

PAPER POWER

Module 2

Introduction to SHORT PAPER



Jack Sternberg

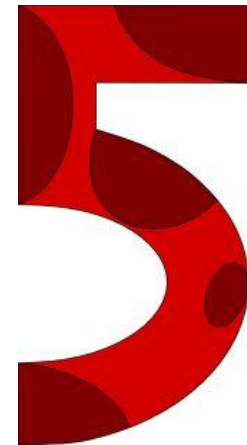


Bob Leonetti

5 Parts to Paper

1. Alternative to Short Sales (**Short Paper**)
2. Great Profits Optioning Performing Notes (Pretty Paper)
3. Banks Woes = Your Payday (Ugly Paper)
4. Market Needs Creativity (Creating Paper)
5. High Personal Yields (Investing in Paper)

- *NONE of Your Money or Credit*
- *Do It Anywhere*
- *No Licensing Required*



SHORT PAPER

- You are Buying the Note – Not the Property
- You, as the New Lender, Give a Discounted Payoff
- Property Sells from Seller (A) to Buyer (B)
- Your Profit is the Difference Between What You Paid for the Note and What You Dictate Payoff Will Be



Paper Power

Module 2 – Short Paper

- Lender
- Note Holder

NOTE

YOU

- Buy with Transactional Funding

\$\$\$

- Seller (A)

Property

- Buyer (B)



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 2 – Short Paper

3 Sources of Notes

1. **Institutional Lender's** Secondary Department
2. Hard Money and **Private Money Lenders**
3. **Private Sellers** who Carried Owner Financing

***SPECIAL NOTE:** For this technique, ALL Notes should be delinquent. You are buying them to control the actual property!*

Paper Power

Module 2 – Short Paper

Finding Defaulted Paper

- **Lender Held (Institutional) Ugly Paper**
 - B&C Lenders
 - Sub-prime Servicing Companies
 - Insurance Companies
 - Mortgage Companies
 - Credit Unions and Banks
- **Privately Held (Seller Financed) Ugly Paper**
 - Newspaper Advertising
 - Direct Mail to Private Sellers
 - Hard Money Lenders
- **Sources that Generate Both**
 - Title Companies
 - Bankruptcy Attorneys
 - Realtors
 - Mortgages & liens on house you are trying to buy
 - Foreclosure Filing Services and Publications



Paper Power

Module 2 – Short Paper

3 Simple Steps

1. Find the Decision Maker!

2. Talk the Lingo!

3. Meet Their Needs!



SPECIAL NOTE: For this technique, ALL Notes should be delinquent. You are buying them to control the actual property!

Paper Power

Module 2 – Short Paper

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 2 – Short Paper

How to Get Them to Sell

- Secondary Manager responsible for Liquidity
- He/She can sell “one-offs” or in Bulk (pools)
- Pricing is better when you buy in Bulk



"That's a great question. Come to think of it, I'm not sure what it is I'm trying to sell you."

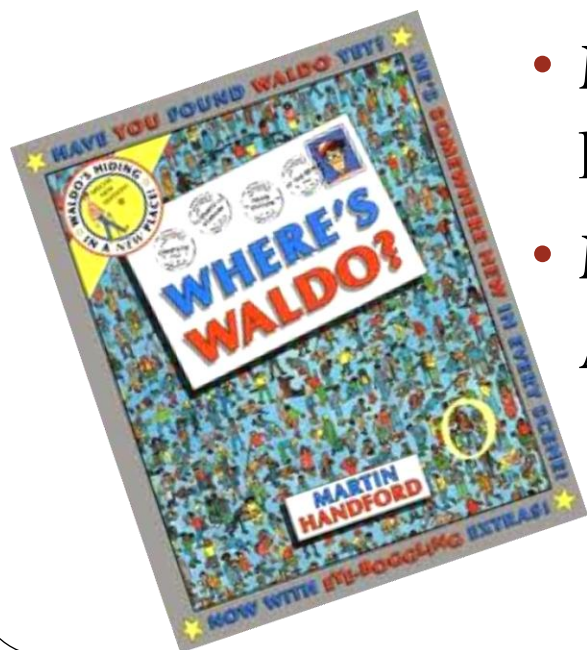
You should be looking for **INDIVIDUAL** notes as an alternative to the short sale process

Paper Power

Module 2 – Short Paper

Where's Waldo?

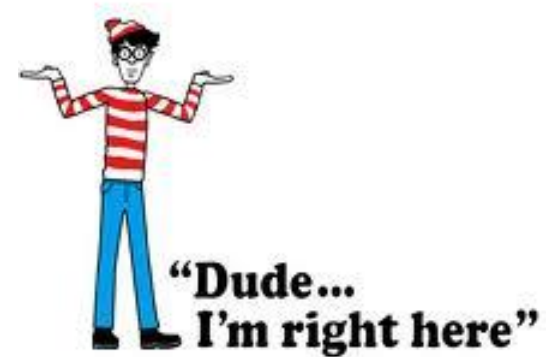
- NOT always going to be the Secondary Marketing Department (however – see Secondary Marketing News from Mortgage Daily.com)
- MAY be the person “in charge of the warehouse line”
- MAY be someone at the pricing desk
- MAY be someone “in charge of selling off your loans – in either bulk or mini-bulk.
- May be in Special Assets or Non-Performing Assets



Paper Power

Module 2 – Short Paper

Finding Lenders



- The Lane Guide (www.profitcoach.laneguide.com)
- Be Specific in Your Search
- If Company has sold, find the company that purchased the assets. There may be more than one.
- Create Rapport!!
- Speak the Right Language – but don’t overdo it. Too Much is NOT better!
- Start at the Top and work down, if necessary!

Paper Power

Module 2 – Short Paper

Think About Your Approach

- Establish Rapport, and then Stick to Questions.
- Be sure and *Listen* to the Answers, and try to Fully Understand the situation.
- Don't think about potential solutions until you are certain both *you* and *they* understand their problem.
- Remember, talk about *your* benefits to them in terms of *their* needs.

Paper Power

Module 2 – Short Paper

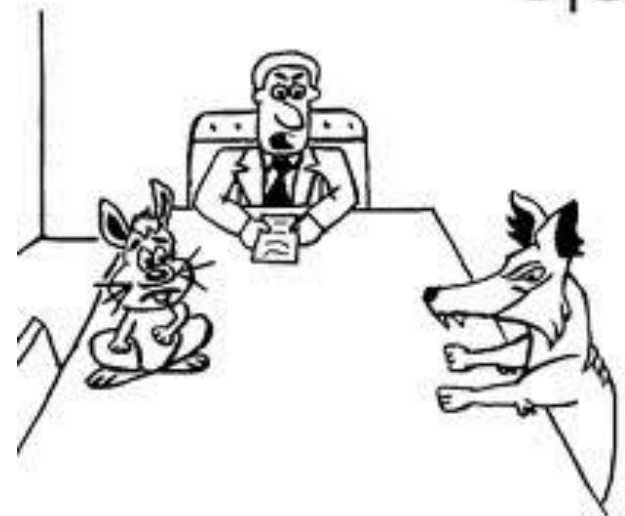
Money Making Questions

- *What's the least you would accept for all cash and a quick close?*

Stu's Views © 2002 Stu. All Rights Reserved. www.stus.com



- *Is that the best you can do?*



"Please, Mr. Wolf, now we're just splitting hares."

Learn the Lingo



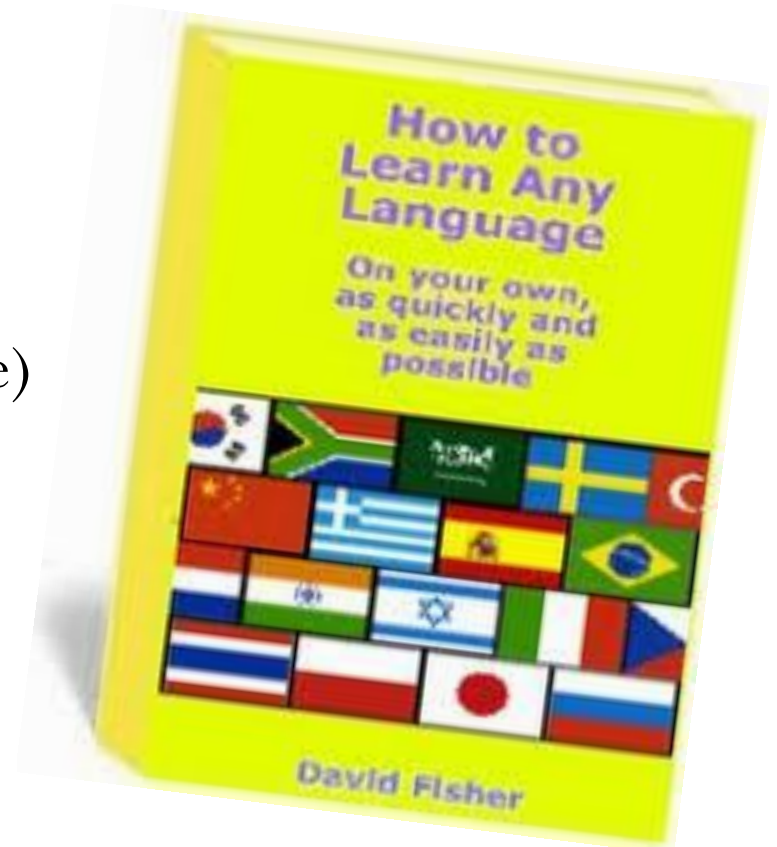
- You are speaking to an industry professional – most likely middle management
- They have their Own Language
- Do NOT overuse Jargon
- Be Yourself – and KNOW what the terms are!!

Paper Power

Module 2 – Short Paper

Learn BankerSpeak

- Bulk, Mini-Bulk, One-Off
- Tape
- Asset Size
- UPB (Unpaid Principal Balance)
- Loan Level Pricing / vs. All-In
- Color
- Scratch & Dent Buyer
- Take-Down
- Next Payment Due



Paper Power

Module 2 – Short Paper

Two Traps!!

- W.A.C .(weighted average coupon rate)
- W.A.M. (weighted average maturity)



The reason that these are traps are because they refer only to performing loans. Remember, you are buying NPNs or non-performing loans.

Paper Power

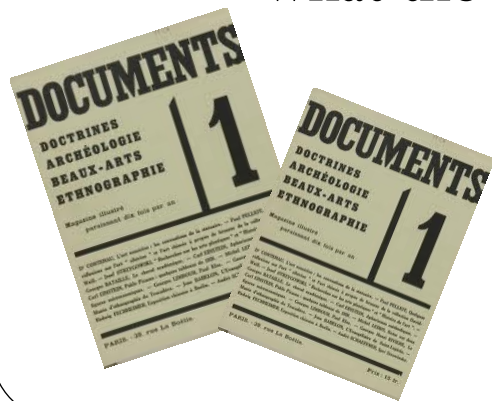
Module 2 – Short Paper

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.

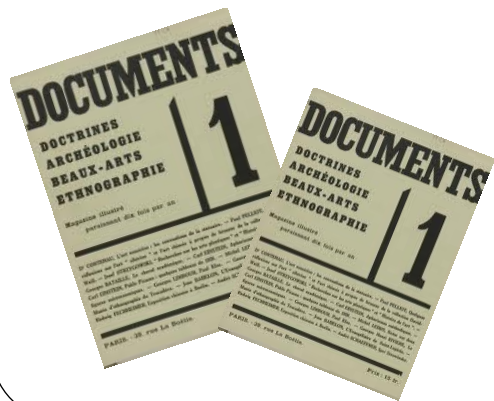


BASIC TERMS



- 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

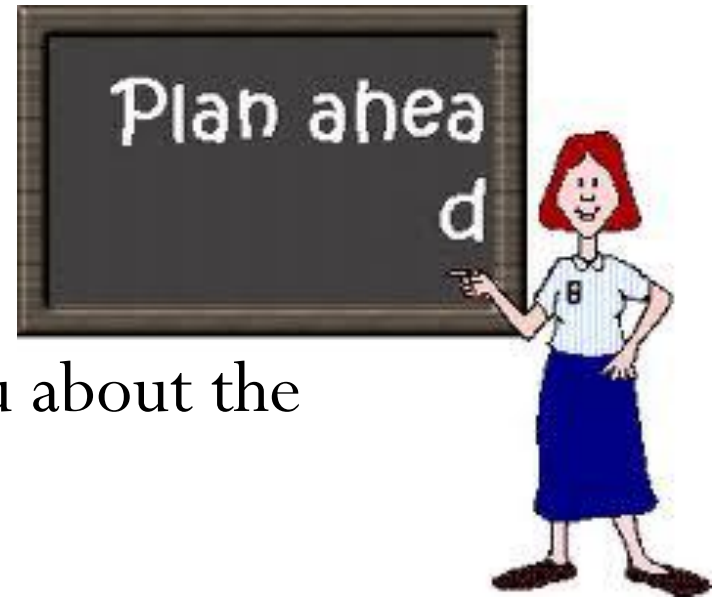


Paper Power

Module 4 – Short Paper #3

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?



Paper Power

Module 3 – Short Paper #2

Amount of Lien

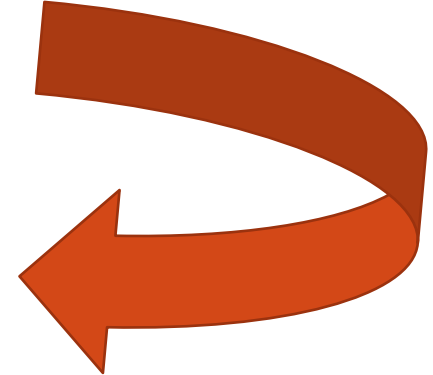
Most Likely – More than the House is Worth

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.



Paper Power

Module 3 – Short Paper #2

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?

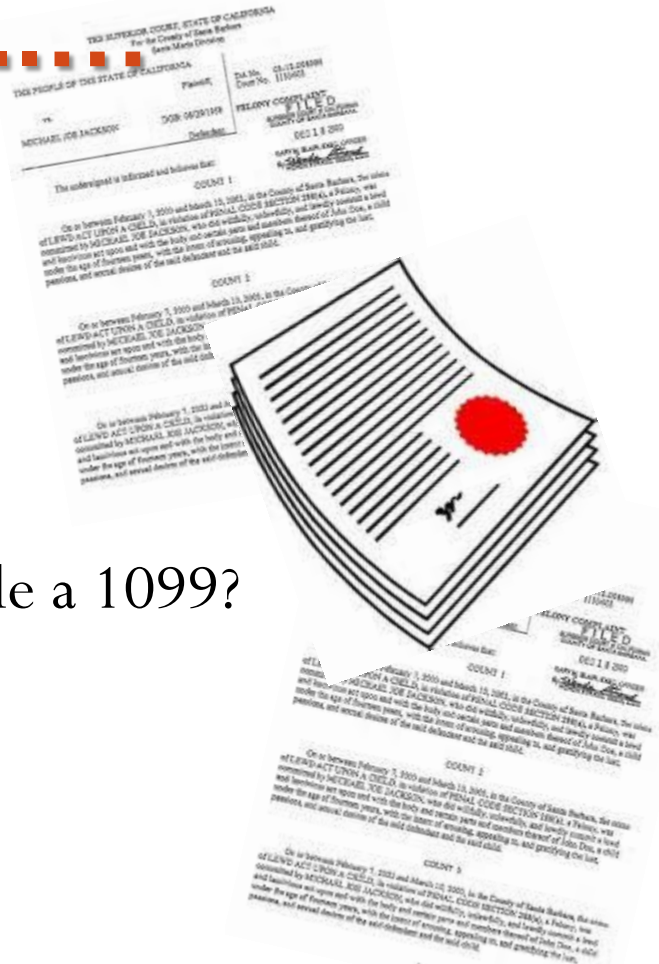


Paper Power

Module 3 – Short Paper #2

Important Points.....

- 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



Paper Power

Module 3 – Short Paper #2

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.

Paper Power

Module 4 – Short Paper #3

Have End-Buyer In Place

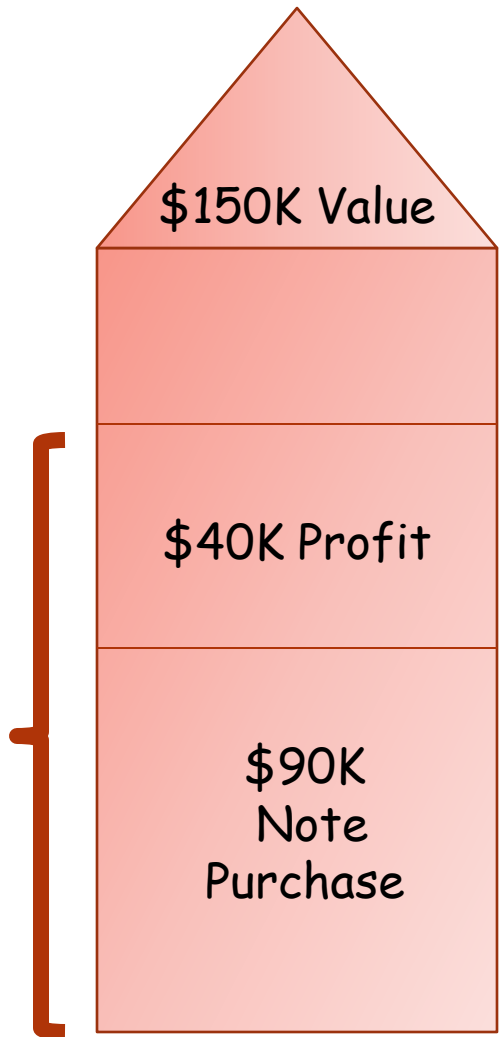
- **You make your profit from the payoff on the NOTE**
 - The payoff that you accept is *more* than what you paid for the note, but still *less* than what is owed.
 - You will file a *Satisfaction* of Lien
- **You NEVER own the property!**
 - Title to the property is NEVER in your name.
 - Transaction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

Paper Power

Module 4 – Short Paper #3

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

Paper Power

Module 4 – Short Paper #3

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.

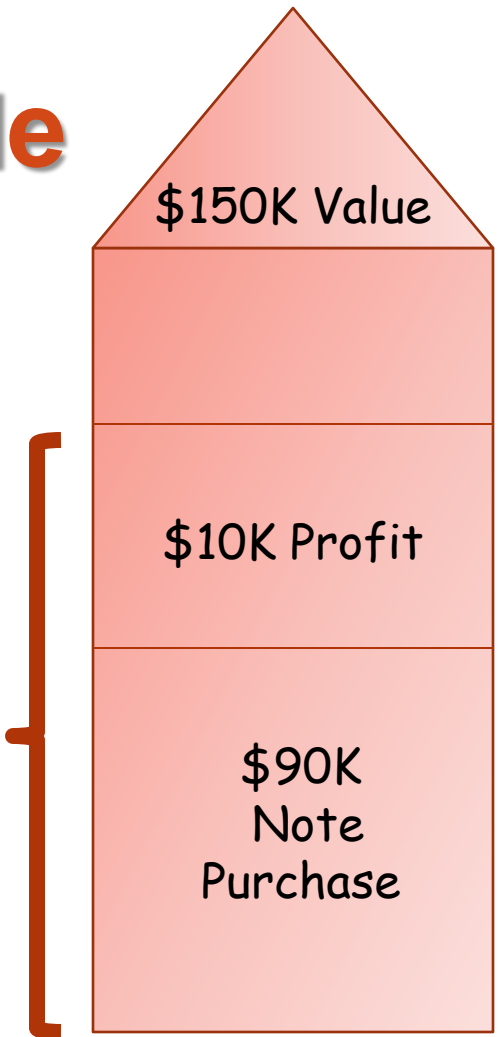
Paper Power

Module 4 – Short Paper #3

OPTION NOTE Example

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

\$ 10,000 – YOUR PROFIT



Paper Power

Module 4 – Short Paper #3

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



Paper Power

Module 4 – Short Paper #3

AND FINALLY...



LET'S RECAP!

Paper Power

Module 5 – Short Paper #4

Two Easy Steps – Paper Work

#1) Buy the NOTE

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



#2) NOTE Pays Off (When Property Sells)

- Short Sale Acceptance Letter
- Title Instructions for Payoff of Lien
- Sample HUD-1
- Satisfaction of Lien (filed by Closing Agent)

Paper Power

Module 5 – Short Paper #4

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

Paper Power

Module 5 – Short Paper #4

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

Step #2 – NOTE Pays Off

A) Short Sale Acceptance Letter

- Prepared by YOU
 - Because You're Now the Lender!
- Given to Current Property Owner
- Payoff Determined by How Much is in Deal

B) Title Instructions for Payoff of Lien

- Prepared by YOU
- Given to Title Company for Closing
- Tells Title Company What the “Payoff” is on the Existing Loan



Paper Power

Module 5 – Short Paper #4

Step #2 – NOTE Pays Off

C) Preliminary HUD-1

- Settlement Statement aka a HUD Form #1
- Prepared by Closing Agent
 - Sent for Your Review Prior to Closing
- Should “zero-out” so That the Seller Doesn’t Receive any Cash (*unless there is room in the deal and you want him to*)

D) Satisfaction of Lien

- Releases Lien from Property
- Goes Into Chain of Title – Public Record

Alternate Exit Strategy #1

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



Paper Power

Module 5 – Short Paper #4

Alternate Exit Strategy #2

Sell Property with Owner Financing

- Seller (you) receives cash from down and loan, and carries a small 2nd
or....
- Seller Carries 1st Lien Note (sells)
- Seller Carries 2nd Lien Note (keeps)
 - Sample Promissory Note



Paper Power

Module 5 – Short Paper #4

Alternate Exit Strategy #3

- 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



Paper Power

Module 5 – Short Paper #4

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. Get Funding Source
6. Get Good Closing Agent
7. Collect Money At Closing



Paper Power

Module 5 – Short Paper #4

Links for Tonight & Tomorrow

www.PaperPowerNoteInvesting.com

“Upcoming Coaching” Tab



Paper Power

Module 5 – Short Paper #4