

Paper Power Note Investing

COMMERCIAL PAPER & PROPERTY



Jack Sternberg

Module 5
SHOW ME
the
MONEY!



Bob Leonetti

Today's Topic...

- **How to Find GOOD Deals**
(not the junk that is splattered all over the Net)
- **How to Gather Specific Information**
(and Decipher What it Means)
- **How to Analyze that Information**
(Calculating Investor Returns)
- **Deal Structuring (funding)**
- **Closing**
(Putting it all Together & Protecting the Cash Flow)



PaperPowerNoteInvesting.com/Upcoming-Coaching

Today's Bottom Lines...



Show Me the Money

- Structuring PRETTY PAPER deals
- Buying 2nd Liens (for yourself)
- Get The Deed /Foreclose
- Bring in Equity Partner

Where to Get The Money

- Note Investors (Pretty Paper)
- Private Investors
- JV Partners
- The Seller



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

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

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

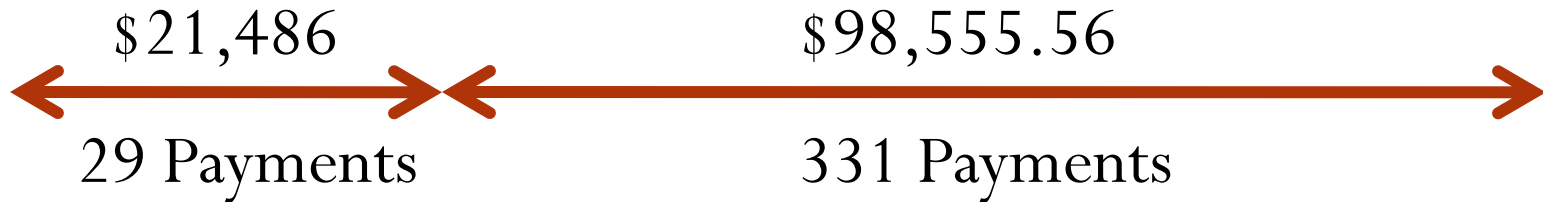


PARTIAL PURCHASE



- 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...

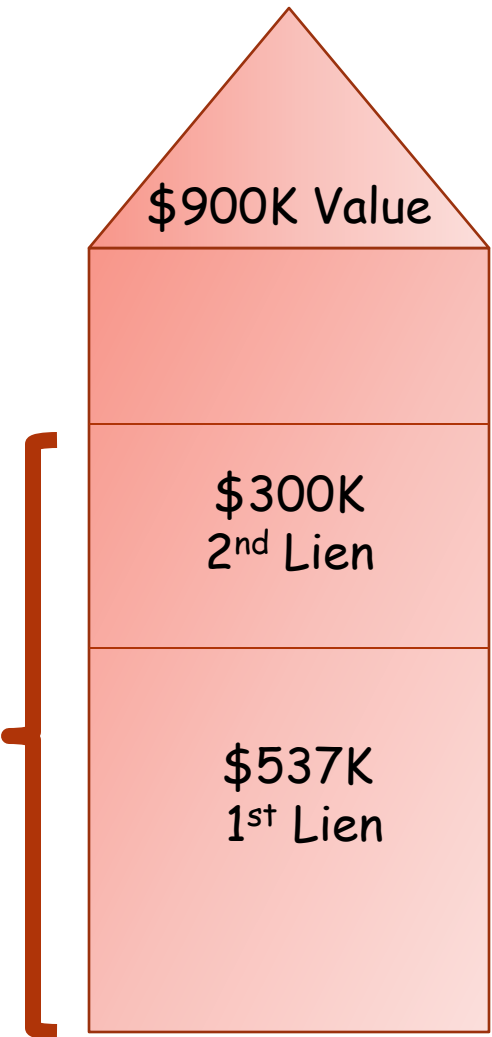
- CLTV < 75%
- 2nd Lien Must = 50% of 1st
- Must Be Equity In the Property

2nd Lien Example

- \$900,000 - Value of Building
- \$537,000— 1st Lien Note
- \$300,000 – 2nd Lien Note
- **\$857,000 – Total Loans (93% CLTV)**

- Buy 2nd, for \$30,000
- Foreclose it out, Pay on 1st, Resell
- Buy 2nd, Bid Up First at Auction (hehe!)

- Sell Property at 90 Cents for a Quick Sale



**\$ 243,000 Profit or...Anything over \$567K
Paid at 1st Lien Foreclosure Auction**

What If?



- *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 as a Condition of Your Note Purchase
 3. **Resell** to Someone Else
 4. **Walk Away** from the Deal

Get The Deed - Fort Worth

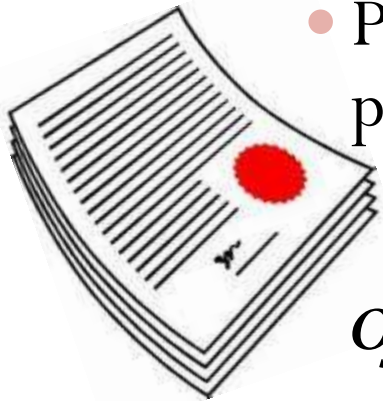


Fort Worth, TX

Note UPB:	\$5,000,000
Current Value:	\$4,500,000
Current Occ:	41%
Pro Forma Occ:	88%
Pro Forma Value	\$6,000,000
Note Purchase:	\$2,450,000
Note Flipped:	\$2,875,000

Getting the Deed - Options

- **Re-sell for less than market value** (to facilitate a quick sale) and still realize a substantial profit.
 - Sell for \$2,875,000,000 (\$ 10K under market)
 - Pay off your original note and closing costs (\$2,450,000 + \$78,000)
 - Profit \$347,000 profit (split between involved parties).



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

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.

Partnering For Equity



Found w/ Hard Money Lender

Paid \$1.1 M

Investor IRR – 42%

ARV=\$2.2MM

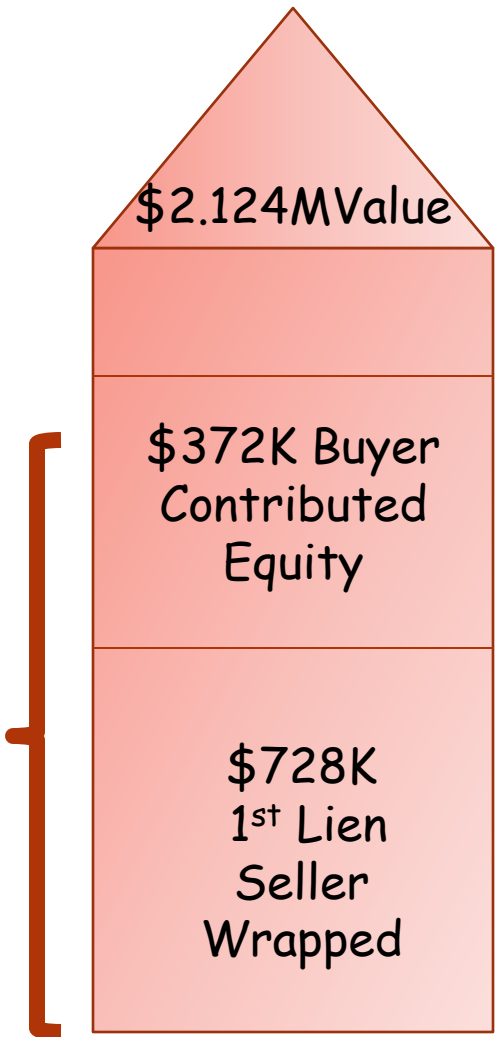
Monthly Cash - \$19K

Up Front Money AND Owns 20%

*Mary Suzanne L.
Burleson, TX*

Partnering For Equity

- \$2,124,000 - Value of Building
 - \$ 728,000 – Assumption of 1st Lien
 - \$ 372,000 – Buyer Contributed Equity
-
- YOU (in for 3% of Full Value)
 - Divide Proceeds With Equity Partner
 - In this Case – 8% Pref
 - In this Case – 80-20% Split



MARK YOUR
CALENDAR!



- **January 30th (Monday)**
Putting it All Together
- **January 31st (Tuesday)**
Bonus Calculator Workshop

NO CLASS ON FRIDAY 1/27

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