

The Buyline

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Thoughts from the Desk of...

The 2016 NoteSchool Summer Summit, A spokesperson for an exclusive annual event for mentoring students only, will be held June 3rd & 4th at the American Airlines Training and Conference Center in Fort Worth, Texas. Think of it as two days of mentoring on steroids!

Once again this year's Summer Summit is FREE for all NoteSchool Mentor Students but you MUST [register](#)

We kick things off Thursday, June 2nd with a special bonus class Entity Structuring for Asset Protection and Minimizing Taxes taught by Dyches Boddiford one of the nation's leading authors, speakers, and experts on asset protection.

Here's a quick look at what's on tap at the 2016 NoteSchool Summer Summit on Friday and Saturday. This year we will have a slightly different format. "These will be highly interactive sessions" with all of our executive team. Eddie Speed, Charles Mangan, Susan DeLaGarza, Martha Speed, Ryan Parson and myself will all be on hand to drill down on several key topics such as the complete partial process, how to successfully broker notes, as well as the exciting launch of our new game-changing product! We will also have a full day with a select group of key vendors that will be on hand to work with you.

On Friday night there will be a special private **Titanium VIP** only reception. Enjoy drinks and hors d'oeuvres while you mix and mingle with our Senior Management Team, industry guests and other Titanium members.

Not already a NoteSchool Mentor Student? Want to find out more about note investing? Then sign up today for our **Rich Rewards** 3-day training class (also at the American Airlines Training and Conference Center). It runs from Friday the 3rd through Sunday the 5th. [Click here to register.](#)

Our whole team is working endlessly to make this the best weekend possible. Please come join us!

Bob Repass
Managing Director



The Trading Corner

Cap Rates and Notes – How Do They Go Together?

by Bob Repass

What do cap rates mean for real estate note investors? What influences them to change?

Although capitalization rates are one of the most common terms in commercial real estate investing, they can also be a very valuable tool when analyzing residential properties as well as real estate secured note investing. With that said, it is critical that you understand how to use cap rates as an investment metric, as well as the various factors than can impact them.

The capitalization rate or ‘cap rate’ is calculated by dividing the annual net operating income (NOI) by the purchase price of the property. So a three bedroom, two bath single family residence in Columbus, Ohio with a \$7,020 annual NOI, which costs \$70,200 would have a cap rate of 10%.

Essentially, this calculation reflects the current return on investment (ROI) the property can be expected to generate, assuming income is consistent. While cap rates are generally used as a quick method of comparing and filtering investment property options, they can also be used as an indication of market value or “potential” market value based on an investors desired ROI (yield).

To determine this we take the same three factors NOI, Cost (market value), and cap rate, but instead of solving for cap rate, we solve for the market value. As illustrated below with our Columbus, OH SFR example, the \$7,020 NOI at an 8% cap rate results in a market value of \$87,750 versus the \$70,200 at a 10% cap rate. Looking at the other end of the spectrum, a 12% cap rate would result in a \$58,500 market value.

Calculating Net Operating Income	
Rent	\$900.00
Taxes	\$150.00
Ins	\$75.00
Mgt Fee	\$90.00
Homeowners Assn	\$0.00
Other	\$0.00
Total Expense	\$315.00
Monthly NOI	\$585.00
Terms of Sale	
Property Value	\$87,750.00
Annual NOI	Cap Rate
\$7,020.00	8.00%

Calculating Net Operating Income	
Rent	\$900.00
Taxes	\$150.00
Ins	\$75.00
Mgt Fee	\$90.00
Homeowners Assn	\$0.00
Other	\$0.00
Total Expense	\$315.00
Monthly NOI	\$585.00
Terms of Sale	
Property Value	\$70,200.00

Annual NOI	Cap Rate
\$7,020.00	10.00%
Calculating Net Operating Income	
Rent	\$900.00
Taxes	\$150.00
Ins	\$75.00
Mgt Fee	\$90.00
Homeowners Assn	\$0.00
Other	\$0.00
Total Expense	\$315.00
Monthly NOI	\$585.00
Terms of Sale	
Property Value	\$58,500.00
Annual NOI	Cap Rate
\$7,020.00	12.00%

So what determines what cap rate is appropriate to use? Several factors that can influence the cap rate are property location, market strength, operational costs, tenant quality and the investor’s mindset. The potential risk associated with a property will greatly influence its cap rate. For example, an under-performing property in a poor location may offer a much higher cap rate.

By better understanding the key factors revolving around cap rates, you will be able to quickly analyze comparable properties when completing your due diligence. Depending on your investment strategy, cap rates can be used to determine undervalued properties, which can be re-positioned for higher income and equity appreciation in the future. They are also an invaluable tool when deciding on your exit strategy when reselling or liquidating your note investment.

MarketPulse



MarketPulse – NoteSchool and Colonial Capital Management Featured in Market-Watch!

By Eddie Speed & Kevin Shortle

Andrea Riquier, who reports on housing from the Washington bureau of Market-Watch, recently wrote an article titled: Forget flipping houses-these retail investors flip mortgages. Not only was the article very well written and informative but well researched!

She called regulatory agencies, interviewed investors and spoke with industry experts including NoteSchool's founder W. Eddie Speed. In addition, she even attended a full day of NoteSchool training being conducted by Kevin Shortle.

The article brought to light numerous items that investors found insightful. We know this as our social media contacts jumped as investors were contacting us in order to learn more. In this article I will highlight a few of those items, which confirmed what we at NoteSchool have been saying for years.

Industry Size

The first item is regarding the size of the industry. For the past several years, we have diligently been researching and compiling information on the size of the non-performing note inventory. Andrea's research indicated that Fannie Mae, Freddie Mac and HUD have sold a combined \$28.5 billion in distressed home loans since 2012. Eventually these assets and hundreds of thousands more still on the books will follow down an industry bucket flow that will end up in the portfolio of a small investor.

Continuing Problems

The fact that we have hundreds of thousands more of these assets both in the banking and private lending sectors exposes the second item in the article: the recovery has a long way to go.

It was interesting to see that when Andrea contacted a spokesperson from HUD, they declined comment. A spokesperson for the Federal Housing Finance Agency made a brief comment on priorities but declined any other comment. It took numbers from real estate data firm RealtyTrac to indicate that 17% of all transactions last year were deemed “distressed”-more than double pre-bust levels-in some way.

It seems that Federal regulators either don't know how big the continuing problems are or they are hiding what they do know. It is going to be up to the individual investors and entrepreneurs to clean up this mess but as she quotes Kevin in the article “you can make a lot of money in the problem solving business”!

Entrepreneurs and investors are the solution

The fact that the spokesperson for Fannie Mae and Freddie Mac indicated to Andrea that their overdue report was still incomplete and could not say when it would come out indicates that the regulators don't have a clear handle of the issues.

Industry expert Daren Blomquist, VP at RealtyTrac said that diffusing distressed loans out into a broader market has been a way to push the crisis away and sweep it under the rug. According to Blomquist, it also allows the lenders a way to avoid negative publicity.

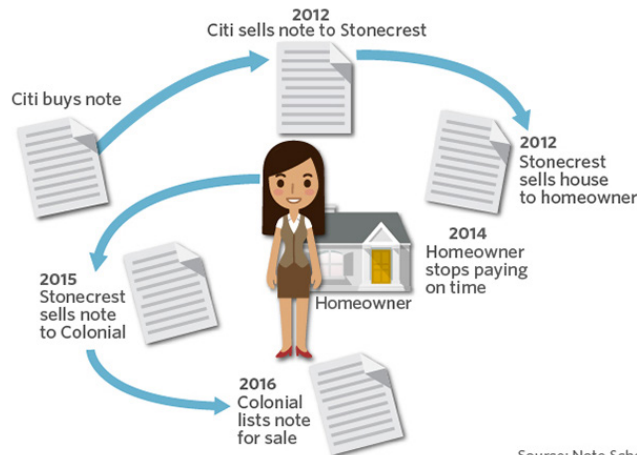
If you read between the lines you will come to the conclusion that the government regulators and the big institutional lenders have realized that they cannot solve the problem. They are simply not equipped to do it. They clearly prefer to move these assets to investors who are better equipped to resolve the problems in an efficient manner. Entrepreneurs can help homeowners stay in their homes by reaching out that problem solving hand in a quick and efficient manner.

It is important to you to realize that this is the huge opportunity and it is happening now!

Colonial Capital Management, NoteSchool's sister company, which was also mentioned in the article, buys these assets in bulk and makes them available to individual retail investors. NoteSchool, as Andrea experienced and wrote about, teaches these investors how to source, purchase and manage these assets.vv

Who owns this house?

Notes can change hands without the homeowner knowing it



FORGET FLIPPING HOUSES — THESE RETAIL INVESTORS FLIP MORTGAGES

In The Spotlight...

Buying Imperfect Notes in the Perfect Environment

by Martha Speed

The last few years, I've focused on buying imperfect notes for a perfect environment, my Roth retirement accounts. Many of you are working toward the same goals in building retirement accounts and growing wealth. It's easy to suffer from paralysis

of analysis on one hand while on the other wanting to buy everything you see. I've talked to people I'll refer to as the Will Rogers of the Note Business who "Never met a loan (friend) they didn't like". Others can't "pull the trigger" when the deal makes sense because they can't get past the imperfections. They lost!

Over the years of buying notes we've learned there are 6 characteristics that influence the value of a note which are as follows.

Buyer's Credit Worthiness: A credit report reflects how a customer pays creditors. If the customer had "injured credit" it doesn't necessarily mean they won't pay their mortgage. The majority of people don't want to lose their home and make mortgage payments a priority.

Collateral: Eddie and I are second generation note buyers focused on working class real estate with a great track record of working with this type of collateral. Just because the banks don't prefer the collateral doesn't mean you'll have a bad experience.

Buyer's Equity: Customers who have paid for years on their loan or made a large down payment have "hard equity". These customers don't want to lose their equity position, which also becomes "emotional equity" and will strive to make their payments. Equity also reduces the Investment to Value Ratio for you making the note a more attractive asset to own.

Terms of the Note: Interest rate and terms of the note or number of payments reverts back to present value of a future cash flow we've discussed previously. The longer the term and lower the note's interest rate means the higher the discount. For example, an 8% note has less discount than a 4% note and a 7 year note has much less discount than a 30 year note.

Payment History: We often refer to this as "seasoning" which is the counter weight that balances out a note purchase lacking other redeeming factors. When credit, income, collateral or the buyer's equity position are poor, a consistent payment history of 24 months or more overrides these deficiencies. If all underwriting factors are good then verifying payment history before buying a note is less relevant. For example, if you were buying a note Warren Buffet personally guaranteed would you need to see a performing payment history before you bought the note? NO!

Paperwork: First and foremost the loan must be an enforceable lien with the right of the lender to protect their interest in the property through the covenants of the mortgage or contract for deed requiring the customer to provide insurance and pay taxes in addition to allowing foreclosure action in catastrophic situations. If you're on either side of the above spectrum when it comes to buying notes, applying these characteristics should help you narrow down the best asset for your portfolio.



School is Never Out of Session

by Ryan Parson

Since we started school in kindergarten, we've heard the same refrain from teachers and parents that we need to get a good education so we can land a good job.

The basic model in our American meritocracy is that traditional education is the platform for career success, and many would argue you don't stand a chance without it.

While I'm in no way diminishing the value of a formal education (after all, that was the foundation of my wealth and probably is of yours), if we don't do something to further educate ourselves about investing and finances, it might be hard to argue that we have really gone out and lived our best life.

Most investors assert that financial and retirement planning is important, but consider that most of us spend more time in any given year planning our vacation than thinking about our financial future.

Truth be told, adding to and improving our financial knowledge is never out of session. As an adult when we're actually making money, earning and investing, our day-to-day is spent without much attention being given to how to accumulate wealth efficiently and effectively.

Thinking that your family's wealth management is someone else's job? Many of us have financial advisors, true, but at the end of the day, no one should be more interested in your financial success than you.

Now, you might be saying, “Ryan, the last thing I want to do is go back to school,” and I completely understand that. The process of financial “continuing ed” needs to be efficient so you can give your precious time to your family and other important areas of your life.

So how do you prepare? Where and what do you study? Who is teaching and coaching you? Who is inspiring you? Are you part of a community of like-minded investors seeking information and sharing experience?

There are myriad ways of educating yourself and taking more responsibility for your financial future, and I hope that you consider me a helpful resource in this important area of life.

My question for you today is simply this:

“Who is that curious, engaged student still inside you... the student who wants to learn and grow and become financially independent?”

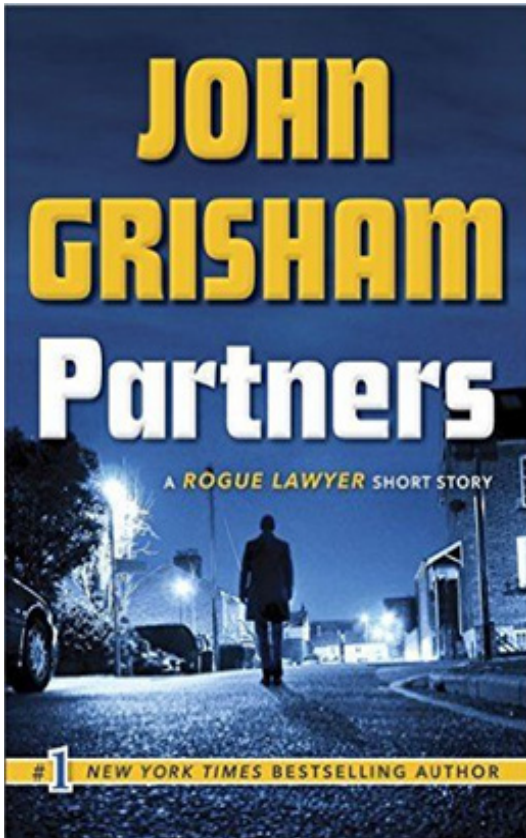
When that student is ready, the teacher will appear.

To your continued education, from a fellow student.

Quote of the Month

“Smart People learn from their mistakes. Really Smart people learn from others’ mistakes”

- Unknown



Recommended Reading - Trump: The Art of the Deal

In February of this year I recommended reading John Grisham's latest novel *Rogue Lawyer*. Well, just this month something interesting was released. In an e-book only short story, Grisham's pens the "pre-quel" to *Rogue Lawyer* in the brand new *Partners*. Years ago when the Kindle first came out I got one and read several books on it but eventually I returned to the print version mostly hardcovers for my reading enjoyment.

Since this short story was only available in e-book I returned to that format and read it in one sitting on my Surface Pro 4 tablet. For all you John Grisham fans I recommend reading *Partners* as I anticipate we will be seeing more of the characters Sebastian Rudd and his *partner*, bodyguard, assistant, sidekick.

Upcoming Events

- Northwest REIA – May 5 & 7 – Portland, OR
- San Jose SJREIA – May 12 & 14 – San Jose, CA
- Big Money 3 Day Class – May 13-15 – Denver, CO
- TREIA – May 17 & 21 – Raleigh/Durham, NC
- SBRE Investment Summit – May 19-21 – Laguna Beach, CA
- Gold In Notes Class – May 21 – Dallas, TX
- Entity Structure for Tax Minimization & Asset Protection – June 2 – Ft Worth, TX
- NoteSchool's Summer Summit – June 3-4 – Ft Worth, TX
- Rich Rewards 3-Day Class – June 3-5 – Ft Worth, TX
- 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



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