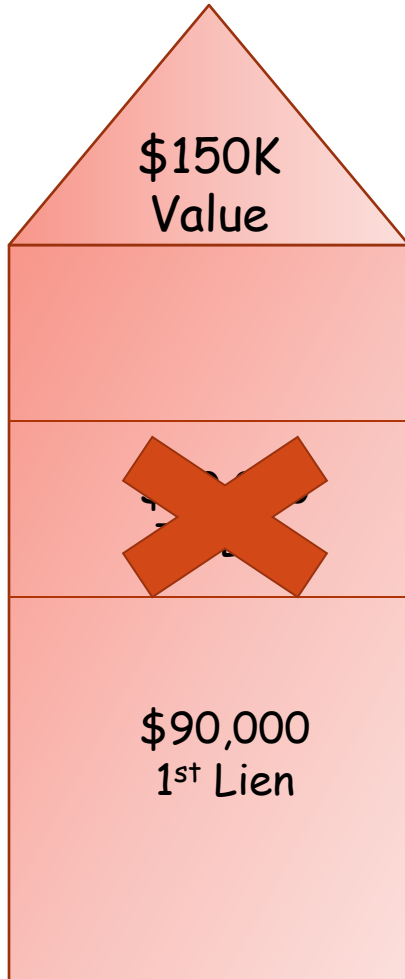


If the note is a *second* lien, you'll want to make sure that there is plenty of equity in the property.

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Be Sure and Check Title!



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Be Sure and Check Title! (cont.)

- **What other liens are there on the property?**

- Judgments
- Code Violation Liens
- HOA Dues



- **Can they be foreclosed out?**

- Property Tax Liens (Are taxes owed?? How much?)
- Personal Tax Liens
- Property Liens Released – Stay Against Seller



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Dollars and Sense (sp?)

- After Figuring the Numbers, Does the Deal Still Make Sense?
- You Should Factor-In the Following:
 - Value of House
 - Amount of Lien
 - Jr. Liens / Judgments?
 - Foreclosure Costs
 - Cost of Funds
 - Potential Repairs



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Value of House

- **Preferred Method**

 - Local RE Agent / MLS

 - Recent SALES (not listings)

 - Compare Days on Market

- **Online**

 - www.Eppraisal.com

 - Property Tax Multiplier

- **Down & Dirty**

 - Knock on Doors in Neighborhood



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Amount of Lien

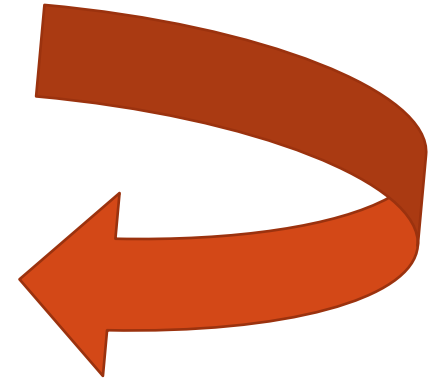
Most Likely – More than the House is Worth

Your Offer – MUST make sense for YOU

65-70% of After Repaired Value

Less Expenses

*Should pay **ONLY** for the UPB of the NOTE
NOT the back payments, fees, etc.



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Junior Liens & Judgments



- Are there other, Junior, liens on the property that need to be foreclosed?
- CAN you foreclose on them?
- If not, can the lien be moved to the seller directly and taken off the property?
- Is there enough Equity in the Deal to buy the other liens at a discount, or can you do a Short Sale on them?



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Foreclosure Costs

- If you HAVE to foreclose, are you prepared for the cost?
- Where in the foreclosure process is the current lender? Weeks? Months?
- What are the laws of your state?
- Will the seller fight you, or do you have a deed in lieu of foreclosure?



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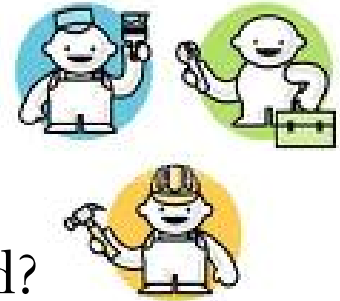
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Cost of Funds

- If Transactional Funding – What Does Aegis Charge? Do you have another source or are you double closing?
- Is there room in the deal?
- If doing repairs, what are the holding costs?



Potential Repairs



- Speaking of Repairs – what have you budgeted?
- ADVICE – only do this on property that you can immediately flip. If you're buying to fix and flip, or if you have to foreclose, you're looking at a holding period that will cost you more money, and you will need to budget for it!!



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Example:

• A.R.V. (after-repair value of house):	\$ 100,000
• Note Balance:	\$ 75,000
• <u>Junior Liens / Taxes:</u>	<u>NONE</u>
• Note Cost:	\$ 40,000
• Foreclosure Costs	\$ 2,000
• Cost of Funds	\$ 3,000
• Potential Repairs	\$ 10,000
• Holding Costs	\$ 3,000
• Fudge Factor	<u>\$ 5,000</u>
	\$ 63,000

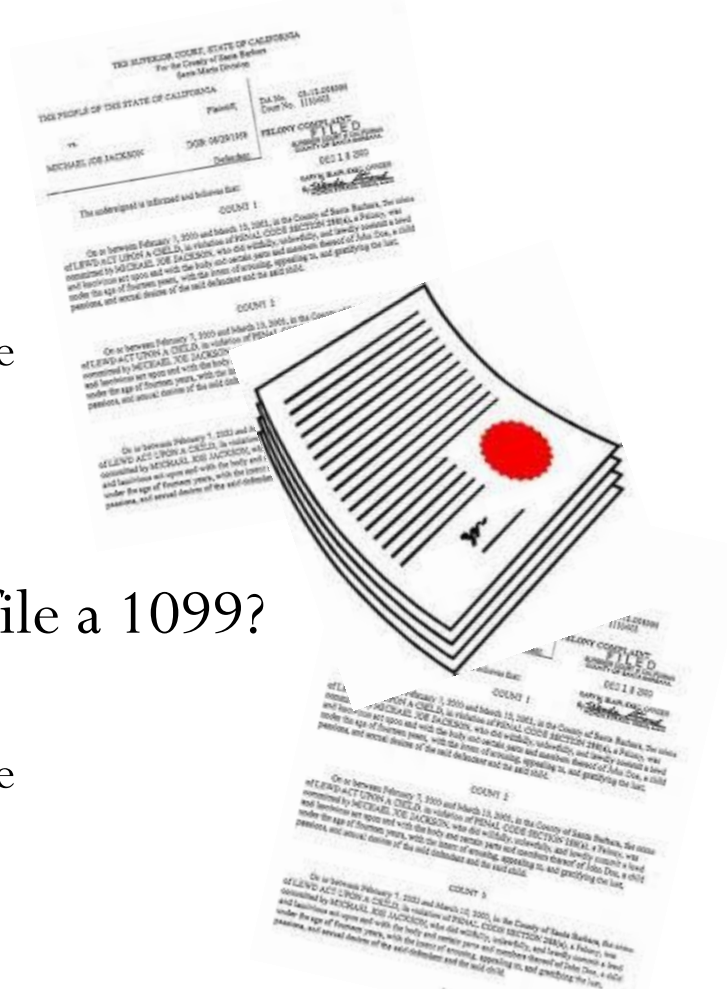


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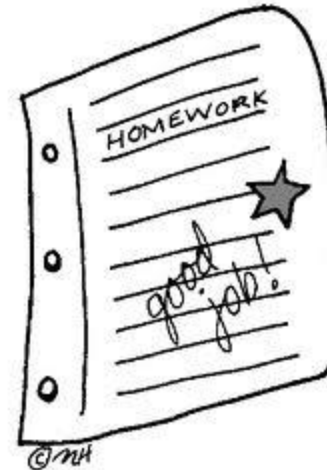
FINALLY...

- Is there a Deficiency Judgment?
 - Not on Sale of Note
 - Only Possible on Satisfaction of Note
 - Subject to the Lender
- Does the Note Holder Need to file a 1099?
 - Not on Sale of Note
 - Only Possible on Satisfaction of Note
 - Failure to File is \$50



Homework Assignment

- Determine 5-10 Target Zip Codes in which you'll do business (preferably in your area)
- For Your First Deal
 - Cooperative Agent and Homeowner
 - Not With B of A or Citi
 - One Mortgage Only
 - Contact the Secondary Department
- Email Us When You Have Contacted the Right Person on the Phone and They've Agreed to Work with You on the Note Sale



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