

The Note Investing Pocket Guide



THE SIMPLE BASICS OF NOTE INVESTING IN
A HANDY POCKET SIZED GUIDE

Patrick E. Franz



NOTE MENTOR

This simple guide will help you with the basics of note investing and can always be there, "In Your Pocket" so you can pull it out when you need it!
Happy Note Investing!!!

Patrick E. Franz
"The Note Mentor"

What is a Mortgage Note

A "Mortgage Note" is a Promissory Note that is backed by a Mortgage.

The "Note" is simply an IOU or contractual agreement to payback an amount of money borrowed in a certain rate of time with a certain rate of interest. The "Mortgage" is a separate document that collateralizes real property in case the terms of the Note are not met. This means that the lender can take the house if the borrower doesn't pay back the loan under the agreed terms.

Note investing can provide safe high yield investments that are perfect to hold for cash flow or flip for quick profits.

Performing VS. Non-Performing

Performing loans (PL's) are notes where the borrower is currently making monthly payments. These are great for collecting monthly cash flow without the hassles of being a landlord. Performing Notes provide a perfect way to grow the funds in a Retirement Account with safety and steady yield.

Non-performing Notes (NPL's) are perfect for short-term capital growth. NPLs require specialized skills and a solid grasp of deal structure and exit strategy.

With NPL's the objective is usually to work out a plan with the borrower to get them back on track and paying again or utilize several strategies to gain ownership of the property prior to a final option which may be a foreclosure.

5 ways to earn \$

1. Note Brokers make money by connecting Note buyers with Note Sellers and acting as a middleman and therefore receive a broker fee.
2. Note Investor puts their own cash or IRA money to work in performing or non-performing notes to grow their own capital.
3. Professional Investors attain experience and expertise to leverage the finances of others to grow their portfolio and help their partners
4. Note Dealer expands their operation to purchase and sell notes at a higher volume usually necessitating a small staff to spread responsibilities
5. Fund Manager raises a certain allotment of money from investors and takes management responsibility over the fund to create profit.

Note Investing with an IRA

One of the best investment vehicles for a retirement account is a Mortgage Note! The Note can be purchased "inside" the IRA and thereby avoid any penalties or taxes for early withdrawal.

Simply contact a self-directed IRA custodian such as DirectedIRA.com, Quest IRA, Udirect, or any other custodian to transfer or roll the money over from your current retirement account into a "Self-Directed IRA" account. Then you have the authority to direct that money into any investment of your choice such as stocks, bonds, or NOTES!!!

My suggestion is that you invest that money into 1st position performing mortgage notes so that you can safely attain a steady rate of return.

Where do you buy a Note

Notes can be purchased online & offline. Online sites are great but additional risk exists because of the anonymous nature of the Internet.

Pounding the phones to make contacts with Small Banks, Hedge Funds, Private Sellers and Note Brokers or meeting them face to face is the best way to get inventory early before the rest of the world can get their hands on it.

Some of the retail websites offer Notes for sale such as:

www.acilegacygroup.com,
www.paperstac.com, and many others.

Be sure that you educate yourself and perform ample due diligence before making any investment decisions.

Terminology

Note - "IOU" document used to memorialize the terms of a loan

Performing - The borrowers are making their payments on time as described in the terms of the Note

Non-Performing - The borrower is not making their payments on time as described in the Note

Assignment - Document used to transfer ownership of a collateral document such as a mortgage

Mortgage - Document used to collateralize a real property if the payments are not made on time as described in the terms of the Note.

Terminology Continued

Deed - Document used to transfer ownership of brick and mortar real estate

CFD - "Contract for Deed" document used as a contract stating the seller will hold the deed for the property until the borrower pays in full

NCND - "Non-Compete Non-Disclosure" restricts the signer from certain activities as described in the NCND

Pool - A large group of assets that are to be sold in one package; buyer take all for a certain value

Tape - A list of assets being posted for sale. Often times a few notes may be "cherry picked" from a tape"

6 common exit strategies

1. Hold For Cash Flow
2. Collect payments for some time then sell the remaining balance
3. Hold on to a portion and sell a partial
4. Borrower stops paying and you take ownership of the Real Estate
5. Buy, hold, modify then re-sell.
6. Quick Flip, Buy then immediately sell for a higher price.

8 Easy steps to buy a note

1. Find a note for sale online or offline
2. Run your calculations to come up with your offer price
3. Contact seller and make your purchase offer
4. Do full Due Diligence on all files associated with the asset
5. Put together a closing package with all docs needed to close transaction
6. Wire funds to the seller of the Note
7. Receive and store all hard copies and original files
8. Hire a licensed Loan Servicer to collect payments

Docs needed for purchase

1. Loan Sale Agreement - (LSA)
Document used to make an offer to buy a Note.
2. Assignment - Also known as AOM
"Assignment of Mortgage" is a document used to transfer ownership of the mortgage
3. Allonge - Document used to transfer the ownership of the Promissory Note
4. Quit Claim Deed - Document used to transfer ownership of the property in the case of a contract for deed or land contract

OPM- Hypothecation vs. JV

Hypothecation is a form of private lending to a note investor whereas the note investor will offer a collateral assignment to their lender creating a safe and collateralized position for their lending partner. This creates a situation whereas the Hypothecation lender will step into the shoes of the note investor as 100% owner of the asset if the note investor defaults or does not pay the lender back under the agreed loan terms. This is great for folks who want to be hands off but still be able to realize great returns by lending to a pro.

Joint Venturing (JV) involves forming a "partnership" with a professional Note Investor. A JV partner shares in the decisions, operations & profits of the transactions but also shares in the risks.

10Bii Calculator basics

The use of a financial calculator is absolutely necessary in order to calculate yield, monthly payments, remaining payments, future value, amortization schedules and more. The 10Bii Calculator is one that I suggest, and this can be downloaded to your phone, tablet or computer.

The top 5 buttons are the first basic buttons that you will learn how to use.

(N) represents the number of months remaining.

(I/YR) represents the interest rate or desired yield

(PV) represents the UPB or purchase price

(PMT) represents the monthly payment including principal and interest

(FV) represents the future value

Setting your buying criteria

It is extremely important to set your investing criteria before you purchase a Note. Your criteria should be created to match up with your risk tolerance and profit expectations. Simply put, you should know weather or not you are going to buy a performing or non-performing note, what states you are willing to buy in, what type of yield you are looking for, what price thresholds should apply, and much more. For more training on this subject an many others be sure to join the Millionaire Maker Coaching Group.

Pre-search

Pre-search, aka. Preliminary Due Diligence is conducted prior to making an initial offer on an asset. This usually consists of; Location, minimum UPB, property type, area crime, real estate market in the area, estimation of property value and any others that you add to the list when creating your investing criteria.

This is an important step needed so that one does not waste time and expense on due diligence on a note that doesn't fit the bill.

Formal Due Diligence

Formal Due Diligence is when things get serious. At a minimum, you address 4 major categories.

1. The seller of the note
2. The property
3. The borrower
4. The paperwork.

Vetting the seller of a note can be as easy as googling them and or their company or speaking to other note buyers that have done business with them in the past. Understanding your collateral is very important as well so ordering a BPO (broker price opinion) may be one of the best ways to access a proper value of the property in the current market. The collateral files may come with information about the borrower such as credit reports and communications between the borrower and past servicer of the note. The paperwork must be in order with no missing assignments or allonges where needed and you must request to see proof that the seller has possession of the original documents.

Assessing Property Value

Many new Note Investors make the huge mistake of relying on Zillow and other online forums in order to get a valuation of a property. Unfortunately, this information can be outdated and inaccurate.

One of the best ways to get a proper valuation would be to order a (BPO) Broker Price Opinion. This is done by paying a small fee to an active realtor in the area. A BPO is not an appraisal since the BPO agent cannot enter the property if it is occupied by a borrower.

The Realtor can drive by the subject property and get a good look at the yard, house condition and surrounding neighborhood. They can pull recent comps and sales in the neighborhood and you can speak with the agent in order to attain valuable information concerning the subject property.

Remember this is only an "opinion" and can be subject to change according to market conditions, a damaged interior living space, or unforeseen problems.

How to grow your business

If you want to create a note business you will need a few basic things in order to do so.

1. Facebook - seeing as how there are billions of people using Facebook there is no shortage of people to talk to about note investing. In fact there are several investing groups where you can communicate with likeminded individuals and spread the word about notes.

2. YouTube - 65% of the human population learns better visually and video is quickly becoming the preferred way to learn. YouTube will allow you to record a video and upload it to the platform where it will last forever, and people can view your message for years to come.

3. Website through Kartra - Creating a website is easier and less expensive than ever before.

Chose a domain name and a simple website template so that you can customize your message and audience.

4. LinkedIn - This is a business-based platform designed for you to network with other professionals in the industry such as Lawyers, Servicers, Realtors, Asset Managers and many others that may be helpful to your business.

Closing Statement

I hope this pocket guide is a helpful resource that you keep "in your pocket" and that the information within the guide may help you on your Note Investing Journey. The Millionaire Maker Coaching Group offers hours of video coaching, live weekly mastermind calls, one on one coaching, available notes to purchase, documents, systems and more...

For more information about the Millionaire Maker Coaching Group feel free to book a free 15 min phone consultation with me!

www.calendly.com/TheNoteMentor