The Buyline

March 2016 | No. 24

NoteSchool.com | ColonialFundingGroup.com | ColonialCapitalManagement.com

Learn Trade Invest

In This Issue

Thoughts form the Desk of Bob Repass...

Believe it or not, this issue of The Buyline marks the 2 year Anniversary since we rolled it out under the NoteSchool, Colonial Funding Group and Colonial Capital Management banner. Seems like just yesterday doesn't it?

This month's issue includes a special feature article done by Daren Blomquist of RealtyTrac in which our very own Eddie Speed shares his thoughts on the state of the industry. We also have all the details about two very special events that are coming up.

First is a Women's Mastermind presented by Martha Speed which takes place April 28th – May 1st. Next is a special one day event we are co-sponsoring on behalf of the Montague County Child Welfare Board entitled "Entity Structuring for Asset Protection and Minimizing Taxes." This is presented by the renowned expert Dyches Boddiford and takes place in Fort Worth, Texas on Thursday, June 2nd. **Click Here** to register today!

We have a lot of exciting things planned for 2016. Be sure to stay tuned to The Buyline for the latest information.

Bob Repass
Managing Director

MarketPulse

Republished with permission from the RealtyTrac Housing News Report

by Daren Blomquist

Trickle-Down Distress: How Mom-and-Pop Investors are Tackling a Long Tail of Bubble Era Loans

Robert Woods learned about the world of non-performing loans when he answered a phone call in 2011 from an investor who had purchased Woods' strategically defaulted loan and was foreclosing.

“We signed a deed-in-lieu (of foreclosure) and the house was gone. The place had stainless steel appliances, we left it clean,” Woods said of the Florida condo he had purchased in 2006 with buddy while in college using a stated-income loan and $2,000 down. “We were part of that. Even with a finance degree from college, (we were) truly uneducated about an adjustable rate mortgage.”

That phone call put Woods on a path toward eventually buying defaulted (non-performing) loans himself. Now he is on the other side of the phone calls to “deadbeat borrowers.”

“I’m a Deadbeat Borrower”

“Want to know what a deadbeat borrower looks like? You’re looking at him. I’m a deadbeat borrower, said Woods, who founded his loan-buying business, NexGen Coastal Investments, in 2012.

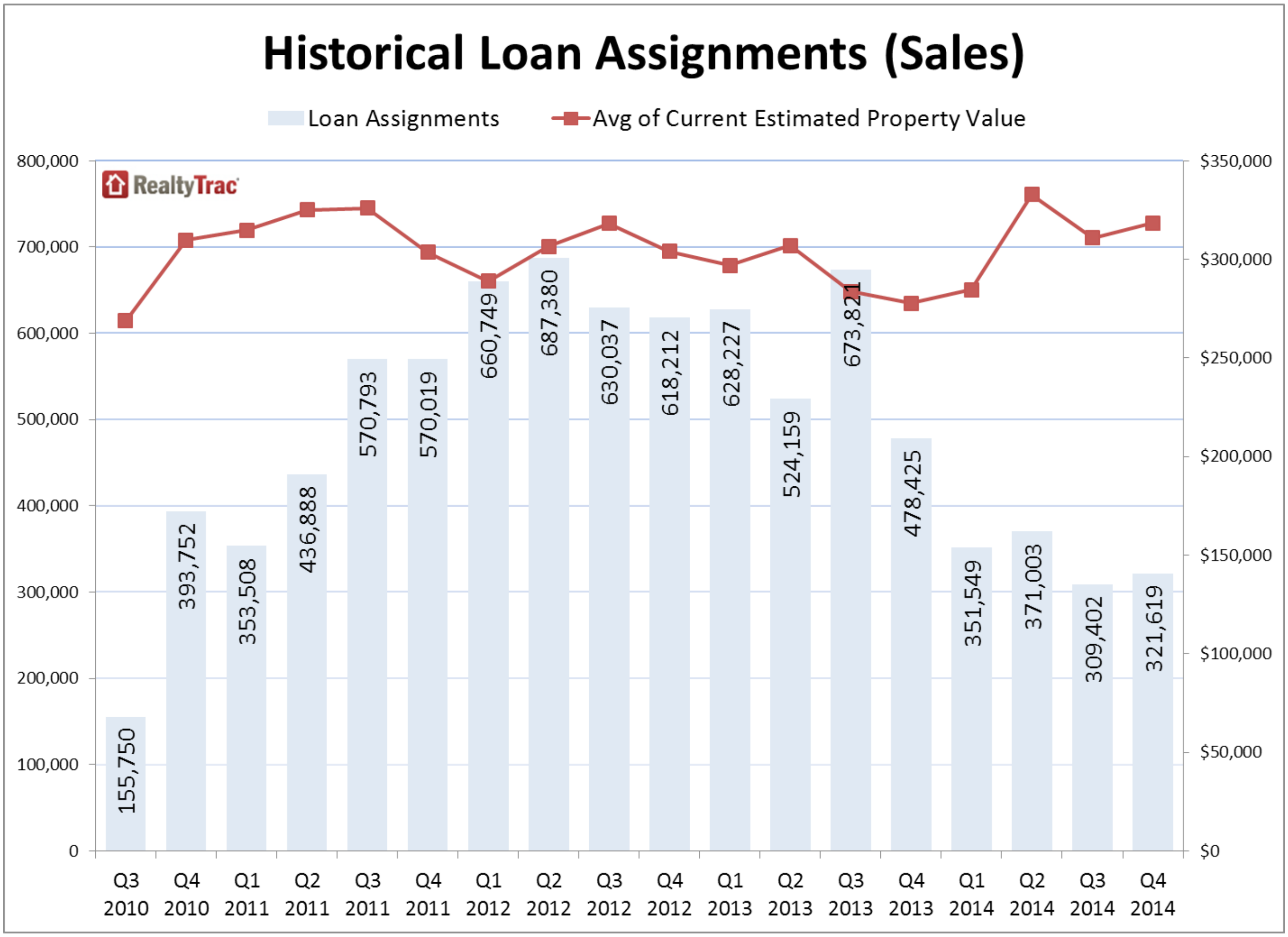
Woods said his experience as a strategic defaulter instills him with more compassion for distressed homeowners truly trying to save their homes, but also makes him keenly aware that some homeowners may try to take advantage of the situation through scams such as rent stripping — when the delinquent borrower/homeowner rents the property, collecting rent even while not making mortgage payments.

“You’re either going to pay me or go into bankruptcy by the end of this,” said Woods, who also co-hosts a weekly podcast, NoteMBA, about the non-performing loan business.

NPL Sales Gaining Steam

Woods, who is based in Orlando, jumped on the loan-buying train in 2012 just as it was gaining steam.

RealtyTrac loan assignment data — including sales of both performing and non-performing loans — shows that loan sales peaked at more than 687,000 in the second quarter of 2012, up 57 percent year-over-year and up 341 percent from the third quarter of 2010.



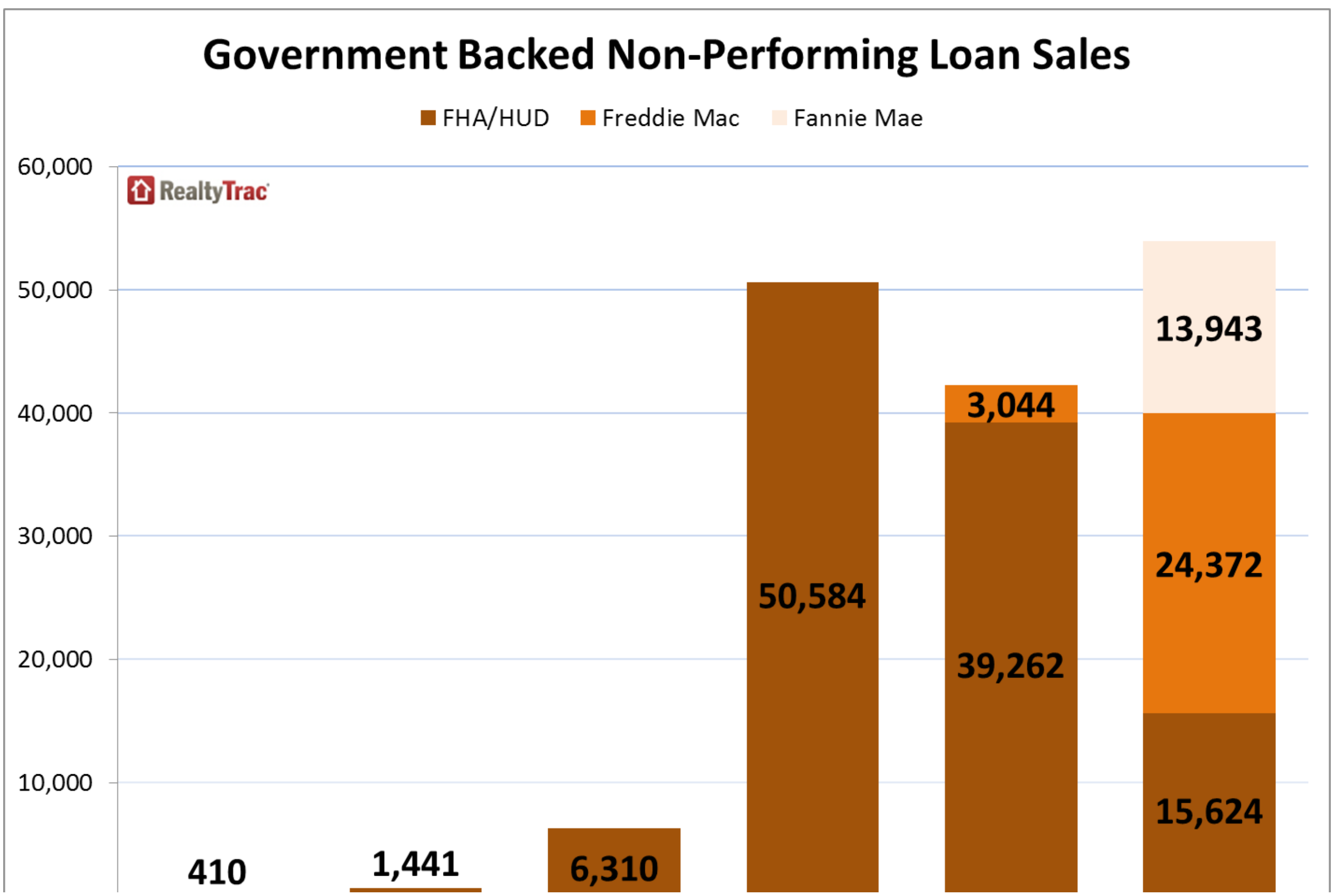
The third quarter of 2010 was a significant milestone in the world of non-performing loans because it was when the U.S. Federal Housing Administration (FHA), kicked off its Distressed Asset Stabilization Program (DASP) — selling non-performing loans insured by the government agency.

FHA sold just 410 non-performing loans through the new program in the third quarter of 2010, but then quickly ramped up in 2011 and 2012 before peaking at more than 50,000 sales of non-performing loans in 2013, according to loan sales summaries provided on the U.S. Department of Housing and Urban Development (HUD) website.

While FHA non-performing loans sales gradually tapered off in 2014 (39,262) and 2015 (15,624), sales of Fannie Mae- and Freddie Mac-backed loans accelerated during that same time period.

Freddie Mac launched its non-performing loan sale program in July 2014 with the sale of about 3,000 loans, and quickly scaled up in 2015, selling 8,582 loans in the first half of the year and selling 15,790 in the second half of the year, according to its Non-Performing Loan (NPL) Transactions web page.

Fannie Mae joined the NPL sales party about a year later with the sale of more than 3,000 loans with an unpaid principal balance (UPB) of $761.7 million in May 2015. Fannie completed two more NPL sales in 2015 and ended the year having sold nearly 14,000 loans with a combined UPB of $2.8 billion. And the government-backed agency showed no signs of slowing its NPL sales program in 2016, kicking off the year with its biggest sale yet in terms of dollar volume — more than 6,500 loans with an UPB of $1.32 billion that closed in February.



The NPL Waterfall

Longtime loan buyer Eddie Speed said the flood of NPL sales over the last few years is beginning to waterfall down from large institutional investors — who purchased the loans by the thousands in the initial auction — to mid-sized buyers like his company, Colonial Funding Group — which purchases loans by the hundreds — and eventually trickling down to mom-and-pop investors who purchase by the tens.

"The waterfall of selling these non-performing notes started a year ago to any measurable degree," said Speed, who also runs NoteSchool, a company that trains investors how to find, research, buy and service loans. "We might buy 100 loans, but we are not Carrington and we are not going to buy 10,000 at a time."

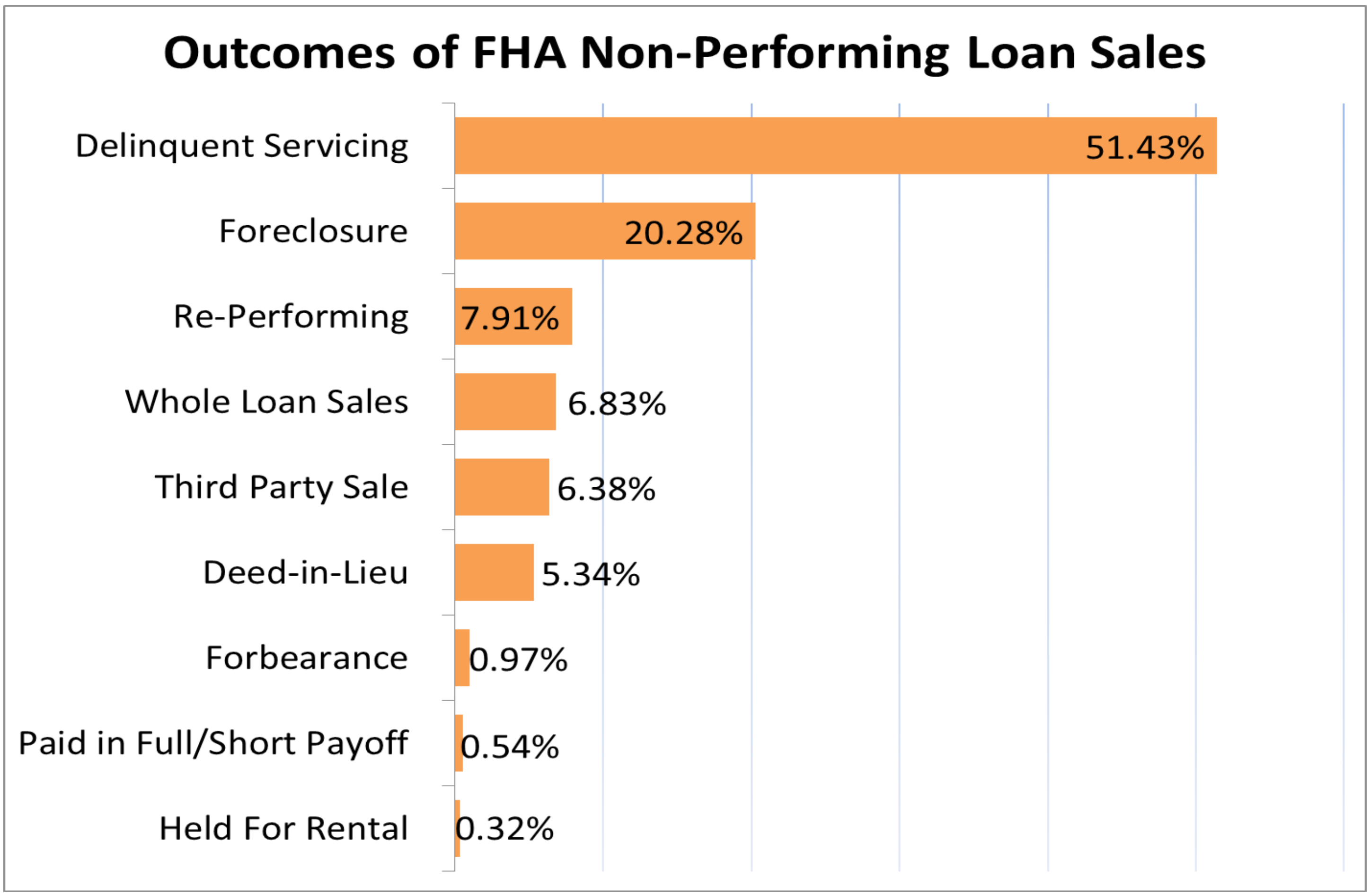
Carrington's investment partner Oaktree Capital Management has purchased 4,772 non-performing loans with a total unpaid principal balance of $807.6 million through the FHA program alone — the sixth biggest buyer to date in the program, according to a HUD report published in February. But large institutional buyers such as Carrington may now be interested in selling off some of their NPL portfolios to mid-sized investors like Speed, who in turn sells them to mom-and-pop investors.

"We catch what the bigger firms don't want to keep," said Speed, who said he was introduced to the NPL market in the 1980s, buying them from the Residential Trust Corporation (RTC) in the wake of the Savings & Loan crisis. "At some point there is a subset of these loans that do not fit their investment philosophy."

That subset of loans being offloaded by the big institutional investors is evident in the February HUD report, which shows that 6.8 percent (5,394) of the loans sold through the FHA program have been re-sold as "whole loan sales" from the original purchaser to another entity.

Meanwhile another 51.4 percent (40,644) of the NPLs sold through the FHA program are still delinquent and represent a potential pool of more loans to sell to smaller investors.

“We have seen more assets in the last six months than we saw in the previous 24 months,” said Speed, adding that while he is always in the business of buying performing loans, there are only certain windows where he buys non-performing loans. “We think the calendar for the next five years will be one of the biggest windows for that.”



“You’re My One Foreclosure This Month”

As more non-performing loans waterfall down from the big banks to large institutional investors to mid-size note brokers and finally to mom-and-pop investors, the borrowers of those loans may be in for a surprise, according to Chase Thompson, who co-hosts the NoteMBA podcast with Woods.

“Many people are used to a Bank of America or Wells or Chase who just drag their feet on foreclosure because they have thousands of them,” said Thompson, who is based in San Antonio but buys notes in many markets across the country. “They aren’t used to someone who is saying ‘you’re one my foreclosure this month.’” Thompson jumped into the world of NPLs in 2014 after he was laid off from his day job as a mortgage banker.

“I had gotten involved in real estate investing while I was working, and the world of notes was the least populated,” he said, explaining his real estate investing strategy was to “go where there is less fish.”

Less competition from other investors translates into bigger discounts compared to other real estate investing strategies such as buying properties at foreclosure auction, according to Thompson.

“Inherently you tend to buy at a decreased discount because you’ve had (fewer) hands touch it by the time you get it. When you buy at a foreclosure auction, there are other things that would have happened along the way that would have decreased the spread,” he said, noting that he sources loans directly from banks and hedge funds rather than going through third-party brokers. “If you are buying just off a website then you are probably going to lose a little bit of money. But you are also taking on less risk.”

High Risk, High Reward Second Loans

Phillip Silver buys non-performing loans from a third-party broker website, but he buys second position loans, which are inherently more risky and therefore come with a bigger built-in discount.

Silver said he started buying NPLs three years ago after he was priced out of buying residential properties in Southern California, where he lives. He said that properties in the "Inland Empire's" Riverside County that he previously was able to purchase for $100,000 had risen to the $150,000 price point.

"The yields on it just weren't making sense to me, at the price point," said Silver, whose day job is in commercial real estate. "With $150,000 you can buy 10 to 15 second notes, and those are going to be all over the country."

The second position loans that Silver purchases are more deeply discounted because they are subordinate to the first position loan and therefore more likely to never yield a return. But because of the discount, the second loans that do yield a return often yield a very high return, according to Silver.

"When you are dealing with seconds, it is high risk and high reward," said Silver, adding that the truest test of the quality of a second position loan is whether the first position loan is current or not. "You are either going to get a home run or a strike out."

Silver's primary strategy with the second position loans is to negotiate a modified, lower payment with the borrower so that the borrower starts paying again and Silver can collect the monthly cash flow from that performing loan. To accomplish that strategy, however, his first step upon buying the loan may seem counterintuitive: starting the foreclosure process to get the borrower's attention so that they will talk to him.

"Because a lot of these borrowers have not been paying for years and years … I figure the best way is to get their attention with the demand letter and start the foreclosure process," he said. "Our ultimate goal is to work something out, but the toughest thing is to get the borrower to contact you to work something out. Our intent is not to foreclose; our intent is to get the borrower to call us. … We go down that path to get their attention."

Silver said sometimes the borrower will hold out until the last minute before agreeing to a loan modification.

"Sometimes they'll wait until the day before the foreclosure sale to work something out," he said, noting that is usually too late to stop the actual foreclosure sale. "Typically you'll still go through with the foreclosure process and then try to work something out after foreclosure and possibly unwind the foreclosure depending on the state."

Foreclosure Process Matters

Michelle Hill, another mom-and-pop NPL investor, said she pays careful attention to the state foreclosure process when buying loans because her exit strategy involves foreclosing about 60 percent of the time.

"I'm not afraid of the judicial side of it," she said, referring to a foreclosure process that goes through the court system and is used in about half of all states, typically taking longer than the non-judicial process used in the other half of states. "But I want to know where we are in the process. Are we looking at a six- to 12-month process or are we looking at a 12- to 24-month process?"

"I won't touch anything in New Jersey or New York," added Hill, who lives in Austin, Texas, explaining those two states have extremely protracted foreclosure processes. "I'm going to prefer a non-judicial state, but I'm not opposed to a judicial state depending on what those state laws are."

Hill said she and her husband purchased residential rental properties for 16 years before starting their note-buying business, Lotus Investments, about two years ago.

"That has given us cash flow, but we're still dealing with the dishwasher not working, fixing the toilet, a Hot Wheels car stuck in the toilet," she said of the rental property business. "I wanted to create cash flow and did not want the responsibility of dealing with tenants."

Dialing for Dollars

When sourcing properties to buy, Hill said she employed the "driving for dollars" strategy of driving through neighborhoods looking for properties with signs of distress that may sell at a discount.

Now she employs the strategy of "dialing for dollars" to source distressed loans that can be purchased at a discount.

"Most of my day now is spent contacting banks, contacting hedge funds, sourcing assets, and then scouring tapes," she said, referring to spreadsheets containing the record-level information for the non-performing loans.

Thompson recommends that new NPL investors start with calling a local bank to find potential loans for sale.

"That's what I do, you just call and you ask 'do you guys have anything you want to move?'", he said. "And just make that part of your work week. I'm going to call 10 banks this week."

Be Like Water

Thompson said he rarely knows for sure his exit strategy when buying an NPL; instead he stays open to multiple exit strategies depending on the numbers and the response of the borrower.

"Be like water," he said, referring to the Bruce Lee axiom.

Thompson estimated that out of every 10 NPLs he purchases, three or four are foreclosures, two or three are loan modifications, one is a short sale, one is a deed-in-lieu of foreclosure, and one or two are "weird deals."

"There tends to be that wild one in the bunch," he said, providing an example of a recent loan he purchased where the borrower was an elderly man who couldn't afford even modified mortgage payments, but who had a son living with him who could afford a modified mortgage. So Thompson plans to agree to a loan assumption where the son assumes the loan and is responsible for the payments.
That type of flexibility in negotiating a creative outcome for a delinquent loan would typically not be available through a big bank servicer, according Woods, Thompson's co-host on the NoteMBA podcast.

Woods provided another example of the flexibility tht mom-and-pop investors can offer to borrowers: forgiving payments. He said he was recently able to do this for a borrower whose loan he owns in Ohio.

"At Christmas we forgave three months of their payments because they had been making all their payments," he said, noting that because he purchased the loan at such a deep discount he had already broke even on the investment. "When borrowers … reach out to you … you have the ability to make this a win-win. You don't have to be an aggressive prick."

NPL Buying Pitfalls

MBut Woods and other note buyers emphasized that not every note purchase ends in a win.

"The truth is there are deals you are not going to make money on," said Woods, adding that there are three primary items that need to be researched as part of an investor's due diligence before buying a non-performing loan: property value, property title, and property taxes.

"Even if you have a first lien, which is all I buy, real estate taxes are the one thing that is going to go in front and could completely wipe out your mortgage," he said, providing an example of a recent loan he purchased where it looked initially like the unpaid property taxes were $8,000 but turned out to be $18,000. "That mortgage is gone. It's now worth zero. Whoever bought that property at tax auction owns a property free and clear."

Speed, the founder of NoteSchool, echoed Woods' advice.

"There are three things that can make you make a bad buy: blighted property, tax and title," he said. "There's lots of loans that are sold in the market that are lost to taxes. … We see spreadsheets every day, and nobody ever mentions the taxes. … Yes this loan looks cheap, but if you pay the taxes it isn't."

Speed acknowledged that not all players in the NPL space are trustworthy players.

"This business is like lots of businesses. Not every business has the same credibility," he said.

Silver, the Southern California note buyer, agreed.

"The first step is finding a trusted seller of notes," he offered as advice for new NPL investors. "A lot of it is word of mouth or asking around … I've heard of some people who have had really bad experiences."

Hill, the Austin note buyer, advises new investors to find mentors to guide them. "Align yourself with people who already know and have already tested the waters: have tested these servicing companies and attorneys," she said, adding that there are unscrupulous note brokers out there. "You always want to cover your own fanny."

In The Spotlight…

WOMEN'S MASTERMIND

HOSTED BY MARTHA SPEED
APRIL 28 - MAY 1, 2016
SPANISH FORT, TEXAS

What do masterminds offer?

Increased Synergy…effectiveness in getting things done
Secure environment to discuss your ideas & issues
Increased Efficiency…to get things done faster

Result: Increased Profitability & deal flow

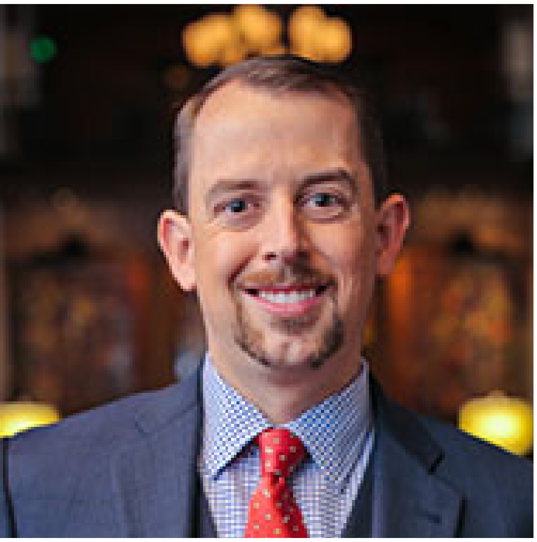
Watch this video from a previous attendee about her experience
Click here………

Come be a part of the Women's Only Mastermind!

For Women - By Women

Watch your email and join the upcoming webinar to learn more.

I look forward to seeing you there!



Capital Markets Update

KIDDIE ROTH IRA

by Ryan Parson

We don't spend a lot of time in our newsletter talking about technical vehicles like Roth IRAs, but the whole idea of the Kiddie Roth IRA is a huge opportunity for the younger generations in our lives we desire to help get started, and it's worth bringing to your attention.

While you may not think of your ten-year-old as someone remotely ready to be considered for retirement, the federal government allows for some pretty good incentives for minors. Perhaps this is one gift from our politicians that has significantly positive financial impact.

Passing wealth along or just having a real life tool in place to teach our kids or grandchildren about money is a great life lesson. Establishing a savings account is great too, but a Kiddie Roth IRA is all of this and more.

I don't mean to suggest that we shouldn't encourage our kids to get an education and to explore employment opportunities… that's not the point at all. What I am suggesting is that there's absolutely nothing wrong with helping them get a good healthy financial start by beginning to save (and invest) now.

The Kiddie Roth IRA brings significant strategic advantages to help serve those objectives.

What is a KRIRA? It works much like a regular Roth IRA.

The basic core of the concept is that it's funded with after-tax dollars while the account grows tax free in the investments that it makes. A huge advantage with the KRIRA is that you're able to pull 100% of your money out, both the growth and earnings, tax free, post-retirement.

There are a couple of exceptions that apply in that the KRIRA is a custodial account for kids under the age of 18–in this respect, they have to be funded (and managed) by an adult, typically a parent or grandparent. At age 18, control is transferred over to the child, and like a regular Roth IRA, the saver (or child in this case) has to have earned income to continue to fund the account.

What that means for minors is that little Johnny or Susie has to have the ability to earn some kind of income as it's defined by the IRS. That might mean that your daughter has to empty trash cans at your buddy's business; or it might mean your son washes cars or does lawns on the weekends.

Then, what they earn can then be stashed away into a KRIRA…

Matching Contributions – a Great Way to Get Your Child Excited About Saving

Another incentive is that parents or grandparents can match what the kids are earning at their summer or part time job. You can only contribute up to the maximum of $5500 in a KRIRA… technically no more than their taxable income can be contributed, realizing that most kids aren't going to have the ability to fund it… through the matching is where they can reward… you can contribute the eligible earned income on your child's behalf.

In simple terms, here's your message to the young person: "Whatever you earn, you keep, but I'll also match the amount in a special savings account that you'll be able to use your entire life."

Not a bad deal, huh?

I like this approach because it helps to put your young child in the mindset of a matching contribution, which mirrors what an employer offers in a 401k plan. We all know this a quick and lucrative way to get a return by taking advantage of matching contributions.

The point of it is, we all know there are significant tax, savings, and time advantages to Roth IRAs. Getting kids started early on is huge, as is the lessons about working hard, pulling a business together, the ability to match, and the overall discipline of saving, and compound growth.

Need even more reason to get excited about Kiddie IRAs? Look at these numbers…

Someone who starts early on maximizing their Roth IRA through the age of 70, will end up with double retirement funds versus someone who started saving at the age of 25.

Consider these examples:

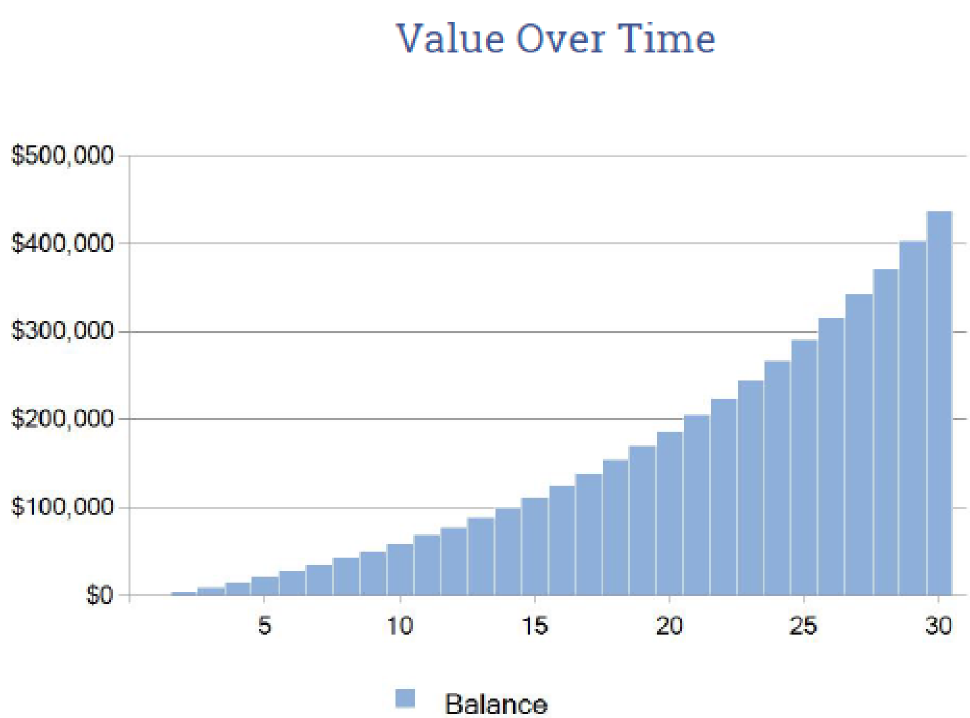
See these graphs based on years of accumulation.

Value Over 30 Years

Value over Time

Item Description	Value
Initial capital	$0
Assumed annual rate of return	7.00 %
Annual savings	$5,000
Number of years	30

Future value would be $472,304.

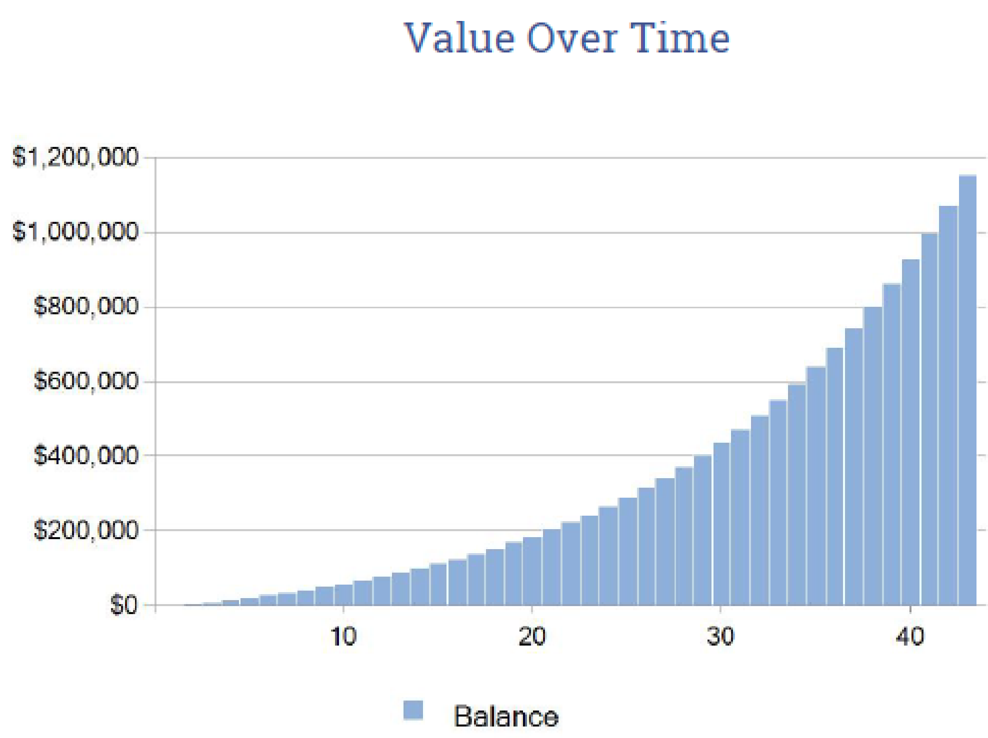


Value Over 43 Years

Value over Time

Item Description	Value
Initial capital	$0
Assumed annual rate of return	7.00 %
Annual savings	$5,000
Number of years	43

Future value would be $1,238,882.

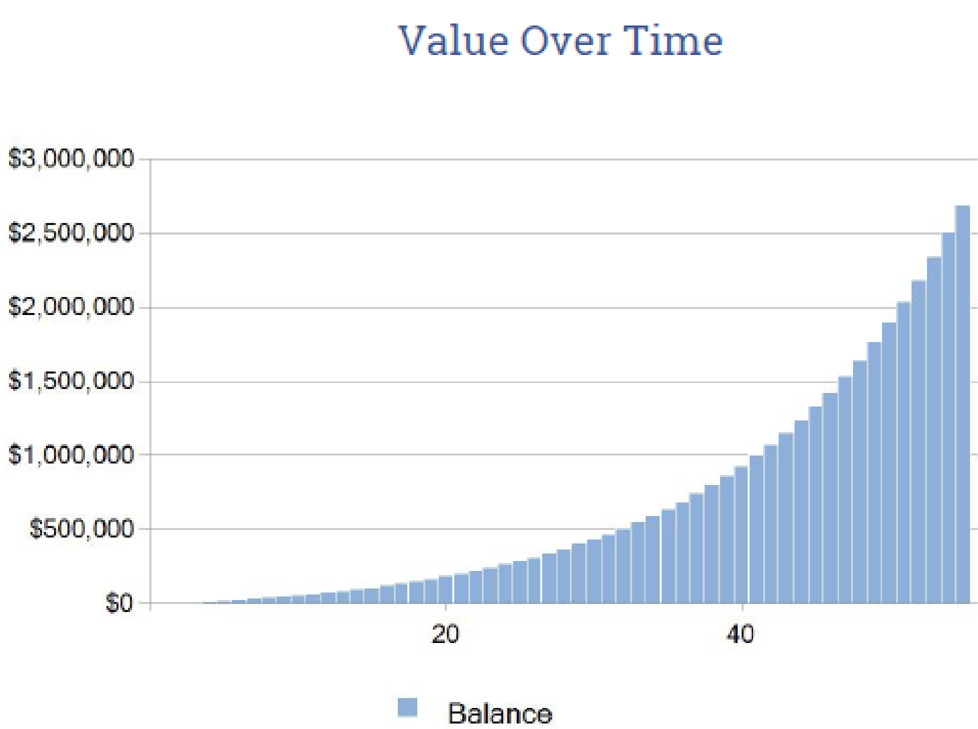


Value Over 55 Years

Value over Time

Item Description	Value
Initial capital	$0
Assumed annual rate of return	7.00 %
Annual savings	$5,000
Number of years	55

Future value would be $2,879,643.



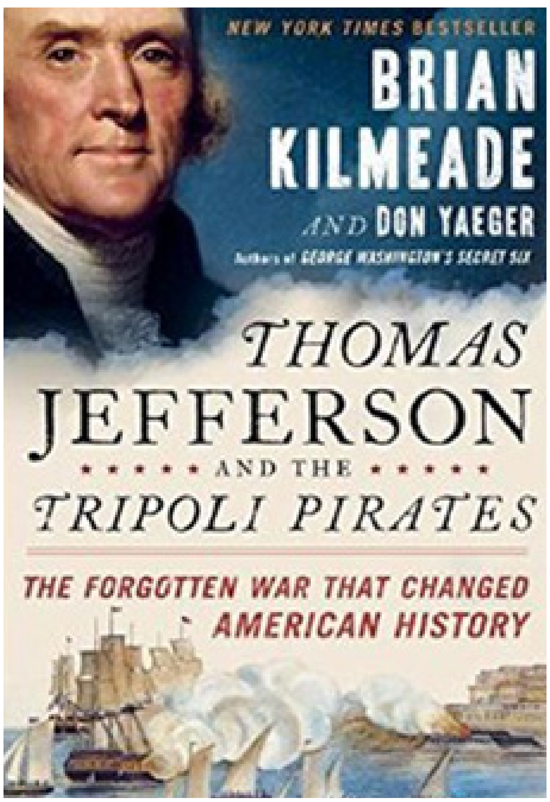
Wouldn't you rather your child or grandchild have $1 million versus $500,000? Or how about close to $3,000,000 by starting them early?

You still have until April 15 to establish a KRIRA if you feel so inclined to help your child with this learning process.

Quote of the Month

"If you want to lift yourself up, lift up someone else."

–Booker T. Washington



Recommended Reading - Thomas Jefferson and the Tripoli Pirates

Everyone has heard of Thomas Jefferson, John Quincy Adams and James Madison but have you ever heard of Stephen Decatur or William Eaton? Did you know that during the time between the Revolutionary War and the War of 1812 the United States actually went to war against four Muslim countries off the Barbary Coast of North Africa? The Author tag-team of Brian Kilmeade and Don Yaeger tell the story of this fascinating moment in history and the unsung heroes that brought the U.S. our first military victory as a new nation in the book Thomas Jefferson and the Tripoli Pirates: The Forgotten War That Changed American History. If you like history at all, this is a "must-read"!

Upcoming Events

- **Big Money 3-Day Class** – March 4-6 – Chicago, IL
- **Big Money 3-Day Class** – March 11-13 – Tysons Corner, VA
- **Titanium Mastermind** – April 14 – 16 – Dallas, TX
- **Rich Rewards 3-Day Class** – April 22-24 – San Francisco, CA
- **Save-the-Date 5th Annual Appreciation Event** – November 3, 2016 – Ft. Worth, TX
- **Save-the-Date** – NoteExpo 2016 – November 4-5, 2016 – Ft Worth, TX