

# PAPER POWER



*Jayme Kahla*

## Module 11 PRETTY PAPER

Ways to  
Buy a Note



*Bob Leonetti*

# What is Pretty Paper?

- Slow or Non-Paying = *Ugly* Paper
- Paying = *Pretty* Paper
- Seller Financed Paper Only
- Must be “Seasoned”  
(Existing v. New)
- Must be Performing



# Bottom Lines for Pretty Paper

- Paper Power Overview
- Finding & Marketing
- **Ways to Buy**
- Going to Closing (Get the Money!)



# Sam Sells Note to Investor



**Sam Sells Note -  
Exchanges Cash for Cash  
Flow**

*Note Investor*

*Sam Seller*

# 4 Easy Steps...

1. Sam Finances Barbara
2. Sam Records Mortgage
3. Sam Sells Note to Investor
4. You Make Money Off of the Flip



# POINTS TO REMEMBER

- Barbara Pays Note Investor
- Monthly Payment Doesn't Change
- Terms Don't Change
- Doesn't Matter What Note Investor Pays For Note



# TIME VALUE OF MONEY

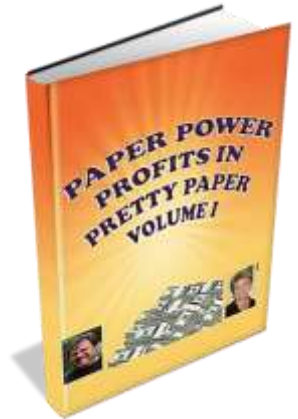
- Money is worth more today than it is in the future.
- The *more* money the seller gets now, the *less* he gets overall.
- The *less* money he gets now, the *more* he gets overall.
- **Example: (100,000 Note, 10%, 360 Pmts. of \$877.57)**
  - All Cash Now at 14% Yield: \$74,064 Now...Nothing Later
  - Cash Now for SOME payments; the Balance Later at 14% Yield



# WAYS TO BUY - Reference

## Profits in Pretty Paper

- Chapter 7 – Full Purchase
- Chapter 8 – Partial Purchase



## The Money Machine

- Part IV - 4 Simple Steps
- Part V – Practice Calculations





# FULL PURCHASE

- Buy All of the Payments
- Difference Between Required Yield and Face Rate of Note = Discount

360 Payments



~~10% - \$ 100,000.00~~

14% - \$ 74,064.69

**Paper Power**

Module #11 – Pretty Paper

# FULL PURCHASE

- More Cash Now – Less Overall
- Discount is VERY Apparent Unless Multiple Payments Have Already Been Received

360 Payments



~~10% - \$ 100,000.00~~

14% - \$ 74,064.69

**Paper Power**

Module #11 – Pretty Paper

# When to Use a Full Purchase

Use as Little As Possible *Unless*:

- Seller HAS to Have All Money Now...
- The Note is Seasoned With a LOT of Payments Having Been Made

Explanation to Seller:

- Offer Based on Cash ALREADY Received
- No Lingering Liability
- We Also Have OTHER Ways of Purchasing Your Note

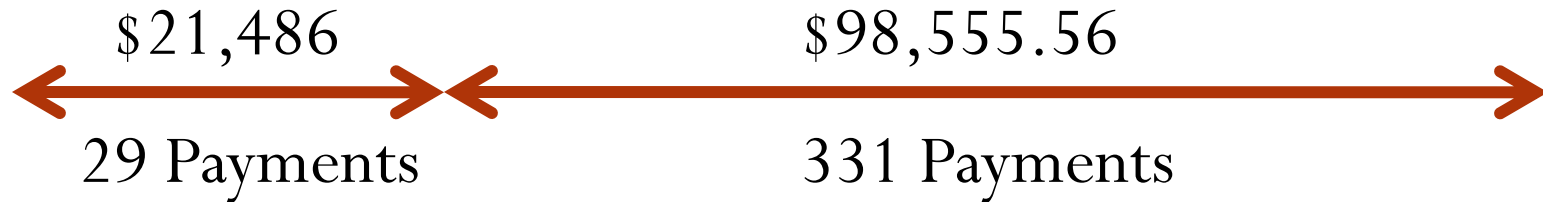


# PARTIAL PURCHASE



- Buy *Some* of the Remaining Payments
- Note Has Value When it Reverts to the Seller
- Less Cash Now – More Overall
- Lower Amount Now Makes it Easier to Sell a High-Risk Note

# PARTIAL PURCHASE



- **Cash NOW for 29 Payments = \$21,486**
- **Cash LATER when Note Reverts = \$98,555**
- **Total Cash Received = \$120,041.56**

*“Mr. Seller – I have great news! I can pay you \$74,000 NOW for your entire note or...if you just need some money now, I can pay you \$21,486 now, and in 29 short months when the note reverts back to you, you’ll be owed an additional \$98,555. That’s \$120,041 for your note!”*

# When to Use a Partial Purchase

## Use as Often As Possible:

- The Seller Gets More Money Overall...
- The Discount is Less Apparent



## Explanation to Seller:

- Cash Now AND Cash Later
- Buy Without a Discount

# Second Liens

Most Investors WILL NOT BUY!

- Too Much Risk
- *Sometimes* on Residential
- Never on Commercial!

IF They Buy...

- CLTV < 75%
- 2<sup>nd</sup> Lien Must = 50% of 1<sup>st</sup>



# EARLY PAYOFF

- Seller Receives the Present Value of What is Owed Him at Face Rate of Note
- Note Investor Receives Present Value of What is Owed Him – at Face Rate of Note
- 3 Easy Steps:
  - Figure Balance Owed at Time of Early Payoff
  - Subtract Remaining Payments Owed Investor
  - Balance Goes to Seller



# EARLY PAYOFF Example

29 pmts of 877.57 / 10% / sale at 24 months

- Step 1 – Balance Owed (Payoff) at 24 months
- Step 2 – Figure What is owed Investor (5 pmts)
- Step 3 – Subtract '2' from '1' – Balance Goes to Seller

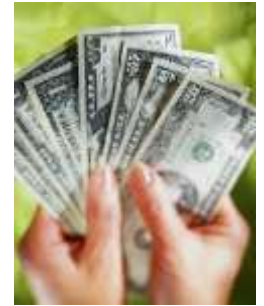


$$\begin{array}{rcl} \$98,830.04 & - & \$4280.26 \\ \text{Payoff} & & \text{Investor} \\ \hline & = & \$94,549.78 \\ & & \text{Seller} \end{array}$$

# Things to Say...



- “What do You Need?”
- “We Have Multiple Ways to Buy Your Note Depending on Your Needs”
- Equate Discount to TVM
- Emphasize Cash Actually *Received*



# Preparation Tasks

- Review *Profits in Pretty Paper*
- Review *The Money Machine*
- Learn ITV
- Practice, Practice, Practice
- (That Means *USE* the Calculator!)

