

PAPER POWER



Jayme Kahla

Module 4 SHORT PAPER Part 3



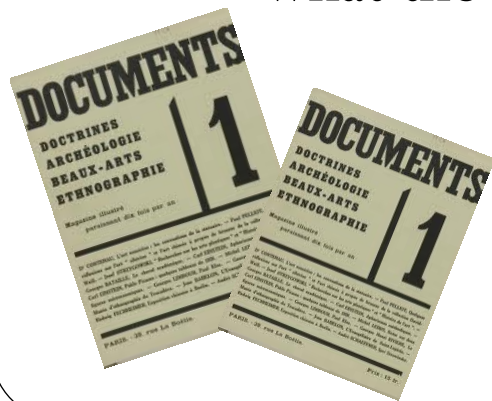
Bob Leonetti

BASIC TERMS



Assignment of Lien: used to assign the lien from one lien holder to another. Imagine this to be the same thing as endorsing a check to a 3rd party. Has NO effect on the payer.

Satisfaction of Lien: Satisfies the payer's liability. This is what the lender files when they receive a payoff.



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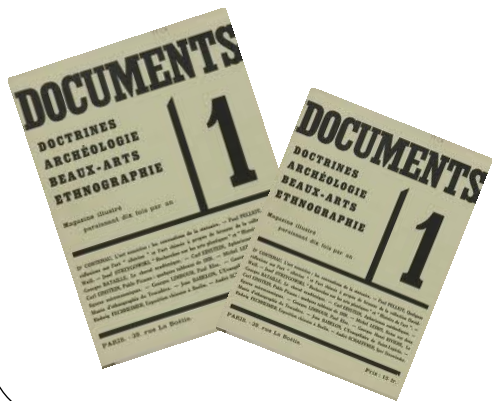
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BASIC TERMS



- When a note sells on the secondary market, an Assignment of Lien is filed. (*there is no consequence whatsoever to the payer*)
- When the lender (or in this case, YOU) receives a payoff, a Satisfaction of Lien is filed. (*payer MAY have taxable consequences*)

Samples on Website

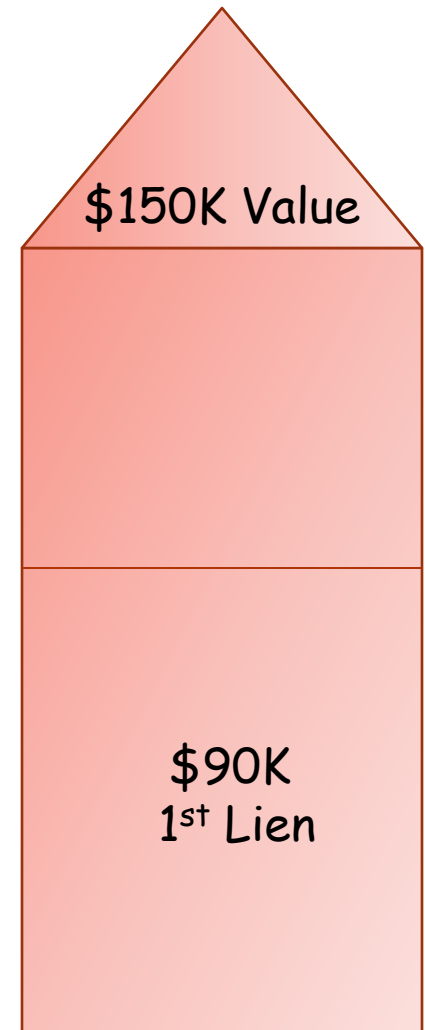


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MASTER Example

- \$90,000 – Note Acquisition
- \$150,000 – Value of House



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Possible Exit Strategies

- **Have End-Buyer in Place**
 - Accept Short Sale
- **Option The Note**
- **Get the Deed**, in which case you could:
 - Refinance in your name, then Lease
 - Sell the property retail
 - Wholesale the property
- **Foreclose**, in which case you could:
 - Refinance in your name, then Lease
 - Sell the property retail
 - Wholesale the property

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Have End-Buyer In Place

- **Get end-buyer in place** by working through an effective RE agent.
 - If you don't have a valid buyer in 3 weeks, the property is probably overpriced.
 - Buyer's list vs. Good Real Estate Agent
- **YOU are now the bank.**
 - YOU can agree to a payoff of less-than the unpaid balance (short sale).
 - Be aware of possible 2nd or Inferior liens and judgments against the property.

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Have End-Buyer In Place

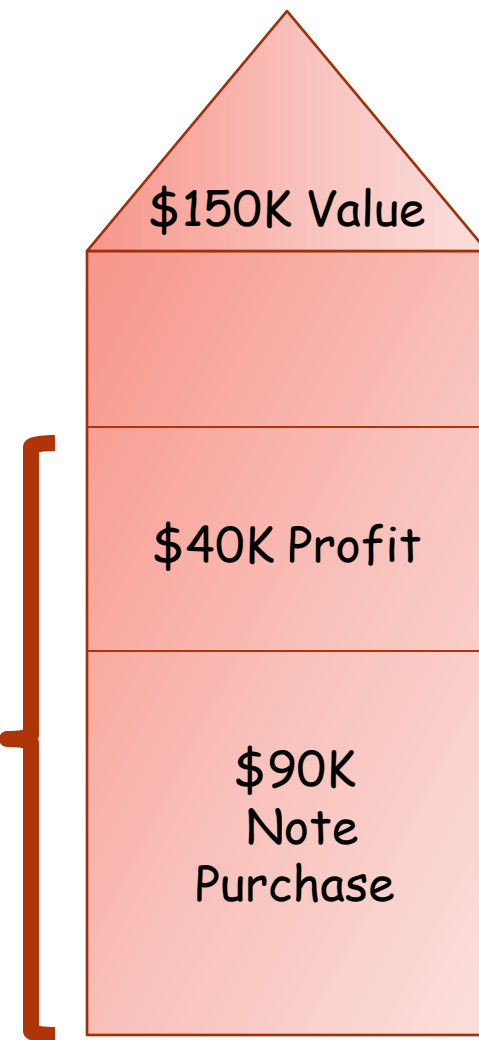
- **You make your profit from the payoff on the NOTE**
 - The payoff that you accept is *more* than what you paid for the note, but still *less* than what is owed.
 - You will file a *Satisfaction* of Lien
- **You NEVER own the property!**
 - Title to the property is NEVER in your name.
 - Transaction shows from A → C, with you, “B”, showing as the note holder in due course.

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MASTER Example

- \$150,000 - Value of House
- \$ 90,000 – Note Acquisition
- \$140,000 - Sales Price
- \$ 10,000 - Closing Costs
- \$130,000 - Discounted Note Payoff



\$ 40,000 – YOUR PROFIT

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Option the Note

- Note Investors will NOT buy ugly paper...but private real estate investors will!
- You will file an *Assignment* of Lien
- Sell it WHOLESALE – NOT retail!
 - Use the rehabber's money to close the transaction!
 - You are taking NO risk, so your return will be substantially lower than if you chose this deal for yourself.
 - When you option, then wholesale a note, expect to make approximately 3-5% of the note amount as your profit.

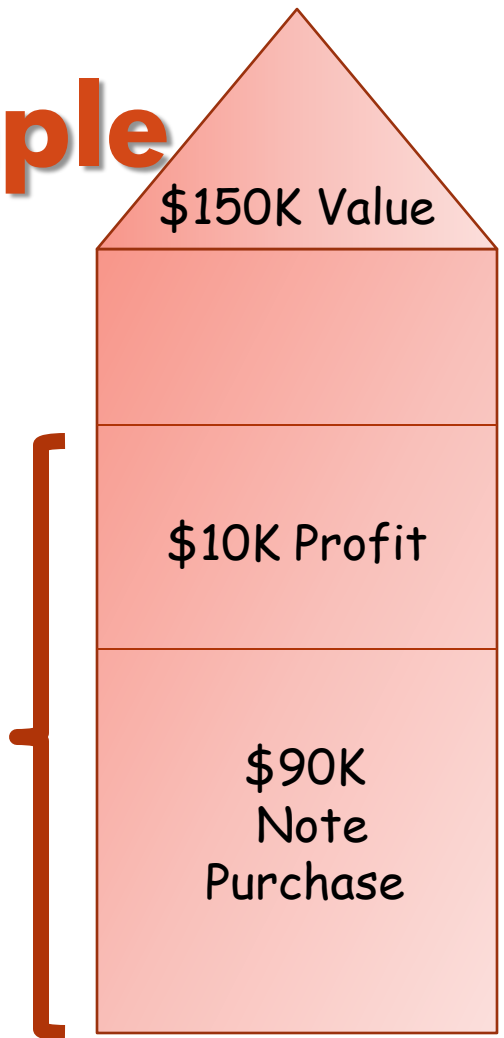
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OPTION NOTE Example

- \$150,000 - Value of House
- \$ 90,000 – Note Acquisition
- \$100,000 – Sell Note

\$ 10,000 – YOUR PROFIT



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Think Outside the Box

- Sell the note to a rehabber for cash, and also take an equity position in the deal
 - In other words, you could split the potential profit when the property eventually sells.
- Sell the note to a rehabber for some cash now and more cash later when he resells the property.
 - Different from Option One in that you are agreeing to accept a set amount of cash, rather than take an equity-participation.

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OPTION NOTE – Keep a Piece Example

- \$150,000 - Value of House
- \$ 90,000 – Note Acquisition
- \$ 10,000 - % of Resale Profit
- \$100,000 – Wholesale Note

\$ 20,000 – YOUR PROFIT



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Where to Find Note Buyers

- **Newspaper/Print Advertising**

- See Website for Sample Ad
- Be Careful in Your Wording

- **Craigslist**

- See Website for Sample Ad
- Real Estate Services

- **Investment Clubs**

- Google “real estate investment club” along with the name of your city (eg: real estate investment club Austin)
- Create Wholesale Buyer’s List



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Long Term Options



- **WHAT IF...**your buyer backs out of the deal, but you're set to close on the note?
 1. **Be Prepared** for long-term holding costs.
 2. **Get the Deed** in Lieu of Foreclosure from the current home owner – hold in Escrow
 3. **Resell** to Someone Else
 4. **Walk Away** from the Deal

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Getting the Deed - Options

- **Re-sell for less than market value** (to facilitate a quick sale) and still realize a substantial profit.
 - Sell for \$140,000 (\$ 10K under market)
 - Pay off your original note and closing costs (\$90K + \$10K)
 - Profit \$40,000 profit.



Of course, you'd have to pay taxes on that income...

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Getting the Deed - Options

- You could develop both short term and long term income without the hassles of property ownership.
 - Get 80% of the sales price from the buyer at closing (\$120,000)
 - Carry a 2nd lien for the \$30,000 balance still owed to you.
 - Profit \$30,000 up front (\$120K less \$90K in note costs – see above)
 - Create monthly income of approx. \$300 per month by carrying the 2nd lien of \$30,000.

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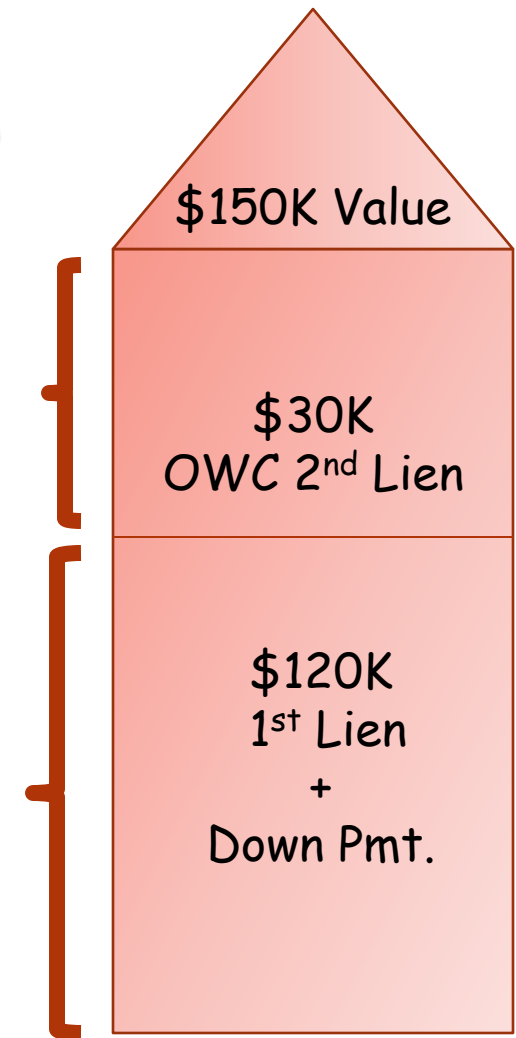
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GET THE DEED

Owner Finance Example

- \$150,000 - Value of House
- \$ 90,000 – Note Acquisition

- \$150,000 - Sales Price
- \$120,000 - 1st & Down
- \$ 30,000 - OWC 2nd Lien



It Gets Better...

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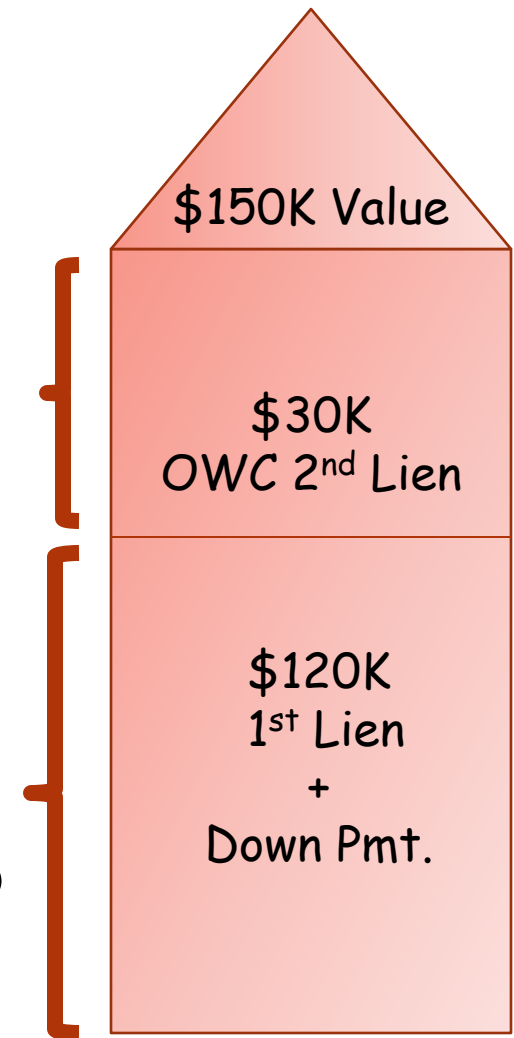
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OWNER FINANCE

Make More Money

- \$150,000 - Sales Price
- \$120,000 - 1st & Down
- \$ 30,000 - OWC 2nd Lien

- \$30,000 – Upfront PROFIT
- \$ 18,000 – 60 months at \$300
- \$ 30,000 – Balloon in 60 months
- \$ 78,000 – TOTAL PROFIT (over 60 months)



\$ 78,000 – YOUR PROFIT

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Foreclose

- WHAT IF...your seller backs out of the deal, but you're set to close on the note?
- WHAT IF...there are Jr. liens on the property that won't go away (you can't buy them at a discount or they won't short sale)?



- RUN – don't walk! Don't pass go, and don't collect \$200.

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Your Homework Assignment

- **Read and Understand the Documents**
- **Register for the Workshop!**
DeAnna at 512-351-8142 or... **CLICK ON BONUS #1**
- **Find a Good real estate attorney!!**
 - One that is familiar with the foreclosure laws in your state
 - One that is Experienced in foreclosures
- **Find a GOOD real estate agent**
 - Familiarize them with your system
 - Have them in place for unlisted deals



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