

PAPER POWER



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Module 8 UGLY PAPER Buying to Hold



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Bottom Lines for this Module

- Things to Do With a Defaulted Note
- Pitfalls to Avoid
- Forms to Use
- Where to Get the Money



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What to Do With an NPN

- **Work With the Payer**
 - Restructure the Note
 - Sell the Note or...Buyer's Refinance...
- **Have Them Get Out of the Property**
 - Deed In Lieu
 - Sell with Owner Financing
 - Foreclose (only if necessary)
- **Option the Note**

Exit Strategy #1

- **Work With the Payer / Restructure Note**

- Purchase \$213,000 note: \$127,000

- Used Private Money @ 12%: \$1270. month

- Added Back Pmts. & Fees to Note but
Amended it to Lower their Payments: \$225,984



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Exit Strategy #1



• Work With the Payer / Restructure Note

- Their Old Payment Was: \$ 1714.month
- Their New Payment Is: \$ 1600.month
- They Paid Me to Reinstate Their Note \$ 2260
- They Refinanced in 18 Months: \$ 189,000
- I Subordinated a 2nd Lien With Discount \$ 24,000
(which I later assigned to them...)



TOTAL PROFIT

(\$2260 + \$5940 + \$62,000)

\$70,200

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Exit Strategy #2

- Get the Deed from Owner

- Deed in Lieu of Foreclosure (State specific)
- Hold In Escrow if You Already Have Buyer Lined-Up
- File if No Buyer in Sight

- Property is Now In Your Name

- Re-sell for Less than Market Value
- Develop both Short Term and Long Term Income



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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

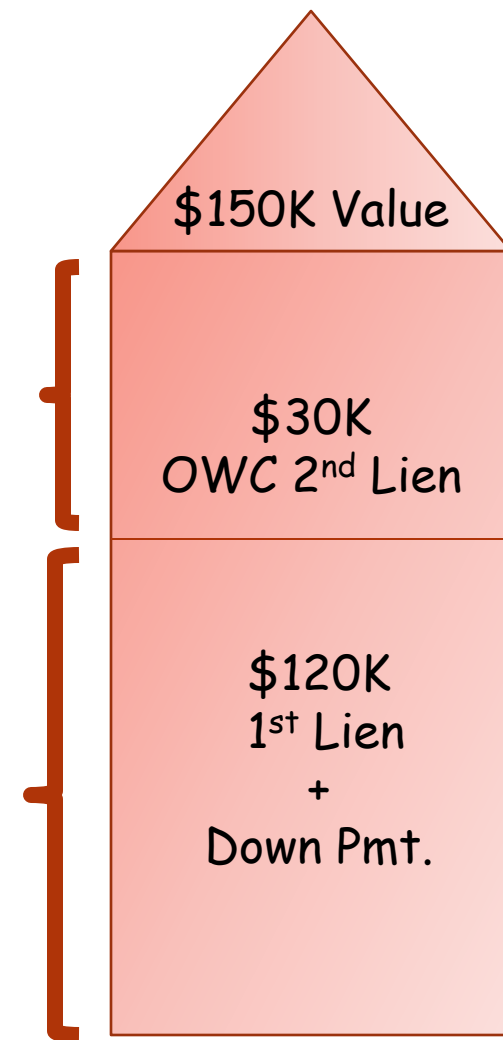
- You could develop both short term and long term income without the hassles of property ownership.
 - Get 80% of the sales price from the buyer at closing (\$120,000)
 - Carry a 2nd lien for the \$30,000 balance still owed to you.
 - Profit \$30,000 up front (\$120K less \$90K in note costs – see above)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

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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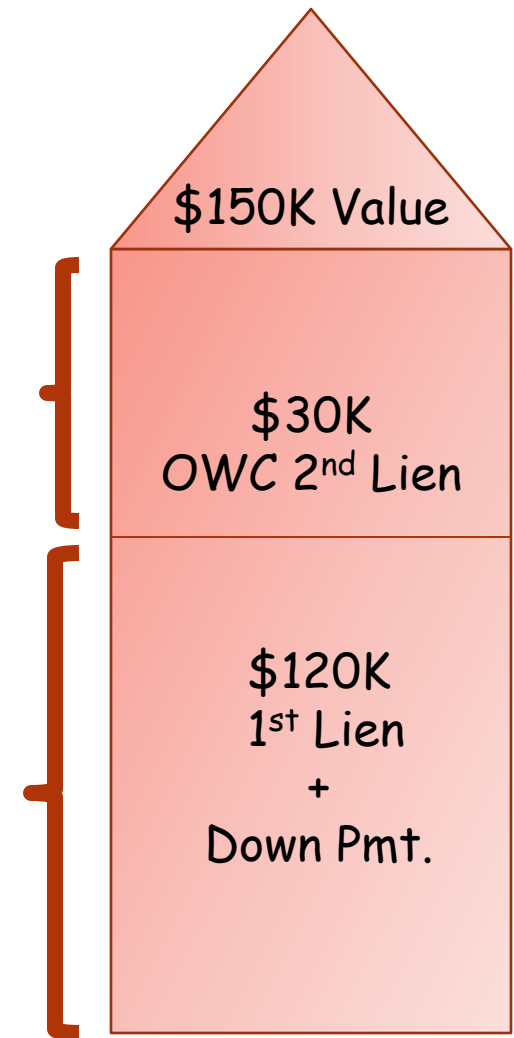
OWNER FINANCE

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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Exit Strategy #3

- Option the Note to Another Investor
 - Assignment of Mortgage Purchase Agreement
 - You assign YOUR agreement to Another Investor
 - The Lien will Never be in Your Name...
 - No need to file an Assignment of Lien



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Paper Work – Two Easy Steps

#1) Buy the NOTE

- Option to Purchase
- Mortgage Purchase Agreement
- Promissory Note Endorsement (Allonge)
- Assignment of Mortgage / Deed of Trust



#2) Restructure Or Get DEED

- Note Modification – Keep Good Payment Records
- Deed in Lieu of Foreclosure
- Note if You Offer Seller Financing

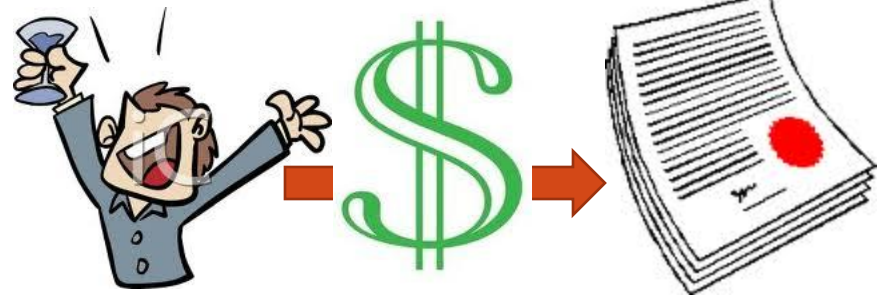
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Step #1 - Buy the NOTE

A) Option to Purchase (L.O.I.)

- Secures Note During Negotiation
- Gives You Time for Due Diligence
- Guarantees Exclusivity
- Between YOU and the Lender



B) Mortgage Purchase Agreement (Contract)

- Final Agreement
- Gives Wiring Information
- Includes Estoppel

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Step #1 - Buy the NOTE

C) Promissory Note Endorsement (Allonge)

- Prepared by Lender in Most Cases
- Assigns Rights to You, the Buyer
- Between YOU and the Lender

D) Assignment of Mortgage / Deed of Trust

- Assigns Collateral
- Goes Into Chain of Title – Public Record



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Step #2 – Restucture Or Get Deed

A) Note Modification

- Prepared by YOU
Because You're Now the Lender!
- Given to Current Property Owner
- Payers Have to Agree & Sign

B) Deed in Lieu of Foreclosure

- Prepared by YOU or your Attorney
- Give them some MONEY to preserve your house!
- Don't pursue deficiency judgment against homeowner.



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Where to Get The Money

- Private Investors
- JV Partners
- The Seller



"Be sure and check out the Bonus Module on Private Money at the end of this section!!"



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AND FINALLY...



LET'S RECAP!

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7 Steps to Success

1. Identify the Deal
2. Talk to Real Estate Agent / Seller
3. Find the Note Holder
4. Negotiate the Note
5. Should They Stay or Go?
6. Get Long Term Funding Source
7. Deed in Lieu or...Modify the Note



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