The Buyline

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Learn Trade Invest

In This Issue

Thoughts from the desk of Bob Repass…

2015: A Look Ahead

Happy 2015! I hope you had a wonderful holiday season and also hope that your New Year is off to a great start. I want to kick off the year with a quick snapshot of three issues that I think will have a significant impact on our industry in the coming year.

In 2015, I'll continue to use my monthly newsletter to focus not only on these key topics but also on other important industry-related matters. Likewise, I plan to keep you up-to-date on the latest goings-on across our business verticals at NoteSchool, Colonial Funding Group, and Colonial Capital Management.

1. **Risk Management:** Risk management is the process of analyzing exposure to risk and determining how to best handle such exposure. Opportunity and risks are counterparts. Determining your tolerance to risk and how to manage that tolerance is the key to being successful in the note business.

2. **Small Balance Commercial Real Estate Notes:** While we feel there are still considerable opportunities in both the performing and non-performing residential loan space (see MarketPulse section below), this year we are planning on deploying capital into small balance commercial real estate secured notes. We feel there are "value" buys on income-producing commercial loans with property values below $1 million both performing and non-performing.

3. **The Millennial Generation's Impact on the Housing Market:** It seems that almost daily an article comes out on the potential impact the Millennial generation (roughly those born between 1980 and 1999) will have on the housing market in the next few years. The primary questions that arise are: Will they be first time homebuyers? Would they rather rent than buy? Can they afford to buy? Can they qualify for a mortgage loan with the amount of student debt they carry?

On a personal note, there are also two very exciting life events taking place in the Repass family in 2015. In May, my daughter

Kristin will graduate from Texas Christian University with a degree in Political Science with a Criminal Justice minor. Soon thereafter in June, our son Robbie will marry his fiancée Emma. Angie and I are so proud of both of our children and are excited about what lies ahead of them.

Bob Repass
Managing Director

The Trading Corner

Diversify Your Real Estate Portfolio This Year

By Kevin Shortle

It almost goes without saying that value-seeking investors turned their attention to the Single Family Home (SFH) market several years ago. More specifically, large Wall Street investment firms and small individual investors alike gravitated to the purchase-renovate-rent model.

This was a logical alternative to the stock market and one that made sense on several levels:

- Real estate prices were low
- Since the crash, more people were likely to rent than own
- Bank financing was very difficult to obtain.

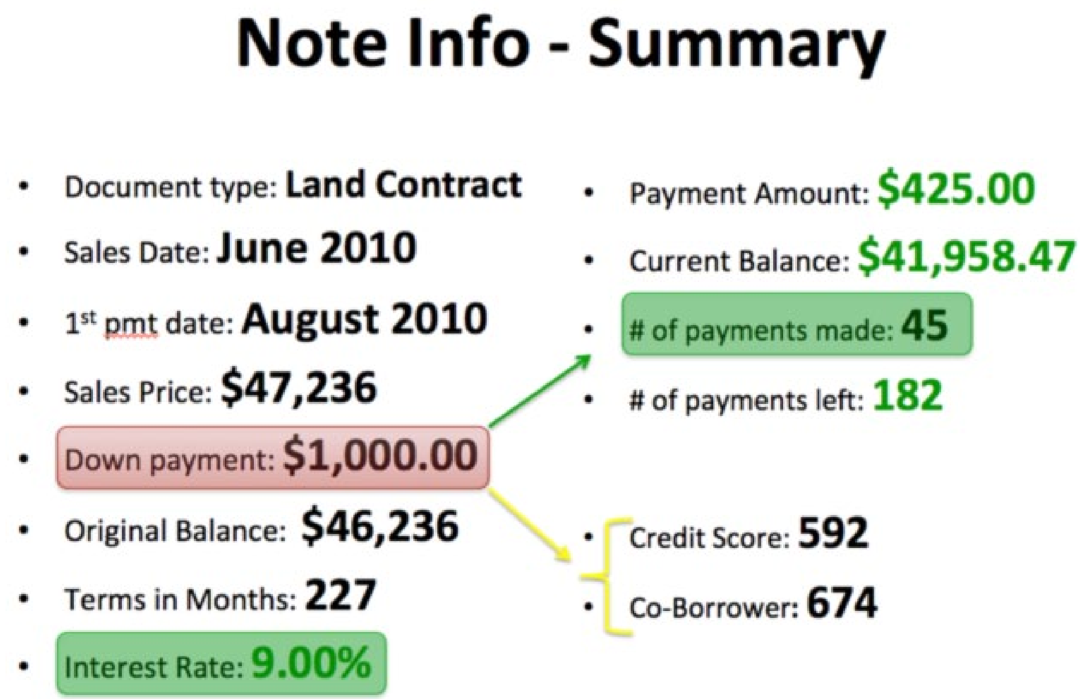
In addition, many investors see the rental model as easy to understand and implement. Long-time landlords of SFH's will tell you differently. Our advice to these investors and long-term landlords is that they should "Be the Bank."

When You "Become the Bank":

- You (or your retirement account) can earn long term passive income without the headaches of being an owner or landlord
- Your investment is backed by the property
- You can have a servicing company collect the payment by auto debit and even escrow the money for taxes and insurance

To illustrate, I've provided an example from one of the dozens of performing notes that we purchased several months ago. Land Contracts on SFH's collateralized these performing notes.

Here is a summary:



In this scenario, although the borrowers didn't have "A" credit or make a large down payment, they've since made 45 on-time payments. The note, created for $46,236 at 9% interest, has 182 payments remaining with an unpaid principle balance of $41,958.47. Additional due diligence research indicates that the property is now valued at around $55,000.

We were able to buy this asset for $33,681 which gives us a yield of 13% per year! All of the payments are debited by our servicing company and deposited into our account. There are numerous upsides here: no property management, no tenant issues, or any property liability to speak of... just positive monthly cash flow, all backed by a $55,000 SFH.

At this stage, several scenarios are possible:

1. The borrowers could continue to make the payments for the remaining 182 months
2. The borrowers could stop making the payments
3. The borrowers could sell the property or refinance

Let's go through each of these scenarios:

Scenario #1: This is fairly straightforward. For $33,681, we receive 182 payments of $425 which totals $77,350. We yield over 13% annually on our money.

Scenario #2: Since this is a Land Contract, the borrower only has equitable title until the loan is paid in full, so we have a very short eviction (not foreclosure) process. We then own a $55,000 property for $33,681, less any payments that we received.

Once we own the property we could:

- Sell it to a cash buyer
- Sell it on a Land Contract with seller financing
- Rent it
- Rent it and then sell as a turn-key rental to an investor (we could even finance part of the sale for the investor)

Scenario #3: What if they sell or refinance in 18 months?

We would collect $7,650 ($425x18) plus the payoff amount of $39,993.40. So in 18 months, $47,643 would be returned to us on a $33,681 investment!

Since we were able to "buy right," we are positioned for a great return no matter which scenario plays out. Bearing this in mind, will you diversify your real estate investment portfolio this year?

MarketPulse

In part of our continuous effort to keep our fingers on the pulse of what's happening in the note industry, we're rolling out a new feature called MarketPulse where we'll present our take on all the latest buzz and industry news.

Distressed-debt investors profit from loans that are close to or are in default by buying them at a discount and then waiting for them either to be repaid or to increase in value as economic conditions improve. Loans backed by assets such as real estate also offer investors the opportunity to acquire the underlying collateral in lieu of payment.

According to a report by Bloomberg in November, the opportunities in this nonperforming real estate secured loan space are going to continue in 2015. Bloomberg reported that both Bank of America and Citigroup are selling multiple pools of both nonperforming and re-performing mortgages. Most of these pools are being purchased by large Wall Street hedge funds. These same hedge funds will look to trade off the lower price band tranches (loans with property values less than $125K) throughout the next several years.

About $30 billion of bad loans will likely change hands in the second half of 2014, according to Michael Nierenberg, Chief Executive Officer of New Residential Investment Corp. Furthermore, New Residential estimates that about $30 billion of debt was sold in the first half of 2014, more than the roughly $25 billion traded in all of 2013.

Employee Spotlight

The “Top Ten” with Tiana Banes

There are many vital people behind the scenes who drive the engine that makes our companies successful. In our continuous "Top Ten" series, this month we turn the spotlight on one of these people so you can get to know them better. This issue, the spotlight is on our Executive Assistant, Tiana Banes.

How long have you been with Colonial Funding Group/NoteSchool? One year this coming February

What is your role at Colonial Funding Group/NoteSchool? Executive Assistant

Favorite Color: Purple

Favorite Food: Salmon

Favorite TV Shows: Fargo and Dancing with the Stars

Favorite Movie of all-time: Shawshank Redemption

Last Book You Read: Currently, I'm reading a novel titled Descent. A friend of mine from college, Kallie Ross, is the author, and it was just recently published.

Favorite Sports Team: My son Hunter's baseball team.

The 3 people you would like to have dinner with (dead or alive): My two grandfathers who've passed away and friends I don't get to see very often.

What do you like best about working at Colonial Funding Group/NoteSchool? The people! The entire team is great to work with!

Capital Markets Update

What Will You Do in the Investment "Red Zone"?

By Ryan Parson

Another new feature to The Buyline this year is our Capital Markets Update. This month's update comes from Ryan Parson, Director of Investor Relations for Colonial Capital Management.

I recently had a great conversation with a couple from North Carolina who've actively managed their own active investments over the years. In fact, they were so successful with alternative investing that they were able to retire in their early 50s.

As they've reached their mid-60s, though, they would like to pull back from being as hands-on as in past years. Their course of action now will involve transitioning to active involvement in their passive investments. This couple has truly taken the time to understand what works for them, and that's impressive.

Have you thought about what you'll do when you reach the "red zone"--the period ten years prior to or ten years after retirement--as they have?

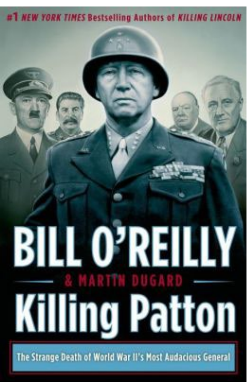
Do you know your own strengths and weaknesses as an investor? If someone were to ask, could you clearly articulate your style and a course of action?

Quote of the Month

"Never tell people how to do things. Tell them what to do, and they will surprise you with their ingenuity."

– George S. Patton

Recommended Reading



Killing Patton: The Strange Death of World War II's Most Audacious General

Written by Bill O'Reilly and Martin Dugard

I finished 2014 by reading one of the books on my Christmas "wish list": Killing Patton: The Strange Death of World War II's Most Audacious General by Bill O'Reilly and Martin Dugard.

As some of you know, I consider myself somewhat of a history buff in that I've read a lot about World War II and I've watched many of the classic war movies. But after reading this historical account of the last days of General George S. Patton, I discovered new and interesting behind the "headlines" information about him, especially in regards to how the various world leaders involved in the war interacted. Not only is this a great account of how Patton led our Army to victory at the Battle of the Bulge, but it also provides great characterizations of leaders such as Franklin D.

Roosevelt, Dwight D. Eisenhower, Winston Churchill, Joseph Stalin, and Adolf Hitler.

Upcoming Events

Broward REIA

January 7 – Dania Beach, FL

Denver REIA Club

January 8 & 10 – Denver, CO

Mid-America Association of Real Estate Investors

January 13 & 24 – Kansas City, MO

Michigan REIA

January 15 & 17 – Troy, MI

Rich Rewards 3-Day Class

January 23-25 – Ft. Lauderdale, FL

Big Money 3-Day Class

February 13-15 – Denver, CO
