

Notes for 5.27.2011

- Redoing Module #11 (mistakes)
- Brief Site Tour
- Caveat that this Module is Specific
- Check the Site!



Paper Power
Module #11 – Pretty Paper

PAPER POWER



Jayme Kahla

Module 12 PRETTY PAPER

“Get the Money”
Going to Closing



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



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 Seller Pays For Note



TIME VALUE OF MONEY

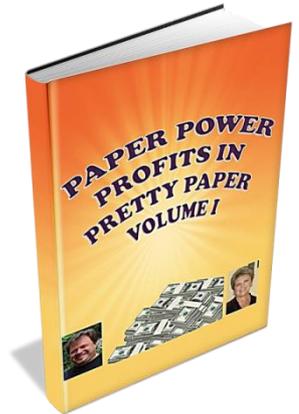
- Money is worth more today than it is in the future.
- The *more* money the seller gets now, the *less* he gets overall.
- The *less* money he gets now, the *more* he gets overall.
- **Example: (100,000 Note, 10%, 360 Pmts. of \$877.57)**
 - All Cash Now at 14% Yield: \$74,064 Now...Nothing Later
 -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

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

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

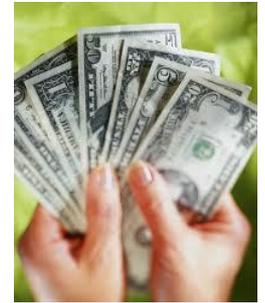


$$\begin{array}{r} \$98,830.04 \\ \text{Payoff} \end{array} \quad \underline{\quad} \quad \begin{array}{r} \$4280.26 \\ \text{Investor} \end{array} \quad = \quad \begin{array}{r} \$94,549.78 \\ \text{Seller} \end{array}$$

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!)

