Paper Profits™

How YOU Can “Be the Bank” and Create Multiple Streams of Passive Income Buying, Brokering & Selling Real Estate Notes

WITH TRAVIS TOLLESTRUP & AARON HALDERMAN
Real Estate Investing = Creative Finance
How to Hit Your Passive Income Goal Faster With Real Estate Notes
“What’s Your Passive Income Plan?”
Invest the time to answer...

What do you want to accomplish?
What are your goals?
How much time do you have?
How much education do you have?
How much money do you have?
Active or passive?
Your Passive Income Plan

You MUST have a *Written* Passive Income Plan...

12 Months...
36 Months...
60 Months
The Max ROI Lifestyle…

1. Control your own schedule
2. Work from anywhere in the world
3. Work once - get paid over and over
4. Leverage systems and automation
5. True passive income meets monthly outflow
Jimmy Napier Said It Best...

“Only invest your time in those things that will pay you for a lifetime.”
WHAT’S THE #1 MOST IMPORTANT INGREDIENT FOR SUCCESS?
te·na·cious

adjective

: not easily stopped or pulled apart : firm or strong

: continuing for a long time

: very determined to do something
HOW CAN WE MAKE THIS WORKSHOP AN ‘11’?
LEARN
ACT
SHARE
You can have everything in life that you want if you will just help enough other people get what they want.

~ Zig Ziglar

Nov 6, 1926 – Nov 28, 2012
We Want Your Success Story...
What We’ll Cover Today

- Note Investing Basics
- The 5 Profit Pillars of Real Estate Note Investing
- The 6 Most Common Note Investing Profit Models
- An Intro to the 10bii Financial Calculator - Your New Best Friend
- Case Studies
- How To Create Your Own Notes
About Us...
Tollestrup Family

10 mouths to feed = Built in motivation
Halderman Family

Finally got a BOY!

Plus Baby #6 - Coming this December!

4 Daughters :)

Finally got a BOY!
About Us...

- Private Marketing Consultant to Eye Surgeons, Rehabber Part-Time
- Infusionsoft & Dan Kennedy Executive

...Turned *Passive Income Note Investors*
Marketing Consulting
Done For You Services
Investing Education and Publishing
San Diego Based Diversified Real Estate Note Investment Firm
3 Ways To Partner With Us

1. Paper Profits Mastermind & Funding Group
2. Private Lender
3. Joint Venture Partner
The Capstone Funding Group Team

Travis Tollestrup  
Managing Director

Aaron Halderman  
Partner, Portfolio Manager

Kristyn Bolin  
Asset Manager

Patty King  
Office Assistant

Jon Barrett  
Marketing Manager
Our Core Values

- Absolute Integrity First
- Service Before Self
- Be Outstanding In All We Do
Section End
Note Investing Basics
What is a Note?
Real Estate Secured Note

Promise to Pay:

• Interest Rate
• Monthly Payment
• Pays over time
Deed of Trust vs. Mortgage?
1st vs 2nd
Types of Notes:

- **Performing** (paid as agreed since inception)
- **Re-Performing** (Serious gap. Loan modified)
- **Sub-performing** (slow-pay)
- **Non-Performing** (currently not paying)

*What are the opportunities with each type?*
Section End
10bii Calculator

InADayDevelopment.com
K2 CashFlow, Inc.
Terms Explained

- **N = Number** of payments
  - e.g. usually total number of months

- **I/YR = Interest** rate per period
  - e.g. 12% per year is 1% per month

- **PV = Present Value** of the money
  - e.g. the loan amount or discount price paid for a note

- **PMT = Payment** needed to pay back the loan over periods indicated
  - e.g. monthly payments

- **FV = Future Value** is the amount of loan due at a later date
  - e.g. remaining balance or a balloon
Section End
The 5 Profit Pillars of Real Estate Note Investing
6 Note Investing Profit Models

Which One is Right for You?
Your Power Team

- Capital Partners
- Servicer
- Custodian
- Asset Manager
- Legal Counsel & Foreclosure Trustees
- Software - NoteSmith, Google Apps for Business
- Title
- Skip Trace & Credit Report Providers
- SDIRA Custodian
- Property Preservation
- Special Default Service Provider
- Insurance Provider
- Boots on the Ground
1. Find & Fund

- Black Belt in Sourcing
- Note Broker
- Earn While You Learn
- Identify a Niche
- Leverage OPM
2. Find, Fund & Flow

The Easy Button
Performing or Re-Performing Notes
The Passive Investor’s Dream
Leverage the Velocity Model
Strategic Alliance with Note Creators
3. Find, Fund & Flip

- Meet Your “Break-Evens”
- Trade paper - “Trade Desk”
- Smaller margins
- Volume game
4. Find, Fund, Fix & Flow

- NP Firsts
- NP Seconds
- REOs
- Passive or Active?
- Part time or full time?
5. Find, Fund, Flip & Flow
Seller Financing
6. Find, Fund, Fix & Flip

- Selling Re-Performing Loans
- Create Cash Surges as Needed
- Provides for Flexibility
- Tax Avoidance Planning is Key
Section End
Where Do I Find Notes?
#1 Key to Success:

- ***Building “Relationships of Trust”***
- This business is all about relationships
- Do as you say - Say as you do
The Worst Number in Business is ONE
Who Sells Loans?

- Lenders
  - Banks - Why do banks sell loans?
  - Credit Unions
  - Mortgage Originators
  - Mortgage Service Companies
- Auctions
- Work-out companies
- On-line listings
Additional Lead Sources:

- Hedge Funds
- Note Brokers
- Real Estate Brokers
Related Vendors

- BPO services
- Appraisers
- Repair / Security
- Title / Attorneys
- Insurance / Software
Find The Go-To Person!

- What’s important?
  - Who you know
  - What you know
  - Timing
  - Credibility
Section End
Understanding a Notes Flow & Timeline

1. Sign NDA agreement

2. Review the BPO (Brokers Price Opinion) value
   a. If one is not provided we recommend ordering one

3. Cross-check with other opinions of valuations: Zillow / Eppraisal / NARRPR.com / Trulia / Redfin / Shackshout.com
Understanding a Notes Flow & Timeline

4. Review the loan payment history (usually not provided with NPJLs)
   a. Age of delinquency

5. Review the credit report
   a. If one is not provided we recommend ordering one

6. Review the collateral documents (promissory note, mortgage/deed of trust, closing statement, etc.)

7. Check property tax status with local county treasurer and/or assessor
Understanding a Notes Flow & Timeline

8. Order and review title search to ensure clear title
   a. Original amounts of mortgages
   b. Prior foreclosure - is the first in foreclosure or not
   c. Liens and judgements

9. Execute purchase/sale agreement

10. Wire funds
Understanding a Notes Flow & Timeline

11. Verify note endorsement (allonge) and mortgage assignment have been properly executed
   a. RESPA letters (goodbye/hello)
12. Contract third-party loan servicing company
13. Contract document custodian
Section End
Do Your Due Diligence
“There Are No Bad Notes… Just Bad Prices”
What Determines the Value of a Note?
6 Elements of a Note
Basic Note Pricing Guide

These concepts below are a high-level overview of typical retail market values of non-performing mortgage notes. The numbers shown are derived from actual sales of similar, typical assets. In addition to the considerations below, there are other factors that may result in a greater or lesser price per asset.

*This is illustrative only and should not be construed as financial advice.*

1st Position

Notes secured by a first-position lien attached to residential real estate are typically valued based on a percentage of the FMV (fair market value) of the property. We see these assets trade in the range of 40-65% of the property value, with some exceptions.

2nd Position

Notes secured by a second-position lien are traded based on the UPB (unpaid principal balance), the main factors that drive value are equity and the status of the senior lien. Values based on percentages of UPB:

<table>
<thead>
<tr>
<th>Sr. Performing</th>
<th>Sr. Semi-Perf</th>
<th>Sr. Unknown</th>
<th>Sr. FC</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Equity</td>
<td>35%+</td>
<td>25-30%</td>
<td>20-25%</td>
</tr>
<tr>
<td>Equity</td>
<td>25%+</td>
<td>20-25%</td>
<td>15-20%</td>
</tr>
<tr>
<td>Underwater</td>
<td>20%+</td>
<td>15-20%</td>
<td>10-15%</td>
</tr>
</tbody>
</table>

Additional Considerations

Trade size, bankruptcy, occupancy, demographics by geography, total arrears, legal status, etc.
What determines the value of a note?

1. The Borrower
2. The Collateral
3. The Buyer’s Equity
4. The Terms
5. The Payment History
6. The Paperwork
Two Primary Types of Notes

Performing

Non-Performing
6 Elements of a Note

I. Borrower

A. Is the borrower paying
B. Can/Might they start paying
   1. Review financials
   2. Credit report
   3. Valuation of property
C. Modify
   1. Qualifications
      a. Income
      b. Employment
6 Elements of a Note

II. Collateral

A. If NOT paying, then assume you’re buying a Foreclosure in incubation
   1. Good Payment Record
      a. Re-Performing Note: Cost 60%-80%
         1. Safer
         2. More Secure (not as lucrative sometimes)
         3. Less painful investments
         4. Less work
   2. Bad Payment Record
      a. Non-Performing Note: Cost 10%-40%
         1. More Profitable
         2. More work
6 Elements of a Note

III. Buyer’s Equity

A. Two kinds
   1. Loan balance divided by the property
      a. Loan-to-Value Ratio (LTV) “skin in the game”
   2. Emotional equity
      a. family, time, that’s “momma’s home”
6 Elements of a Note

IV. Terms of the Note

A. Time Value of Money

1. Money is worth more today than tomorrow
2. Interest rate
   a. Variable or fixed
   b. Home equity line of credit
3. Desired yield “return” on the investment
   a. Senior liens
   b. Junior liens
   * the investors yield is almost always tied to their tolerance
4. Is there a balloon
   a. Additional notification requirements
6 Elements of a Note

V. Payment History

A. Good payment record or bad
   1. Establishing their commitment
6 Elements of a Note

VI. Paperwork - Is it Tight?

A. Document Preparation
   1. Note endorsement (allonge)
      Deed of Trust or Mortgage transfer (assignment)
   1. Buy/Sell Agreement (reps and warranties)

B. Mortgagee’s Title Policy
   1. Title search

C. Proof of Property Insurance (if applicable)
3 Things That Will “Kill” You

- Taxes
- Title
- Blighted Property
Section End
SALES STATISTICS

48% of sales people never follow up with a prospect
25% of sales people make a 2nd contact and stop
12% of sales people only make 3 contacts and stop
Only 10% make more than 3 contacts
2% of sales are made on the 1st contact
3% of sales are made on the 2nd contact
5% of sales are made on the 3rd contact
10% of sales are made on the 4th contact
80% of sales are made on the 5th – 12th contact

National Sales Executive Association
Begin With the “Exits” in Mind

Understanding the Most Common Exit Strategies
6 Exit Strategies - NPNs

1. LOAN MODIFICATION
2. FORECLOSURE
3. CASH SETTLEMENT
4. SHORT SALE
5. DEED IN LIEU - CASH FOR KEYS TO RENT OR SELL
6. SELL THE RE-PERFORMING LOAN
Section End
Case Study:
Youngstown, OH
What we knew before we bought...

Youngstown, OH

- 1st lien balance - $53,855.00
- 1st lien status - *In Default*
- Occupancy - Vacant
- FMV at purchase $27,000.00
- Property Description - 2 bed 1 bath 780 sq ft big lot
- Reason For Default - Divorce
- Comments - Husband would do a Deed in Lieu - wife would not - Neighbor said husband visited the house often to check on it - in good condition
- Median Rents $550 - 600
- Property Tax check - Paid current by note seller
The Exit

Sell on a land contract with Owner Financing / No Bank Needed to a credit challenged aspiring home owner
The Numbers - Land Contract

Initial Note Purchase Price: $9,000.00
Foreclosure fees: $3,025.82
Property tax payment: $818.47
Costs to preserve property and get sale ready: $2,845.32
Land Contract Down Payment: $2000.00
All in: $13,689.61
Land Contract Purchase Price: $39,800
Amount Financed: $37,800.00 @ 10% for 120 months
Monthly payment - $499.53

Annualized Yield Based on $13,689.61 all in = 43.16% - Cha-Ching!

**Brought in new private lender at $20k at 10% - no money in the deal.**
$264.30 to private lender monthly - $235.08/mo to CFG + $6,310.39 cash out
How Many of You Would Do This Deal?
Case Study:
Daly City, CA
What We Knew When We Purchased

Little to no equity
Sr lien is current and modified
Great credit profile with 700 & 694 Fico scores
All trade lines are paid as agreed with exclusion on Jr lien
No BK’s or FC in history
What We Knew When We Purchased

2 bedroom and 2 bath condo
Built in 1979
Rentometer gives average rents @ $3,458.00
Emotional Equity and pride of homeownership is present
The Numbers

- UPB on 1st lien $504,832.00
- Payment on 1st $2,302.00 (Modified and Current)
- FMV $631,436.00
- Fico Score 728 & 694
- Your current outstanding principal balance is $119,539.09
- Your outstanding arrearages are $49,197.33
- Your outstanding late payments are $2,756.05
- Total arrearages and late payments are $51,953.38
- Outstanding Attorney fees $1,151.70
- Forbearance Fees to Lender $2,000.00
- Loan Processing Fee $350.00
- Total outstanding balance is $174,644.17
The Numbers (Continued)

- Capstone Investment Price $19,141.62
- Foreclosure Trustee Fees $1,151.70
- All in $20,293.32
The Timeline

3/20/2014 Transfer Effective Date
4/8/2014 Collateral received
4/8/2014 Collection efforts began
4/21/2014 Left message for call back
5/28/2014 Left message for call back
6/20/2014 Spoke to gentleman advised be back at 6-7 will leave message to call back
The Timeline (Continued)

7/5/2014 Referred to Attorney to pursue FC
7/24/2014 NOD recorded
7/24/2014 Left message for call back
8/6/2014 Left message for call back
8/17/2014 Received email from Co borrower
  intent is to keep home
8/19/2014 Financials received from Debtors
The Timeline (Continued)

8/22/2014 Debtor called daily on status
8/27/2014 Forbearance terms released to Debtor
9/11/2014 Received executed Forbearance
9/16/2014 Received 10k down payment
9/21/2014 Received $650.00 first payment
All payments have been made on time.
The Workout

10k Down Payment
$650.00 per month from 9/1/2014-08/31/2015
Beginning 9/1/2015 Permanent Modification takes effect
The Workout (Continued)

New UPB $119,539.08
New Rate 4.5%
New Term 360
New Payment is $605.69
Maturity Date 8/1/2045
Amount to be waived $37,655.08
How Many of You Would Do This Deal?
Case study:
Coachella, CA
The Numbers

- UPB on 1st lien $190,365.60
- Modified Rate on 1st 4.20%
- Payment on 1st $1,363.47 Impounds included
- FMV $203,000
- Your current outstanding principal balance is $72,652.03
- Your outstanding arrearages are $57,779.30
- Your outstanding late payments are $2,693.17
- Total arrearages and late payments are $60,472.47
- Outstanding Attorney fees $3,139.27
- Total outstanding balance is $133,124.50
The Timeline

11/2013 - Pool Purchase
4/21/2014 - Collateral Received
4/21/2014 - Collection efforts began.
5/21/2014 - S/W Debtor and discussed payment options and scheduled follow up call.
5/28/2014 - S/W Debtor and we were advised they are in process of loan mod on first lien.
The Timeline (Continued)

05/30/2014 - S/W Debtor and advised we are not able to continue to hold file and we need to workout something to prevent foreclosure action.

6/1/2014 - Debtor went Dark

6/3/2014-10/29/2014 Left messages and emails with no Debtor Contact
The Timeline ( Continued )

10/31/2014 Received call from Debtor and got verbal authorization to discuss with housing counselor.

11/04/2014 Left message for HC

11/04/2014 S/W Debtor and advised we could not postpone FC action with no workout package.
The Timeline (Continued)

12/22/2014 We prepared Trial Agreement and sent to Debtor

12/31/2014 S/W HC and we can expect executed Trial Agreement by 1/02/2015

1/06/2015 S/W HC and I advised we need down payment or we are going to sale on 1/20/2015
The Timeline (Continued)

1/15/2015 - Received email from Debtor declining the Trial Agreement claiming it was beyond his reach at this time.
1/16/2015 - Submitted bidding instructions to FC Trustee to post
1/20/2015 - Sale day
1/29/2015 - Received TDUS and transfer of ownership
The Timeline (Continued)

2/4/2015 - Called Ocwen and 1st lien is current - ordered payoff
3/23/2015 - Received call from Debtor. I asked if he could borrow from friends and family to purchase home back at 40k
3/25/2015 - Refer to call recorded
04/06/2015 - Left message
The Timeline (Continued)

4/13/2015 - S/W Debtor and I was following up on his new loan to purchase home.
4/14/2015 - Hired eviction attorney and Debtor was served and had until 4/17/2015 to vacate or respond and we can file eviction on 4/20/2015.
4/17/2015 - Debtor filed response with court
4/24 - Debtor reached out stating he still wants to purchase home
4/25 - 5/18 Email exchange in negotiation of lease with option to purchase.
5/19 - Lease Agreement and Option Agreement sent to debtor
The Timeline (Continued)

5/19 - Debtor agrees to Agreement but fails to send back funds by EOB
5/20 - Trial held and Judge granted extension for 2 weeks
05/22 - Spoke to Debtor and he does want to retain property. Advised we have until 6/2/2015 to work it out if he wants CFG to dismiss
The Timeline (Continued)

eviction and not go back to court on 6/3/2015

05/26 -

06/01/2015 - New Semi Perm Agreement sent to debtor.

06/02/2015 - Spoke to Debtor and accepts new Agreement and will go to escrow and deposit 15k and sign all documents
The Timeline (Continued)

06/03/2015 - Spoke to escrow officer and funds were received and all paper work has been signed.

06/03/2015 - Spoke to eviction Attorney and requested dismissal.

06/09/2015 - Rescission documents sent to title for recording.
The Workout Terms

Loan Modification as follows -
Down Payment of $15,000
New Principal Balance - $124,113.77
New (Interest Bearing) Principal balance $30,000
Deferred Principal Balance - $94,113.77
9.99% New Rate
$94,113.77 is eligible for forgiveness if the following -

$94,113.77 of the ‘New Principal Balance’ is eligible for forgiveness (the “Deferred Principal Reduction Amount”). Provided Borrower is not in default on any new payments...
The Workout Terms (Continued)

such that the equivalent of two full monthly payments are due and unpaid on the last day of any month, and the Interest Bearing Principal Balance of $30,000.00 is paid in full on or before the new Maturity Date of 06/01/2020, the Lender shall...
The Workout Terms (Continued)

forgive the Deferred Principal Balance in full. NOTE: There is no pre-payment penalty of any type if the Interest Bearing Principal Balance of $30,000.00 is paid in full prior to the Maturity Date.
How Many of You Would Do This Deal?
Section End
Due Diligence Deep Dive: Pre & Post Funding
- Google Drive-by
- Boots on the Ground
- Market Rents
NOTIFICATION REQUIREMENTS

- RESPA Goodbye Letter
- RESPA Hello Letter
- TILA Transfer Notice
Due Diligence Checklist

Must Review:

- Borrower Name
- Borrower Property Address
- UPB
- Credit Report
- Origination Date
- Taxes
- Title
- Foreclosure
- Occupancy
Due Diligence Checklist

Bankruptcy
O&E Report - “light title”
1st lien balance
1st lien payment
1st lien status
  • Past due amount - 1st lien
  • Lien Position - verify
  • Property Description
Due Diligence Checklist

- Recent BPO
- FICO score
- Pay History
- Servicer comments
- Full Title
OCCUPANCY

- Occupied
- Un-Occupied
- Tenant Occupied
- Unknown
Ways To Check Value...

Zillow

trulia

eppraisal.com

BPOs
REALTOR COMPS
SHACKSHOUT.COM
NARRPR.com
HOW TO READ A CREDIT REPORT

What’s the Story?
● Every Home Has a Heartbeat

● Help Distressed Homeowners...Keep Their Homes
Reading the Owner/Title Report

What should you look for...
Important Information

- **Deeds of Trust**
  - Review all liens and judgments and handle accordingly prior to sale

- **Liens & Judgements**
  - Verify the deed chain and know your position

- **Other Title Issues**
  - Title discrepancies (i.e. legal description differs) will be listed here
Check the Taxes

Include:
- City taxes
- County taxes
- School district taxes
- Fines imposed by city
- Fines imposed by utilities

Things to know:
- Municipal real estate taxes have priority over ALL other liens
- Can accrue interest charges and fines
- Not paying taxes can cause a loss of ownership
Section End
Funding Your Note Purchase
Potential Funding Sources

- Traditional IRA
- Roth IRA
- Simplified Employee Plan (SEP)
- Savings Incentive Match Plan for Employees (SIMPLE)
- Solo 401(k)
- Roth Solo 401(k)
- Health Savings Account (HSA)
- Coverdell Education Savings Account (CESA)
Section End
Loan Acquisition Checklist
Loan Acquisition Checklist

You’ve acquired the portfolio of loans, now you need to follow the Loan Acquisition Checklist.

1. Create a Google folder in Google Drive.
   a. Recommend using “Google Apps for Work”

*Note: We cover this in detail in our Mastermind group*
Loan Acquisition Checklist

2. Purchase Docs
3. Due Diligence Docs
4. Workout / Modification Docs
5. Financial Docs
6. Bankruptcy Docs
7. Outbound Mailings
8. REO Docs
9. Invoices
Loan Acquisition Checklist

*Prepare an expenses spreadsheet that will track all expenses at a loan level price. This will save you a lot of time when you prepare your taxes and keep your books organized.
Section End
Thanks.

Travis Tollestrup
Travis@CapstoneFundingGroup.com
Direct: 858.353.3542

Aaron Halderman
Aaron@CapstoneFundingGroup.com
Direct: 858.224.3860