Making Money From The POST-MELTDOWN!

How To Profit From The Nation's Growing Real Estate Crisis

By W. Eddie Speed

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Making Money From The Meltdown

How to Profit from the Nation's Greatest Opportunity in Notes - Ever

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In 2009, I published the first version of "MAKING MONEY FROM THE MELTDOWN". That booklet explained how the loose lending practices of the early 2000's and the resulting real estate crash forced the real estate industry to come up with solutions to stop the crisis and turn the market around.

One of the solutions was the rebirth of seller financing. Since that booklet was written, seller financing has continued to grow as I projected. In fact, there are estimates that seller financing is used in about 4% of all real estate transactions. That is double what the market for seller financing was in 2009.

This rebirth of seller financing did and continues to open up the four profit centers I identified in the original version of MAKING MONEY FROM THE MELTDOWN:

1. Brokering notes
2. Purchasing seller financed notes for your own portfolio
3. Note Manufacturing
4. Consulting

Shortly after I wrote that booklet, the market underwent several fundamental changes. The SECOND EDITION explained how those changes unleashed a tidal wave of opportunities that will dictate the best investments in real estate into the foreseeable future. The entire mental shift of the real estate financing industry was an amazing thing to see and so many more profit centers were created.

The investors who understood that wave are profiting greatly and will continue to do so for years to come. The investors, who didn't, are missing out on a massive opportunity.

The purpose of this THIRD EDITION is to show you how new market inefficiencies and regulations have created new opportunities for the investors who understand that they must evolve. The top real estate investors will be the ones that combine the best of real estate techniques with the best of the real estate note (financing) techniques. These investors will evolve to what we call a deal architect.

The new market has opportunities for investors ranging from high net worth individuals to those looking to get started with very little seed capital. Furthermore, both active and passive investors can find ample opportunities within and outside of their tax sheltered retirement accounts.

What Are The Market Conditions Now?

REO's and Short Sales

According to Corelogic and other sources, since 2007, REO's and short sales were growing by leaps and bounds. The supply of these assets had jumped as banks foreclosed upon delinquent borrowers. Real estate agents began to form teams to specialize in selling these assets, while real estate investors and jumped at the chance to purchase these "value buys".

Mid-2007, short sales and REO sales were both at about 1% of all real estate sales. By 2009, REO's had risen to about a 30% share, while short sales were at about a 5% share of all sales. Look at those numbers again: that is an incredible amount of growth in just 18 months.

The Dodd-Frank Act came along an essentially changed how banks removed non-performing assets from their books and that changed the REO sales virtually overnight. Dodd-Frank increased the percentage of cash reserves that banks were required to keep aside based upon the non-performing assets (mortgaged backed notes) on their books.

The increase was so penalizing that banks realized that it was quicker and easier to bundle up notes and sell them at an auction rather than go through lengthy foreclosure processes. A lengthy foreclosure process meant reserves had to be held for upwards of 2 years while a note auction could have the non-performing assets off of their books in a few months. The foreclosure to REO sale no longer made financial sense. After some peaks and valleys, REO's make up less than 5% of sales today.

Short sales, on the other hand, continued to steadily grow to a peak of 9% of sales in 2013. Since that time, short sales went into a sharp decline. The 2007 Mortgage Debt Forgiveness Act*, which gave birth to the increase in short sales, likely caused this steep decline when it expired. Today short sales are about 2% of all sales.

Lessons learned:

- Government rules and regulations caused major market shifts
  - Pre-2007, forgiven mortgage debt was counted as taxable income to the borrower
  - Dodd-Frank Act increases the cash reserves that Banks are required to keep based upon the percentage of non-performing assets they have on their books

- Banks recognized that they were ill equipped to handle the problems
- With shrinking inventory and increased competition, REO's and short sales are naturally overpriced

Government Influence

As previously mentioned, the government can cause major market shifts through new rules and regulations. In 2008 TARP (Troubled Asset Relief Program) began bailing out insurance companies, banks and semi-private enterprises such as Fannie Mae, and the government's influence was strengthened.

One thing the government wanted to do in this crisis is help keep as many people in their homes and out of foreclosure as possible. Two programs to help with this goal were: Hardest Hit Funds and HAMP (Home Affordable Modification Program).

Hardest Hit Funds

In 2010, the Hardest Hit Funds allocated $7.6 Billion to eighteen states and Washington D.C. These states were deemed to have been hardest hit by foreclosures and declining real estate prices. The states were allowed to develop locally tailored programs to assist struggling homeowners in their communities.

This program was initially created to prevent people from losing their homes to foreclosure. States tailored programs for these homeowners whereby the state would pay the arrearage account of the loan and even make the delinquent borrowers mortgage payments for anywhere from 6 months to 5 years. Overall the results have been successful however many states have lacked the proper management and oversight leading to delays in rolling the program out.

As a result, the states have asked for amendments to their initial agreements with the treasury department. Today states offer a wide variety of programs such as principle reduction on load modifications, unemployment and elderly programs, blight elimination and even cash-for-keys programs.

In 2016, the Treasury allocated another $2 Billion for these states and at the time of this writing, $1 Billion has already been released while another $1 Billion is to be distributed soon.

Lessons learned:

- Sometimes government programs are not properly managed
- The people who benefit from these government programs typically are not aware of them

Opportunities within the problems:

- These states WILL spend that money by the end of 2017 and 2020 (for the latest release of funds). After all, what Governor wants to be known as the one who sent tens of millions of dollars back to the Federal government instead of spending it in his or her state?
  - We have had numerous NoteSchool LLC mentor students receive these funds allowing the property owner to remain in their home.
  - The average payout is $30,000 to the note owner.
- Hundreds of millions in states across the country will be sending this money to note holders.
- How many notes will you be receiving money on depends upon the actions you take this year.

HAMP

The idea behind the HAMP program is, once again, a good idea but flawed in its execution. If the HAMP program were a private business, they would have declared bankruptcy long ago.

In 2012, a TransUnion study indicated that after 18 months, over half of the HAMP load modifications re-default. Over half! So, what did the government do? Well, extend the program naturally. They didn't change the guidelines they simply extended the program.

The HAMP program was projected to help 4 million people but fell wildly short by helping about half that many. In addition, HAMP loans were presented as "permanent" loan modifications but were really adjustable loans after 5 years.

The adjustments started last year where 810,000 people received notices that their mortgage will go up 1% per year until it is back to the original interest rate that they had before the modification. How many people do you think understood that? How many more will re-default?

Oh, by the way, HAMP loans did not forgive any principle balance. How many people still owe more than their house is worth? When are they going to throw up their hands and say "forget it, I give up"?
This was a "kick the can down the road" program that is going to cause problems for a high percentage of the borrowers as these loan modifications started reaching the 5-year mark last year. Unfortunately, the government will have to bail this situation out or many people will likely become delinquent once again.

Lessons learned:

- Sometimes the Government's intentions don't get executed properly
- The people who benefit from these government programs typically do not fully understand them

Opportunities within the problems:

- This will be future inventory for non-performing note buyers who can do "real" modifications that include principle reduction, debt forgiveness, and lower fixed interest rates while making an outstanding profit

Fannie Mae, Freddie Mac and FHA

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) were placed into conservatorship in 2008. The two major secondary loan purchasers for the entire US banking system were bankrupt so the government took their financial affairs over. This continues through 2016 and into early 2017.

The Federal Housing Administration (FHA), which is a part of the Department of Housing and Urban Development (HUD), insures certain loans made by banks. Because of this insurance, consumers can put as little as 3.5% down and have lower credit scores than more traditional bank loans. Created in the 1930's, the FHA had been self-funded until 2012 when is was essentially bankrupt.

These three massive entities made major announcements that shifted the market. The first announcement came in 2012.

In 2012 the Secretary of HUD and the Commissioner of FHA announced that they were getting out of the foreclosure business. They would, instead, sell pools of non-performing notes. Previous to that announcement, FHA would foreclosure on non-performing loans and then the properties would be sold through HUD. After a slow start, FHA has sold over 100,000 non-performing loans with plans to sell more. In 2013 Fannie Mae and Freddie Mac followed in FHA's footsteps and began to sell pools of non-performing notes.

All 3 of these companies will continue to sell these types of notes well into the future. They have no choice. Why? Inventory.

They still have massive amounts of non-performing notes on their books. After selling billions of dollars in assets over the past two years, Fannie Mae announced in February 2017 that they would be selling their first pools of assets. Collectively these 5 pools have $1.76 billion in un-paid balance.

Although FHA has become profitable again, the government reduced the insurance premiums. This reduction saved consumes a mere $500 per year, but millions in potential cash reserves for FHA. This premium reduction was stopped in 2017.

Another troubling sign for FHA happened in the 3rd quarter of 2016 when the default rate took the biggest jump since before the real estate financing crash of 2008.

Lessons learned:

- The government has learned they can't solve all the problems by foreclosing on properties.
- Selling non-performing notes is a quicker way to liquidate non-performing assets.
- In order to keep the mortgage industry stable and liquid, these entities must reduce their shadow inventory.

Opportunities within the problems:

- Large pools of assets from Fannie, Freddie and FHA will be sold to larger equity firms and hedge funds
    - » Larger hedge funds and equity firms do not have a tolerance for lower priced assets
        - ◊ Having solid business relationships with these companies will allow you to purchase small pools or "one-off" assets (meaning just one asset at a time)
        - ◊ Equity firms will have inventory of both performing and re-performing notes

The Millennials

80 million people were born between the early 1980's and early 2000's. The behavior patterns of this massive wave of people, known as Millennials, will dramatically define the economy, politics, social issues, and, of course, real estate.

What percentage are interested in buying? When? What percentage prefers to rent? What price range can most of them afford? Where do they prefer to live? Are school districts important or are they delaying marriage and children?

You can see how the answers to these and other questions will have a dramatic impact on the real estate market. This is why Fannie Mae (Federal National Mortgage Association) and others do National Housing Surveys. These surveys try to gain an insight as to the future behavior of this generation.

There is extensive data on this subject, so this article will only focus on those 18-36 year olds currently renting. Here are some of the highlights from the surveys:

- Over two-thirds of current renters agree that owning is more sensible for financial reasons.
- More than half also believe owning is a better choice for lifestyle reasons.
- Two-thirds believe getting financing will be difficult.
- Half say credit scores and lack of down payment make it too difficult to get a loan.
- Insufficient income, existing debt, and lack of job security were also listed as reasons they are unable to get a loan.
- Student loans are a big reason for debt.

I recently had a conversation with a fellow real estate note investor about a transaction that he had just closed on. By using creative financing, he should easily double his money.

He purchased a non-performing note on a single-family home in Florida and was able to get a deed in lieu. He then offered the property as-is to a young couple under a lease-purchase agreement. The arrangement allowed the couple to make and pay for their own renovations.

So how did my note investor friend go quickly from owning a non-performing loan to entering a lease-purchase arrangement?

As I mentioned, he purchased a non-performing loan on a single-family home in Florida. He then paid the owner occupant $1,000 in a cash-for-keys arrangement.

While working on the cash-for-keys with the owner, he started having conversations with the neighbors. One neighbor's son and girlfriend were living with her until they could afford to get a place of their own.

The investor structured a deal where the couple could move in, do their own renovations at their expense and rent for up to two years. Anytime within that time frame, they can purchase the home at a pre-determined price. In addition, they have the choice of getting conventional financing, or the investor will finance it for them.

So, he offered a creative financing arrangement to a Millennial generation couple. He allowed them to renovate the property to suit their needs and wants. He incentivized them with the flexibility to finance the property as best suits them.

The investor, who did not have to do any renovations, will make a great return no matter which financing option this young couple takes. He arranged a deal that hit on exactly what the statistics indicate that this massive generation is looking for.
The investor is happy, the young couple is excited, and Mom is happy as well.

Lessons learned:

- This generation wants to eventually become homeowners, but can't get qualified under the current institutional lending guidelines.
- There is an estimated 20 million, 18-to-31 year olds living with mom and dad who, I believe, would also like to move out, but feel unable to do so.

Opportunities within the problems:

- This pent up demand, looking for financing, opens up the door to lease-options, lease -purchases, and other creative selling techniques .
- Fannie Mae National Housing Survey released February 2017 says this:

"The latest post-election surge in optimism puts the HPSI at its highest level since its starting point in 2011. Millennials showed especially strong increases in job confidence and income gains, a necessary precursor for increased housing demand from first-time homebuyers," said Doug Duncan, senior vice president and chief economist at Fannie Mae.

"Preliminary research results from our team find that millennials are accelerating the rate at which they move out of their parents' homes and form new households. However, continued slow supply growth implies continued strong price appreciation and affordability constraints facing millennials and first-time buyers in many markets."

Hedge Funds, Private Equity Firms, Investment Syndications

Although there are differences between these entities, for the purposes of this booklet, I will use the term "hedge fund" in reference to any one of these entities. The reason I can do that in this publication is that I will be focusing on the one big thing that they have in common which is moving inventory.

Hedge Funds and the Single Family Home Market

In 2012, hedge funds made a historic move into single-family home investments. Armed with cash from and stock investors and billion dollar credit lines from Deutsche Bank and other, hedge funds like Blackstone went on a buying spree. I am talking a big buying spree. Blackstone, through its subsidiary Invitation Homes, was spending up to $100 million per week to purchase single-family homes.

By the way, it should come to you as no surprise that some of the largest shareholders of Blackstone are: Bank of America, JP Morgan Chase, Citigroup, Morgan Stanley Deutsche Bank, UBS, and Goldman Sachs. What do all of those companies have in common? Perhaps being the willing participates in what led up to the financial meltdown?

The "big picture" goal for these hedge funds is NOT to be long-term landlords but rather sell rent-backed securities. Several firms have already done that and more will follow suit. Down the road, this could have dramatic effects on the rental market especially when it comes to the eviction process as the performance of these new securities depend upon timely monthly payments.

In the first quarter of 2014, there was a dramatic drop off in cash purchases by these institutions. Blackstone's purchases, for example, dropped by 70%. Clearly the hedge fund's tolerance for purchasing single-family homes had changed.

Among the reasons:

- Lack of inventory
- Higher prices
- Higher than expected vacancy rates

The hedge funds clearly displaced both the small individual real estate investor and small investment companies and syndications by arriving at distressed sales with an unlimited checkbook. Eventually, their own thirst for volumes of property quickly dried up the inventory of distressed properties and prices went up. They became their own competition and priced themselves out of the market.

In addition, many of these firms did not anticipate the large number of people who decided to move in with family member rather than renting on their own. The aforementioned Millennials played a large role in this. This consolidation, caused higher than expected vacancy rates so the hedge funds backed way off of their pursuit of properties.

You can't sell rent-backed securities with high vacancy rates and low yields as a result of paying too much for properties! Therefore the hedge funds shifted their focus to purchasing notes form large institutions and lending money to real estate investors

Hedge Funds and the Mortgage Backed Note Business

In 2014, many of these same hedge funds shifted their focus to buying non-performing notes.

Dan Ivascyn, one of the 8 top money managers in 2013, said NPLs are still trading at significant discounts. David Sherr, who left Lehman Brothers to start his own hedge fund, stated in an article, "following years of passing on debt, I now see loans as one of the best ways to play the recovery. NPLs offer the cleanest exposure to housing". One Wall Street, Ellington Management Group LLC, Starwood Property Trust recognized banks now face new regulations that will force them to liquidate NPLs at discounts.

Knowing this is the case, won't these firms cut out the small investors just like they did to the Short Sale, REO, and foreclosure investors? NO! They won't and here is why: the note business needs large investors to buy the huge pools from banks, GSEs, and FHA.

In June 2014 alone, FHA sold $4.8 billion in NPLs. They sold another 15,000 NPLs with an unpaid balance of $2.3 billion in September. Earlier in the year JP Morgan announced they were selling $390 million worth of NPLs. HSBC announced $1 billion, and Regions $700 Million. Fannie Mae and Freddie Mac also announced sales of a portion of their hundreds of thousands of NPLs.

Somebody has to be able to write the big checks! Do you get my point? Hedge Funds write the big checks to buy the bulk inventory.

Tolerance and the Funnel

Like all investors, hedge funds have specific assets they prefer over others. Those assets may be in a specific area or may have a specific collateral value. The way the industry is structured, however, does not allow them to choose specific assets, but rather choose large pools of assets. Inevitably they end up with assets they don't have a tolerance for.

I identified a trend over the past few years showing hedge funds don't seem to have a tolerance for the lower price band assets. By lower price band, I mean the notes on properties with values of less than $150,000.

Because of this, hedge funds will release these assets to smaller equity firm investors. These smaller equity firms will then release assets one at a time or in small pools to individual investors. This is the pipeline or funnel, as I like to call it. This funnel will yield performing, re-performing, and non-performing notes.

Without the large hedge funds, smaller investors would simply not be able to see the inventory they can today. The bottom line is; we need these large hedge funds and welcome them to the business.

Lessons learned:

- Hedge funds have enough capital to change the residential single family home and real estate note market.
- Hedge funds don't have a tolerance for certain assets.

- Until the economy changes, the REO, short sale, and foreclosure markets will suffer from lack of inventory.

Opportunities within the problems:

- Building relationships and understanding what the big money wants and doesn't want can be a game changer for the smaller investors. You can't fight them, so learn to see where the opportunity is to work with them.
- The distressed real estate deals have shifted from REO's, short sales, and foreclosure to mortgage backed notes.

What are the Opportunities in these New Market Conditions

Now that you have a better understanding of the market tides that have pushed the note business to the forefront of the investing world, the next logical thing to do is to learn about how you can profit from this. Although I don't have time to go into each of these at a granular level in this format, I will present them to you in a fashion that allows you to determine if this is something that you need to pursue at a higher level.

First let's identify where these assets come from:

- Seller financing
- Institutional financing (Banks etc.)
- Government sponsored enterprises (Fannie Mae & Freddie Mac) and FHA

The vast majority of the note inventory comes from institutional lenders, GSE's and FHA. This makes sense, as the institutional loans were where all the problems in the meltdown came from. The GSE's and FHA where stuck with the bad institutional loans that they purchased or insured.

This does not however mean that you should ignore the fertile ground of seller-financed notes. We have seen seller-financed notes from individual property sellers, real estate investors and even major renovation companies and homebuilders that have been of greater individual value than institutional loans.

Now that we know where these notes come from, let's look at the type of assets that provide the best opportunities today:

- Performing notes
- Re-performing notes
- Sub-performing notes

- Non-performing notes
- Non-bank REO's

I will briefly define these but keep in mind that there are some grey areas when it comes to defining these. After all, what do you call a note that was performing for 2 years, missed 6 months and is now caught up and has been current for 5 years?

Performing notes are generally notes that have never missed a monthly payment and are at least 6 months old. We use the term seasoning in reference to the amount of payments made. All things being equal, a note with 24 months of seasoning is worth more than a note with 6 months of seasoning.

Re-performing notes are notes that started as performing and went non-performing until a new loan workout was made. Since the loan modification, payments have been made.

A sub-performer means they take a "payment vacation" every once in a while, but eventually catch up. Non-performing notes haven't received a payment in at least 6 months.

Non-bank REO's are non-preforming notes that have proceeded all the way through the foreclosure process. The note owner now owns the property and is looking to sell it. These are not properties that you will see on MLS.

Opportunities Abound

There are opportunities within all of these assets regardless as to whether it came from seller financing or institutional lending. In the next portion of this booklet I will show you some techniques that my students and I have utilized to purchase and exit out of these assets.

You will notice that the techniques we use are implemented with the understanding of the market conditions. We swim with the tide by creating solutions based upon the demand of the market and the players who create it.

Furthermore, we fully understand that you must have clear plans on how you are getting into the asset and how you are getting out of it. In other words, after we buy the note what are we going to do to profit from it?

The basic profit centers are:

- Modify the loan to get it re-performing
- Hardest Hit Funds solution
- Accept a short payoff
- Acquire a Deed in Lieu of Foreclosure
- Foreclose

If we acquire the ownership of the property through a Deed in Lieu or a foreclosure, we can:

- Sell the property as is to a cash buyer
- Sell it with a 203k loan and marketing plan
- Fix it and sell it to someone who qualifies for conventional financing
- Fix it and rent it
- Paper out of it
    - » Sell it to an investor with a down payment and seller financing
    - » Fix it and sell it to a property buyer with seller financing
    - » Fix it and rent it and then sell it as a turnkey rental to an investor with seller financing!

Once you create a note you can also structure it so that you can sell all or part of the note to a note investor. This technique is called a partial and one of the most powerful leveraging techniques in the business.

Many of the high profit techniques involve seller financing, so we will start there and then move on to some other techniques.

"Seller financing has risen from the ashes of the recent real estate meltdown to offer tremendous opportunities for the entrepreneur and real estate professional alike."

Seller Financing

What images come to mind when you see the term, "seller financing"? Perhaps you think about desperate homeowners, dilapidated properties, and destitute buyers. Or that miniscule segment of real estate sales involving fast cash and foreclosures. Maybe it means little to you, or nothing at all. Maybe it's time to think again.

To paraphrase the old Oldsmobile commercial, this is not your father's seller financing. Seller financing has risen from the ashes of the recent real estate meltdown to offer tremendous opportunities for the entrepreneur and real estate professional alike. It now presents multifaceted business opportunities and very lucrative careers for people from a diverse variety of backgrounds. Here's how seller financing has evolved into an outstanding real estate-related enterprise, one that could be ideal for you:

As you are now well aware, the banking and mortgage industries have gone through major turmoil the past few years. Millions of Americans are painfully aware of the recent developments in the housing market and the lack of available funds to alleviate the crisis.

Up until the "market crash" in 2008, banks and mortgage companies would lend to anyone that could "fog a mirror". As a result of subprime lending and other risky practices, foreclosures reached record highs. All of these factors had a devastating impact on real estate sales.

In fact, the pool of real estate buyers who still qualify for conventional loans is rapidly shrinking, as well.

The Silver Lining

Despite the weak real estate market, there's a silver lining to the crisis. That's right, it's seller financing.

Seller financing is coming to the rescue of anxious property sellers and eager buyers alike, serving those who aren't able to meet their real estate needs through traditional financing methods. It's filling the void created by the mortgage meltdown by offering an alternative to hard-to-come-by conventional loans. In fact, seller financing is fast emerging as the solution to the collapse of lending institutions and the shrinking supply of funds available for mortgages.

It's the viable solution for countless would-be buyers who no longer qualify for traditional mortgages. It's also the solution for homeowners who are desperate to sell their properties, but are unable to find prospects who qualify for conventional loans.

And for you, it could very well be the solution to your challenge of finding a profitable future in a real estate-related industry.

What Is Seller Financing?

Seller financing is best described by comparing it to conventional lending. The traditional method for buying property involves three parties: the seller, the buyer, and a bank or other lending institution.

Once the seller and buyer agree upon a purchase price, the buyer applies for a standard mortgage loan for the sales price, minus whatever down payment is to be made. Upon its approval, the lending institution advances the full amount of the loan to the buyer at closing, enabling him or her to transfer it to the seller. The buyer establishes a lengthy relationship with the lending institution, paying off the loan plus interest over time. Meanwhile, the seller receives the full price for the property in cash, and walks away at the closing without any further involvement with the buyer or the property.

As the name implies, seller financing means that the seller finances the buyer's purchase of the property. This arrangement is also known as "owner financing" or "owner carry-back."

This alternative financing mechanism eliminates the lending institution altogether. In fact, the seller assumes the role of the bank. He or she collects monthly payments from the buyer over time, rather than receive a lump-sum payment for the full purchase price at the time of the sale. In addition to a down payment, the seller receives many years of steady, reliable income that includes a generous amount of interest.

The specific conditions of the seller-finance arrangement are negotiated between the seller and the buyer. This offers much more flexibility than a traditional mortgage, and allows both parties to address their particular needs. The terms of the sale include the same contingencies as a conventional loan, including the repayment schedule and a maturity date, as well as such contingencies as late fees, early prepayment, and the seller's rights in the event of a default.

The agreement is then documented in a legally binding debt instrument known as a seller-financed note. This is, essentially, a promissory note. The buyer makes an unconditional promise to pay the property seller (who then becomes the "note holder") a specified amount of money on a predetermined schedule, typically monthly. The regular payments include a portion of funds that pay down the principal plus interest, at whatever rate was established in the contract.

When the terms of the loan have been satisfied, the buyer owns the property outright. The two parties then sever their business relationship. The cash value of the note itself is determined by the buyer's credit, property type, buyer's down payment, terms of the note (e.g., interest rate, repayment, and maturity date), seasoning (i.e., how many payments have been made), and the quality of the paperwork itself. Thus, a note on the same property at the same purchase price can be of greater or lesser value, in large part depending on how it's structured.

Why Seller Finance?

Simply put, seller financing is an alternative to traditional lending. With few exceptions, it's the only option for the buyer who is unable to qualify for a conventional loan. This is significant today because the number of buyers who can no longer acquire a mortgage is soaring.

Changes in personal circumstances, such as reduced family income, mounting debt, or investment losses, are lowering the credit scores of many Americans. In the aftermath of the subprime fiasco, banks and mortgage companies are tightening their lending criteria dramatically, as well.

In addition, new rules from The Dodd-Frank Act put a much higher burden of responsibility on the lenders. If the new rules are broken, the lender may have to buy back a bad loan-something they do not want to do.

Among the ineligible candidates are countless Americans who are truly deserving of mortgage loans. These are the people who can repay their obligations—and they have the integrity to do so. They're honest, responsible and accountable. Essentially, they're the low-risk candidates who are now denied financing because of tighter underwriting criteria and the reduced availability of funds. Chances are, you know some folks who are in this situation right now, in fact, you may be one of those yourself!

Homeowners who are eager to sell are also paying the price for the problems of the past. Housing prices did start to rise again in 2012, however the rise was not because new homeowners entered the market but rather hedge funds were purchasing hundreds of thousands of homes and dried up the inventory.

Seller financing is thus becoming an increasingly attractive solution for property sellers—and it's a godsend for many buyers. By offering to finance the sale, owners attract buyers who can't purchase the property through conventional means. They can apply less stringent qualification requirements and offer more lenient terms than the local bank or mortgage company. For anyone who's selling real estate, seller financing creates a much larger pool of potential buyers.

"Seller financing is becoming an increasingly attractive solution for property sellers—and it's a godsend for many buyers."

With more prospective buyers and less competition from other sellers, the owner who offers seller financing can often command a better price for the property and at a higher interest rate than he or she can achieve through other types of investments.

In addition, both the buyer and the seller realize considerable savings in closing costs. There is no private mortgage insurance, nor are there other lender "junk fees." There may also be a tax advantage, since the seller can spread the tax consequences of the sale over the course of years, rather than realize a single, sizable gain. Another advantage is that the property can be sold "as is," sparing the owner whatever repair costs might be necessary if the sale involved conventional financing.

As for the closing process, seller-financed transactions can close up to 70% faster than conventional sales.

Most importantly, the owner has a better chance of selling his or her property at its full retail value. This means a higher return on the original investment plus interest, for a substantial and steady income stream.

Here's a typical example of a seller-financed transaction. It involved a house that sold at market value. The buyer put down 10% cash on the $200,000 purchase, and is paying 8% interest on the $180,000 balance due over the next 25 years. He was willing to pay the retail price plus interest that's higher than prevailing rates. Why? Because seller financing allowed him to purchase the home he wanted at a price he could afford. He would not have qualified for a regular mortgage, despite a good job and minimum debt, because of the strict qualification standards demanded.

Sale Price: $200,000 by the lending industry today. Down Payment: $20,000 Instead of receiving a cash payment for the depreciated value of his home, the owner sold his house at a great price, collected a generous down payment, and established steady monthly income over the next two-and-a-half decades.

Sale Price: $200,000
Down Payment: $20,000

These days, breaking even in real estate is considered a success. But with seller financing, property owners can realize a substantial gain.
Given the sluggish housing market and economic declines in general, it's no wonder that seller financing is quickly becoming a mainstream mechanism for the purchase of real estate. It's closing deals that wouldn't be possible through conventional means.

"Seller financing is closing deals that wouldn't be possible through conventional means."

Seller Financing's First Foray Into The Big League

Whenever banks and mortgage companies tighten their lending practices, seller financing gains popularity. Exorbitant interest rates can have the same effect. During the 1980s, for example, interest rates for conventional mortgages soared past 18%. This weakened the housing market by seriously reducing the purchasing power of qualified buyers. As a result, seller financing emerged as a specialty niche among real estate transactions. This alternative financing method allowed sellers to offer much lower interest rates than the standard market rates, making their properties more competitive than those that were only available through traditional financing.

By purchasing directly from the sellers, buyers could avoid the inflated interest rates and negotiate lower monthly payments than they could arrange through traditional lenders. Lower interest rates meant more money could go toward the principal. Because they could afford better homes through seller financing, they essentially got more property bang for their housing buck.

Meanwhile, sellers benefited by attracting buyers who otherwise couldn't afford their properties. Thus, they created a larger pool of prospects. By financing the sale themselves, owners could negotiate terms that would yield their asking price plus interest over time. They sold their properties faster than they could through conventional means and at top dollar, too. This mutually beneficial arrangement factored into many real estate transactions at the time.

As interest rates dropped, however, the need for seller financing also declined. Buyers overwhelmingly turned toward conventional lending, which is always preferable to seller financing—provided it's available and affordable.

Prime Properties for Seller Financing

1. Free and clear

Sellers who own their properties outright can readily finance the sale without risk to their own credit. Since they don't have to rely on the buyers' monthly payments in order to pay off their own mortgages, they don't subject themselves to foreclosure. Roughly one third of all homes in this country are owned free and clear. Thus, huge numbers of properties can be seller financed without risking this consequence.

2. On the market

As the housing market continues its downward spiral, homes are remaining on the market for months, even years. Meanwhile, owners are watching their properties steadily decrease in value, while they continue to bear the cost of maintaining them. These owners are becoming increasingly motivated to sell by any means available to them.

3. Owned by the elderly

Many aging homeowners become incapacitated and need to move into their relatives' homes or into assisted-living facilities. Their homes, which are usually owned

Continued...

outright, are exceptional candidates for seller financing. The senior seller can earn income from the transaction, which can be applied toward new living expenses, medical bills, or other needs. They also have the option of selling their note or the property itself to a seller-finance investor, and can receive a large cash payment instead. The proceeds can be used to cover their various expenses and/or be used to create dividend income from investments.

4. Distressed

As described earlier, low-cost and rundown properties are especially suitable for seller financing. Conventional lenders are even less likely to finance these sales today, given the negligible value of these assets and the riskier nature of the buyers.

5. Vacant

Three out of every 100 single-family houses in the U.S. is vacant—and the number is climbing. Some are on the market; others have been foreclosed; still others have been abandoned. Vacant homes are much more vulnerable to acts of vandalism, theft, and even arson. These very real threats motivate owners to sell—and they make seller financing all the more attractive.

Seller Financing Retains a Foothold

When interest rates returned to a reasonable rate, seller financing was limited to a small sector of the real estate market, specifically, property that isn't normally listed and sold through a realtor. This included various types of land, such as unimproved land, recreational parcels, mobile home lots, and farmland. The other two types of property seller financed were "rehabbed" houses and mobile homes with land. Conventional lending has always been difficult to obtain for these sales, due to the nature of the property itself and/or the buyer who might be interested in it.

The owners of these "affordable" properties often financed the sale themselves, despite the poor credit of the buyer and with a small down payment. For that market in particular, seller-finance activity was vigorous—and it continues to this day.

For those of us in the note business over the past two-to-three decades, seller financing has remained a lucrative venture, despite the ready availability of conventional lending in more recent years. In 2006 alone, I purchased 2,200 notes from owners who had financed the sale of their properties for their buyers. Many of the notes were loans I could sell to aggressive funding sources that accepted the risk. Others were bought that involved solid payors, but on unconventional collateral, i.e., property types not common to subprime lenders.

"Conventional lending is always preferable to seller financing— provided it's available and affordable."

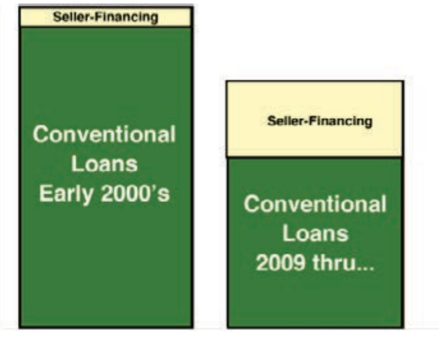
Seller Financing Goes Mainstream

Tightened lender restrictions and the economy in general are creating an extraordinary demand, once again, for this alternative financing method for real estate. Increasingly, traditional real estate is joining the mix.

Consider this: seven years ago, about one in every 400 real estate transactions used seller financing. Today, it accounts for one in every 50 trans-actions. What's more, some real estate experts predict that seller financing will soon become the sales method of choice for one in every ten real estate transactions. Not since the 1980s, have I seen such an extraordinary increase in seller financing. Literally thousands of properties are now being seller financed every day. Given current economic developments and forecasts, there's every reason to believe that this trend will continue.

Opportunities in Seller Financing

Understanding how seller-financing works is important for anyone who enters the business. But you're no doubt wondering how it can work for you. There are four distinct ways in which the real estate professional or serious entrepreneur can turn this silver lining into silver and gold: Brokering notes, investing in notes,



manufacturing notes, and/or extending his/her expertise beyond the note business.

To understand these various profit centers, it's useful to look at the origins of these activities and how the industry has evolved to where it is today.

"Ten years ago, 1 in every 400 real estate transactions used seller financing. Today, it's 1 in every 25."

Brokering Notes

When seller financing emerged as a note business in the 1980s, its primary goal was the purchase of notes from individual owners and their simultaneous resale to note investment companies, that is, funding sources. Entrepreneurs would locate seller-financed notes and then negotiate with the note holders to sell them at a discounted price.

For a variety of reasons, note holders agreed to relinquish their notes along with the steady, long-term income they were deriving from them. In return, they received an immediate, lump-sum payment in cash. Some note holders needed the money for unexpected expenses or to pay down their debt, and some found that the monthly payments were too small to put to any real use. Others wanted to rid themselves of the monthly management hassles and paperwork requirements of carrying a loan; still others wanted to invest in more lucrative opportunities. A few simply wanted to splurge. And some recognized that they wouldn't live long enough to collect all the payments—and weren't interested in bequeathing the note to their heirs. These reasons account for most of the individual note sales to this day.

Here's how a note is bought and sold: The broker contacts the note holder to determine whether he or she might be interested in selling the note. If so, the broker contacts the funding source to determine what price it's willing to pay for it. The discount price typically ranges between 60% and 80% of the note's unpaid principal balance. Before presenting the offer to the note holder, the broker subtracts his or her own fee from the total, which can range between 7% and 10% of the sale or even more. The broker contacts the note holder and offers to buy the note at the adjusted price (the discounted price minus the broker's fee). At closing, the broker receives his or her fee and the balance is paid to the note holder.

Brokering notes is a very low-risk venture because the person who buys and sells notes can earn thousands of dollars from every transaction without using a dime of his or her own money.

"The note broker can earn thousands of dollars from every transaction without using a dime of his or her own money."

Brokering notes remained the central activity of seller-finance businesses for many years. It has numerous advantages, including high income potential, a flexible work schedule, minimal operating expenses, and a nationwide territory from which to draw clients. In fact, I have brokered notes in all 50 states from my office in Texas. It's also fairly easy and quick to enter the note industry as an entrepreneur and begin earning commissions.

"The note broker can earn thousands of dollars from every transaction without using a dime of his or her own money."

Investing in Notes for One's Own Portfolio

In the early days of seller financing, brokers soon took notice of the investment opportunities in this unique real estate activity. They recognized the long-term value of seller-financed notes in terms of appreciating assets and regular income streams. They began selectively buying them for their own portfolios rather than simply negotiate deals for others. These note investors assumed the role of the property seller, and began acting as the bank for the buyer. By using other investors' money, they were able to reap the rewards of these transactions, again, without investing their own money.

As with their note brokering activities, the investors sought quality notes with substantial returns, and then purchased them from the owners at a discount. By holding onto the notes themselves rather than sell them to a third party, however, the investors collected significant revenues through monthly payments—steady income that would often span generations.

In fact, their annual income from note payments greatly exceeded the commissions they would have earned by selling their notes to others. Savvy note investors would "cherry pick" the best notes for their own portfolios and broker the rest for a nice profit.

This remains an attractive revenue stream for many note professionals. In fact, the nation's most successful note professionals invest in notes for their own portfolios.

Note Manufacturing

The glut of unsold properties on the market, the shortage of conventional funding sources, and worsening economic conditions are creating a phenomenal upswing in seller financing, the likes of which I've never seen. Perhaps the greatest business opportunity from these developments is the manufacturing of notes. Increasingly, note manufacturing has evolved into a prominent specialty within the industry.

This activity began in the 1990s, when professional real estate investors purchased distressed or otherwise "affordable" properties, rehabilitated them, and then sold them to other buyers, financing the sales.

For the first time, properties were being purchased before the seller-financed notes were created. It was the buyers of these "rehabs"—that is, the professional real estate investors—who then created the notes for the resale of their properties. Savvy investors purchased properties at bargain prices but with good resale potential. They then offered to seller finance the sales to low-risk buyers. They manufactured notes and then held them for their own, long-term income.

In addition, with the help of note specialists, many of these investors bought properties, manufactured notes, and then sold the notes to funding sources. Some professionals did both: They created these transactions for others but retained ownership of a portion of the notes as compensation.

In addition, with the help of note specialists, many of these investors bought properties, manufactured notes, and then sold the notes to funding sources. Some professionals did both: They created these transactions for others but retained ownership of a portion of the notes as compensation.

Whether they held the notes for their own portfolios or resold them, real estate investors were the first to manufacture notes as a business model.

Marketing and Negotiation

Marketing and negotiation skills are absolutely critical to the note professional's success.

Done right, marketing allows both the broker and the note investor to find seller-finance notes, particularly the most valuable ones. Their marketing methods may include direct mail, websites, email campaigns, classified advertisements, signage, telephone calls, presentations, and/or other communication devices. With a compelling marketing message and a superior list of note holders, the professional note buyer can identify quality prospects and encourage them to sell their notes.

Likewise, the note manufacturer and investor can identify properties suitable for seller financing, and market to those owners. The seasoned note professional uses proven marketing techniques to offer his or her expertise to others, such as, realtors, property owners, and note investors, so that they can finance the sale of properties themselves. In the increasingly competitive environment of seller financing, the note professional's success will depend greatly on his or her ability to get the right message to the right people, and compel them to act in the right way. Marketing is at the core of that process.

Negotiation factors greatly in every seller-finance transaction. By applying shrewd negotiation tactics, the note professional can entice the prospect to do business with him or her, often turning the naysayer into a note seller. The negotiation skills of the note buyer or investor will then determine how profitable the transaction will be. A skilled negotiator can establish a lucrative contract, including a heavily discounted purchase price, a generous yield on the investment, substantial commission, and/or any number of other conditions that will result in the ideal transaction.

A Once Risky Business

In the early 2000s, the business of manufacturing notes often proved costly. Individuals who purchased their homes through seller financing were, as a group, much riskier than they are today. That's because it was easy, too easy, to obtain a conventional loan instead. Furthermore, it was less expensive.

Subprime lending practices and other acts of gross negligence within the industry allowed nearly anyone who could fog a mirror to get a loan. Too often, banks and mortgage companies were overly eager to approve questionable applications. Saving both time and money, they performed only cursory screenings of applicants, failing to verify applicants' statements or examine other sources of pertinent information. With less stringent requirements, lenders were able to qualify more borrowers and process more loans, often for people who clearly couldn't repay their debt.

As a result of their predatory lending practices and lax underwriting standards, banks and mortgage companies rejected only the riskiest of all buyers—so those buyers turned to, you guessed it, seller financing. A few successful investors manufactured notes for these "Bad credit—No credit—No problem" types, but they structured their businesses around low-end properties and high-volume sales, with plenty of defaults in mind.

Unfortunately, many property owners entered into seller-finance agreements with that same careless approach. They didn't pull a credit report, verify income statements, examine the buyer's employment history, or investigate his or her liabilities. Like the biggest names in banking and lending, their negligence has resulted in costly defaults and foreclosures.

Seller financing's reputation as a risky business venture has been well earned. But all that is changing.

Seller Financing: New & Improved — and Mainstream

The recent collapse of many banks and mortgage companies has had a phenomenal effect on lending practices and, consequently, on real estate activity. Lending institutions have tightened their underwriting criteria drastically, making it far more difficult for borrowers to qualify for loans. Many applicants who would have received conventional loans just two or three years ago are now being rejected.

A considerable number of these candidates are “just missed” borrowers who fall narrowly outside the newer, stricter lending criteria. These are reliable, low-risk prospects who demonstrate the ability to meet the terms of their loans. And they have every intention to do so. They would have easily qualified for conventional mortgages in the past but no longer measure up on paper. Perhaps a credit problem of long ago or a recent change in employment now raises questions and closes doors. There’s a good chance that you personally know someone in this situation.

The Profit Potential of a Note

Holding a note to maturity can be exceptionally lucrative. Here's an example, using a simplified scenario:

Let's say that a buyer needs to borrow $100,000 for the purchase of a house. If a bank lends him the money at a 6% interest rate for a 30-year term, the buyer will pay $599.55 a month. Over the course of the loan, the bank will collect $215,838, for a 216% profit.

But let's say that the buyer can't obtain a conventional loan. To sell the house, the owner agrees to finance the sale but at a higher interest rate, say 10%. That establishes a monthly payment of $877.57. The seller, who now becomes the note holder, won't receive the total proceeds from the sale for another 30 years.

This is where the note pro comes in. He negotiates with the note holder to sell the note to him at a 25% discount, or $25,000 off the total value of the note. The note holder immediately gets $75,000 in cash from the investor, rather than collect a much larger amount of money that "dribbles in" over the next 30 years.

The note pro himself now receives those monthly payments of $877.57 from the buyer. Because he paid a discounted price for the note and the payments include a higher interest rate, the note pro will collect far more on that loan than the bank would. He'll receive $315,925 over the course of the loan for his $75,000 investment, which is a $416% profit—nearly twice that of the bank.

In addition, fewer funds are available for lending, which has created a supply-and-demand problem. Traditional lenders now reserve their limited assets for their most credit-worthy candidates. Increasingly, even the low-risk borrowers are now turning to seller financing.

The impact of these recent developments on the note industry has been dramatic. The quality of the average seller-finance candidate has improved greatly while the demand for seller financing has soared. Done right, seller financing has become a safe bet—and a lucrative business venture.

"Seller financing has become a safe bet—
and a lucrative business venture."

The profile of the typical note manufacturer has changed, too. Once specializing in financing rehabs for risky buyers, the seller-finance specialist now serves a broad range of clients and properties. He or she has become more sophisticated in the business of seller financing, becoming well-schooled in the intricacies of the practice.

Creating quality notes for quality buyers requires the same meticulous process used by responsible banks and other lenders. Note manufacturers take applications, scrutinize credit information, verify data, evaluate properties, structure the terms of the sales, and collaborate with affiliated businesses and agencies. But unlike their peers of the subprime-lending era, seller-finance specialists apply common sense to their decisions.

To avoid the same pitfalls that brought down Morgan Stanley and others, the note manufacturer must be thorough when qualifying buyers and approve only those of the highest caliber.

This is why due diligence is so critical in the note business. The savvy note manufacturer will ensure good underwriting, not only to achieve a smooth and successful transaction but also to minimize defaults and maximize returns. A thorough and independent investigation will reveal the accuracy of the buyer's statements regarding assets, income, employment, debt, and so forth. Due diligence allows the seller to make sound decisions based on solid facts, not subjective impressions, and to distinguish the quality borrower from the risky one. This is especially critical because the number one variable that affects the cash value of the note is the buyer's credit.

"The number one variable that affects the cash value of the note is the buyer's credit."

Ronald Reagan said it best with his signature phrase, "Trust but verify."

The note manufacturer must also understand all relevant legal issues, regulatory matters, and documentation requirements. By applying their advanced knowledge and sound principles to the manufacture of notes, these specialists can help ensure that the products are investment quality, with top-dollar value and exceptional resale potential.

Many note manufacturers underwrite the loans before they're even made and then manage them thereafter. Increasingly, though, they're lending their expertise to others. Or, more accurately, they're selling it.

The Low Down on Down Payments

A large down payment from the borrower is always a plus. By contributing a significant amount of money toward the purchase, the buyer has plenty of "skin in the game" from the very beginning of the transaction. This person is less likely to default on the loan. He or she will also feel more "ownership" of the property, and will likely take better care of it.

Even if the buyer abandons the property despite the large down payment, the seller can now use those proceeds to help mitigate any losses, reclaim the property (the collateral), and put it back on the market. The seller might even come out ahead.

On the other hand, the buyer who puts little money down has little to lose by walking away. With minimal investment in the property upfront, he's also more likely to leave it in a state of disrepair. Meanwhile, the seller has little to show for that failed transaction. Instead, he gets stuck with considerable work required to restore it to a saleable condition. Only then can he put it back on the market and try to recover his losses.

Middle-class homes, condominiums, commercial buildings, and more are being seller financed like never before. Even luxury homes and million-dollar estates are selling via owner-carried notes. This creates a clear and growing demand for the note professional's expertise in creating quality notes.

Many industry leaders are now reaping huge rewards by providing technical support and consultation to others. These experts assist realtors, professional real estate investors, and individual property owners who are eager to finance the sales but don't know how to structure a quality note. The note professional can earn consulting fees of ½% to 2% of the loan amount. Not only do these specialists earn generous income from their expertise during the note-manufacturing process, but they also establish the right to broker these notes from their clients in the future. This adds yet another dimension to the business of seller financing

Beyond Seller-Finance Notes

The fourth profit center in this industry goes beyond the seller-finance notes per se. True, the industry's leading note professionals conduct all aspects of the business, from buying and selling notes to manufacturing notes, investing in notes for their own portfolios (and finding some real bargains during the process), and selling their expertise to others. But they also understand broader issues relating to the real estate and mortgage industries.

This allows the seasoned seller-finance professional to foray into other specialty areas, such as non-performing notes. This is a particularly lucrative venture involving the purchase of bad notes from the banks and mortgage lenders at bargain prices. The note professional generates significant income from low-cost investments and high-dollar resales.

Experienced and knowledgeable note professionals are also adept at flipping properties; purchasing and subdividing large tracts for numerous small and more lucrative sales; and devising other creative real estate transactions. In addition, they're frequently offered exceptional real estate bargains and other lucrative opportunities, because of their reputation and numerous contacts within the industry.

A Safe Bet

If you decide to pursue a career in the note business, it's essential that you develop a thorough understanding of seller financing. Like most ventures, you need to learn the "rules of the game" in order to achieve success.

Using an analogy, let's say you're at a blackjack table in Las Vegas. Before placing any bets, you need to understand how the game is played, what it takes to win, and how to apply that knowledge to increase your odds of success.

With even a rudimentary understanding of blackjack, for example, you'd know better than to take a hit if you have 18 and the dealer shows a 4. The more you know, the better you are at playing the game. But if you know little, what stays in Vegas is your money.

Similarly, a lot of people who seller finance property or invest in notes are recklessly gambling with their own resources. That's because they don't understand the basic principles of seller financing and how best to apply them. Rather than analyze the opportunities carefully and then judge wisely, they unwittingly close risky deals and then pay the costly consequences. As with blackjack, you need to know the odds of winning before playing your hand.

Smart seller-financing is profitable. I know that personally, as do most of my colleagues in the business. There are plenty of aces in the huge and growing pool of existing notes and opportunities to create your own. There are also plenty of resources for acquiring expert knowledge in every aspect of seller financing to help ensure your success.

"Seller financing's time has arrived. It's now much more profitable than most areas of real estate, other sales ventures and investment opportunities.

It's a Good Thing—It's a Good Time

Seller financing's time has arrived. It's now much more profitable than most areas of real estate, other sales ventures and investment opportunities.

You can be extremely successful in this business, if you use a methodical approach that calculates the risks and weighs the benefits. Add a little elbow grease and you're on your way to a secure future. Trust me, I know . . .

Having purchased more than 30,000 seller-financed notes and handled more than half-a billion dollars in sales, I've seen a pattern of success and failures. These aren't just theoretical concepts; they're actual experiences involving a range of variables. Not since the 1980s, have I seen the extraordinary increase in, and necessity for, seller financing. With due diligence, good judgment, and some common sense, you too can become very successful with seller financing.

In addition to achieving your own financial goals in this business, you can provide a much-needed service to others. There's heartfelt satisfaction in knowing you've helped other people to realize their dreams of owning their own homes, despite the financial challenges that so many are facing today. And the proceeds from seller financing return to the local community, rather than enter the balance sheet of an institutional lender somewhere else.

I Do Diligence

Approving your seller-finance buyer is a lot like choosing your life partner.

Few people enter marriage without having first gathered considerable information about their mate. It starts with that first encounter, when your date presents himself or herself in the best possible light. He appears honest; she seems responsible. As you get to know each other, you like what you see and you want this to work. You make plans.

Smart couples approach the altar having already discovered and judged their fiancés' background, character, values, strengths and weaknesses. They conduct their own due diligence before their "I do's." Many singles even hire a private investigator to do an independent background check on their potential mate before proceeding with the romance. It's smart with dating; it's smart with lending. And it sure beats eloping after a brief encounter!

Seller financing's time has come! And the timing couldn't be better.

Fundamental Shift in Seller Financing

In 2012, I recognized a new opportunity in seller financing was growing. The fact that more and more investors were looking for turnkey rental properties, led me to create a new strategy. I call this technique, my 50/50 model. This technique is perfect for the passive investor, especially one using self-directed IRA's and other qualified accounts.

The technique is simple: Offer seller financing on turnkey tenant-occupied properties to real estate investors.

Now that might sound counter intuitive to a note investor like me because I believe investing in notes is far better than investing in rental property but the fact is, there is a strong demand by investors for rental property and if that is the case, I will deliver it to them. In fact I am not only going to deliver it to them, I am going to finance it for them.

I structure the deal so that the investor puts about 50% down and I finance about 50%. I make sure that the financing is done in a manner where the monthly net rent exceeds the monthly debt service on the note. The note is usually structured to be paid off in 5 years and if that wasn't enough I can also place rental insurance on the fully managed property.

So, the investor paid half down, the tenant payments covered the rest of the debt and the property is owned free and clear in 5 years. Do you think there is a demand for that? The real question is: How many more will they want to buy from me?

This technique works out well for me too. Since this is a business-to-business transaction, the Dodd-Frank Act doesn't apply. In addition, I can sell the property for more than BPO value because I am offering terms and they are buying on the income the property will produce.

Now, this technique is easier to visualize when I lay out the numbers for you along with pricing graphs at a live training but I think you understand the big picture here. This becomes a truly win-win-win arrangement for all participants and it fulfills an industry demand.

The growth of this market niche inspired me to create NoteSchool's Turn Key Flipping Academy. We now have specialized vendors in every aspect of this investment process, which enables the small investor to build a scalable business nationwide.

Power of Partials and Architecting the Deal

My father-in-law pioneered the concept of partial note sales over 35 years ago. Today, I improved this technique by adding in a self-directed retirement account to the mix. At our live training events, my $100 IRA technique is detailed out.

The technique utilizes the time value of money mathematics that apply to these long-term debt instruments. Without the aid of charts, graphs or a financial calculator, allow me to lay it out in simple terms below:
I show people just like you how to use only $100 to control over $100,000.

It sounds pretty incredible, I know. It absolutely works because it is simply using mathematical principles of the time value of money. The $100 comes into play because the IRS says that the minimum allowable investment for an IRA is $100. All I have done was combined the math with the right investment vehicle.

The reality is, if you are not using an IRA you don't have to have any money if you learn how to architect the deal. Specialized knowledge is the only thing someone needs to be able to do this.

You see, basic math shows us on a 30-year note, for example, 90% of the value in todays dollars is in the front half of the note. The back half of the note is only worth 10% of the total value in today's dollars.

Knowing this, I can negotiate to buy the entire note from the note seller, while selling the front half of the note payments to another note buyer for more than I negotiated the whole note for! I can make an upfront fee and hold on to the backend payments for free! The only other ingredient that I need is a little patience.

Think of it this way: Is it possible for a real estate investor to buy 100 acres of land and then sell 100 individual 1 acre lots for more in total than he bought the whole 100 acres for? Of course! Same concept here; I buy the whole note and sell a valuable part of it for more than I paid for the entire thing.

This powerful technique has been the game changer for many of the investors that I have trained. By the way, I have trained some very super high-level investors who were simply amazed that they had never thought of this concept in notes before. Once exposed to it, their business model immediately changed.

Remember, you can do this technique inside or outside of a qualified retirement account. My recommendation is to make an annual income in 8 or 9 months and then spend the rest of the year focusing on your retirement account and your children's retirement accounts.

The New Way to Buy Real Estate

There is no question that the new way "smart money" is buying real estate is through purchasing NPL's. The sheer inventory of these assets has pushed the price to historic lows. Government mandates have further pressured institutional lenders to clean up their books by getting rid of these assets. They are the lowest priced assets in all of distressed real estate and that is why "value" buyers of all sizes are getting involved.

Buying a NPL is very similar to buying a property that needs renovation: it comes down to price and value.

Think of the basic steps involved in buying a property that needs rehab: estimate the as-is value, estimate the renovation costs in time and money, estimate the after-repair value, and then determine if the price is within your risk tolerance and acceptable profit margin. Once that is determined, outsource what you need to your team of experts (contractor, title company, etc.). These are the same basic steps in purchasing a NPL.

Think about it, when you buy a NPL you are buying a note that needs rehab. It's broken. So what are the basic steps?

- Estimate the as-is value of the collateral (property) that backs the note.
- Estimate, in both, time and money the cost to fix the note (as outlined previously this may be working out a new payment plan to get the note re-performing, getting a Deed in Lieu, perhaps accepting a short payoff or foreclosing).

- After fixing the note or acquiring the property, estimate what it will be worth.
- Determine if the price is within your risk tolerance and acceptable profit margin.
- Outsource what you need to your team of experts.

Clearly you can see how similar the basic steps are between the two approaches to undervalued assets. What you have to realize is that with NPL's you can purchase for as little as 30% of the as-is property value. CoreLogic and Realtytrac will tell you that REO's and foreclosures are selling at over 80% of as-is value. Because of the 2013 expiration of the Mortgage Debt Forgiveness Act, short sales have shriveled up to less than 2% of the real estate market and are selling at over 80% of as-is value.

If the process is similar and most everything can be outsourced, the question becomes: What ballpark do you want to play in, distressed real estate or distressed notes? Well, I guess another more direct question would be: Would you rather pay 30% or 80% of the as-is value for real estate?

The Basis Basics

During my 32 years in seller financing, the question I'm most frequently asked by property sellers is this: At what point should you make a very aggressive underwriting decision?

The answer depends entirely on how much you've invested in the asset. If it's worth $100,000 and you've invested only $25,000, you have a "low basis." With a low basis in a property, you can better tolerate a default risk.

In a way, you're like a pawnshop owner. You've taken as collateral an item whose value is far greater than the money you've loaned. If the transaction proceeds as planned, your customer repays the loan with interest, and you make a profit on your loan to him. If your customer defaults, you take possession of the collateral. Having invested only a fraction of its retail value (i.e., the small amount you've loaned your customer), you can now sell it to someone else for a healthy profit.

That's why the higher the percentage of your investment in the property (your basis), the less risk you can afford to take. Let's say you've invested $75,000 in that $100,000 property. You're now at a risk of losing much more, should delinquency and default occur.

With a low basis you can lower your underwriting standards. I've known and even consulted with real estate investors who maintained a fairly liberal underwriting practice. These transactions succeeded because the investors had a low basis in their properties. With an inordinately low investment in the property, say 20 or 30%, you can tolerate the additional risk. This strategy, however, is more challenging. It demands greater attention to detail, and requires more time and resources to service the portfolio. But if you have a low basis, you can apply lenient qualifying criteria and still be successful.

With a low basis, you can create a solid portfolio. And that will allow you more time on the beach.

Buying Real Estate Notes

Profitable Case Studies

The mortgage-backed note business is the financing side of the real estate business. It includes performing notes, re-performing notes, seller financing, and non-performing notes. Collectively, these investment opportunities provide some of the best, safest returns available anywhere in the world today.

Historically, large financial firms such as, hedge funds, private equity firms, banks, and other lending institutions have dominated this industry. Smaller investors only played a very minor role. The financing crisis that peaked in 2006, changed all of that.

Today, due to historically large inventories, government mandates, and changing institutional attitudes, small investors are playing a vital role in the recovery of the overall real estate market. The small investors are solving the problems the largest institutions are simply not able to solve. Because small investors can solve these problems, they are rewarded in both exceptionally high profits and the satisfaction of knowing they are helping people save their homes.

The following case studies are just a small sample of the hundreds of case studies I see every year.

They were selected based upon their profit margins, problem-solving techniques, and to illustrate the many different investment and exit strategies within this industry. Every one of these case studies has been very well documented.

It is my hope that as you read through these case studies, you get excited and inspired to make a decision to get involved in what could be the opportunity of a lifetime. There is not a single investment, technique, or approach within these case studies that, with specialized training, you couldn’t do yourself.

CASE STUDIES FOR NON-PERFORMING NOTES

Case Study #1: TJ O. - Winter Garden, FL

Solving a problem with a short payoff is how this case study works out. Due diligence allowed TJ to recognize there was strong emotional equity to the house. The problem was the property was upside down (owe more than it's worth) and the newly widowed father simply couldn't afford the payments.

In the collateral file from the hedge fund, TJ was able to put the story together. The owner's wife passed away and he was unable to make the payments on his own. His health was not good either. In fact, the daughter had written a hardship letter and payoff offer to the bank. That offer went unanswered.

The Numbers

Single Family Home Value (Collateral)	$60,000
Original Loan (Unpaid Balance)	$110,605
Original Terms	30 years
Note Purchase Price	$35,000
Property Taxes Paid	$1,186
Proceeds From Short Payoff	$55,000
Total Profit	**$20,000**

The Note

Fair Market Value:	**$110,000**
Original Note:	**$84,000**
Monthly Payment:	**$653.35**
Date of Origination	**12/05/2006**
Term:	**30 Years, with 15 Year Balloon**
Date of Maturity:	**01/01/2022**
Payments Remaining:	**144 Months (8½ Years)**
Pay Off at Maturity:	**$65,855.89**
Note Purchase Price:	**$56,000**
Sold Partial:	**All 144 Pmt's + Amount from Proceeds**
Yield:	**11.0%**
Sales Price:	**$62,400**
Up Front Profit:	**$6,400**

At Maturity

Payoff: $65,855.89
Investor Receives: $52,740.59

IRA Receives: $13,115.30

TOTAL PROFIT = $6,400 + $13,115.30 = **$19,515.30**

Once TJ owned the note, he worked with the daughter to find a workable solution. TJ forgave $55,605 and the arrearage amount, the loan was then settled by a $55,000 short payoff by the father and daughter. This workout allowed the daughter to live with her father and give him the assistance he needed. TJ was able to profit $20,000 in a short period of time.

$100

$19,515.30

in 8½ Years

2,295% ROI

TAX FREE!

The Steps

1. Joined the NoteSchool mentorship program
2. Studied on-line and attended mentor calls
3. Registered with hedge funds
4. Started reviewing hedge fund tapes
5. Did their due diligence
6. Signed the purchase agreement
7. Boarded the loan with a servicing company
8. Began their workout plan
9. Negotiated a win-win solution
10. Signed payoff agreement

Case Study #2: Jason W. - Phoenix, AZ

This is an example of a typical scenario in which the property owner lost his job and couldn't keep up with the payments. Additionally, the property owner owed more than what the house was worth. The owner wanted to stay in the home, but the bank was simply unwilling to work with him.

Jason found this asset on a tape and it was part of a small pool of notes he decided to purchase. Based upon the collateral file and Ownership & Encumbrance report, he figured his best plan was to perform a loan modification.

Once he bought the note, his insight was correct, but the property owner didn't have much money to pay a reinstatement fee or the arrearage on the loan. About this time, Jason learned about the Hardest Hit Funds by attending the always up-to-date, NoteSchool trainings.

He successfully encouraged the property owner to go through the hardest hit funds enrollment process and he were approved. This enabled Jason to structure a loan modification without requiring the property owners to come up with a lump sum of cash—the hardest hit funds came up with the lump sum payment on the owner's behalf.

The Numbers

Single Family Home Value (Collateral)	$40,000
Original Loan (Unpaid Balance)	$85,725
Original Terms	30 years
Note Purchase Price	$10,862
Property Taxes, Legal Misc. Paid	$1,539
Proceeds From Hardest Hit Funds	$30,000
Reinstatement Fee Received	$2,000
New Loan Modification	$52,000
Total Profit (Lump Sum)	**$19,599**
Proceeds From Loan Modification	**$358/mo. for 30 yrs**

The Steps

1. Joined the NoteSchool mentorship program
2. Attended regularly updated live events
3. Registered with hedge funds
4. Started reviewing hedge fund tapes
5. Did his due diligence
6. Purchased a small pool of loans
7. Signed the purchase agreements
8. Boarded the loan with a servicing company
9. Began their workout plan
10. Switched plan after learning about hardest hit funds
11. Motivated the property owners to complete the application process
12. Created an acceptable loan modification
13. Received lump sum from the State and monthly payments from property owner

Case Study #3: Tom and Cyndi B. - Baldwin City, KS

In this case study you will see why you always consider the cost and time of foreclosure into your potential expenses. In the overall picture, foreclosure is the least likely outcome, yet an investor always has to prepare for it.

On one of their first investments, Tom and Cyndi had to navigate their way through the imperfect investment world. The asset itself did have a number of non-redeeming qualities to begin with, but the Buckley's persisted and made a great profit in the end.

The Buckley's found this non-performing asset on a hedge fund "tape". Since they were new and still under the mindset of investing in something in drivable distance, they focused on assets only in those locations.

This note was on a vacant home in a rather remote location. After they ran the demographics, they decided to take a cautious approach and hired a local broker to give them another opinion of value. The broker was confident on a $30,000 value, especially since the property ended up being a 3 bed, 2 bath house instead of a 2 bed, 1 bath as indicated in the original hedge-fund-provided broker price opinion (BPO).

The Numbers

Single Family Home Value (Collateral)	$30,000
Original Loan (Unpaid Balance)	$55,497
Original Terms	30 years
Note Purchase Price	$11,700
Servicing, Insurance, Clean Up	$1,885
Foreclosure Cost	$3,200
Proceeds From Foreclosure Sale	$40,000
Total Profit	**$23,215**

The Steps

1. Joined the NoteSchool mentorship program
2. Attended numerous 3-day classes
3. Registered with hedge funds
4. Started reviewing hedge fund tapes
5. Did their due diligence
6. Had some “boots on the ground”
7. Signed the purchase agreement
8. Boarded the loan with a servicing company
9. Began their workout plan
10. Insured and protected their collateral
11. Switched from pursuing a Deed in Lieu to foreclosure
12. Hired an attorney
13. Cashed out at the foreclosure sale

Tom and Cyndi purchased this $55,000 note for $11,700. They had to clean up a fallen tree to avoid city fines. Since they were unable to locate the property owner, they hired an attorney to proceed with the foreclosure.

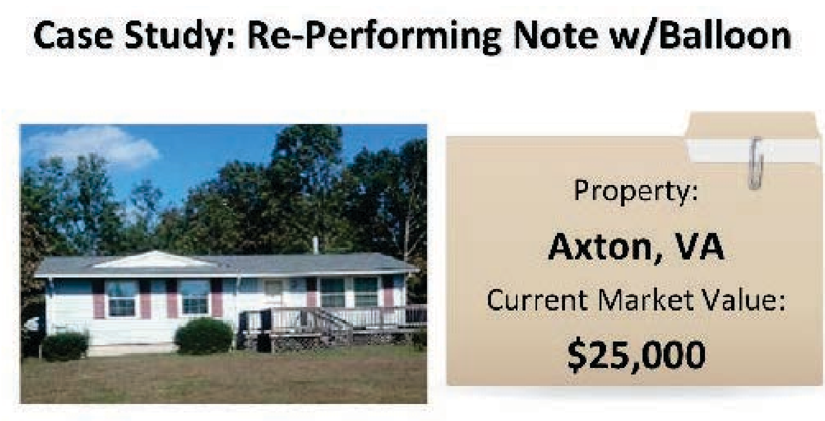
The property sold for $40,000 at the foreclosure sale netting the Buckley's a $23,000 profit.

CASE STUDIES FOR PERFORMING NOTES

Case Study #4: Tim S. - Cary, NC

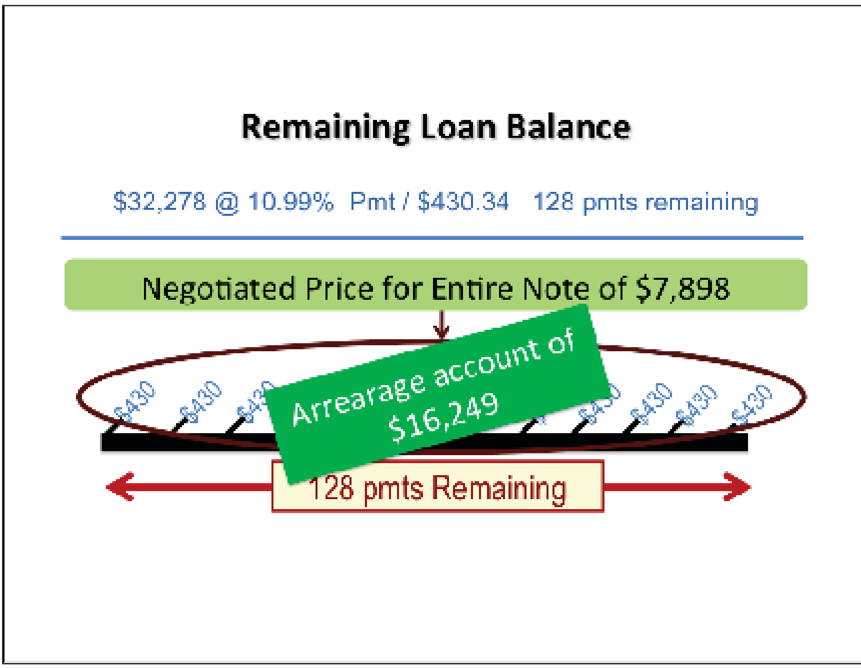
Successful note investors realize they are in the problem solving business. This case study shows problem solving and creative deal making while combining both non-performing notes and re-performing notes. Tim was able to profit on this transaction because he was able to solve the property owner's problem.

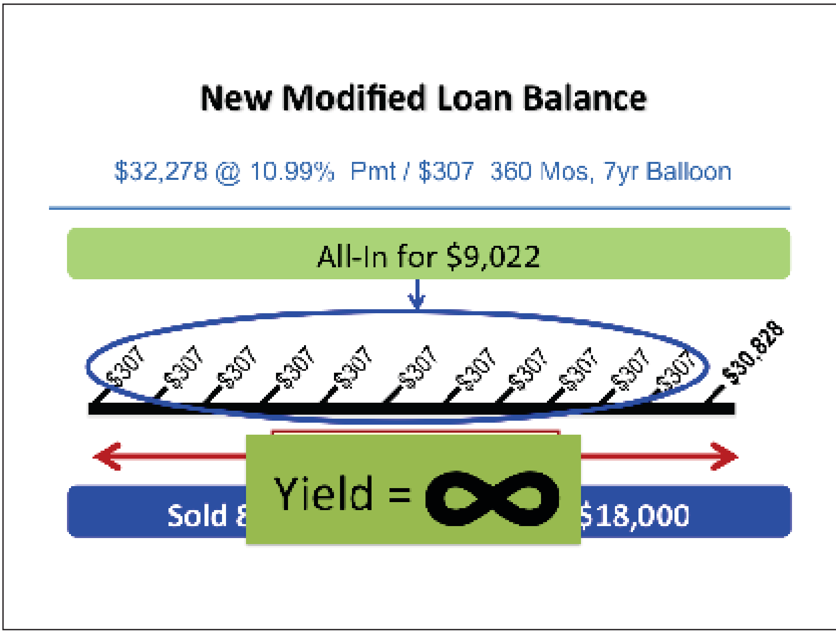
The lender was selling this note because it had become a non-performing asset. The property owner fell behind on the payments and accumulated a $16,249 arrearage. Even though this property owner hadn't made a payment in over 3 years, he indicated he wanted to stay in the home, but the bank simply wouldn't work with him on a loan modification. He had what we call "emotional equity" in the property.



Tim recognized this emotional equity and came up with a solution to the property owner's problem. He modified the loan by extending the term and moving the arrearage account to the end of the loan. The new loan terms lowered the property owner's payments by $123 per month.

Once the note was re-performing, Tim sold 82 payments to an anxious money investor and kept the balloon payment and arrearage account for himself.




New Modified Loan Balance
$32,278 @ 10.99% Pmt / $307 360 Mos, 7yr Balloon
All-In for $9,022
$307
$307
$307
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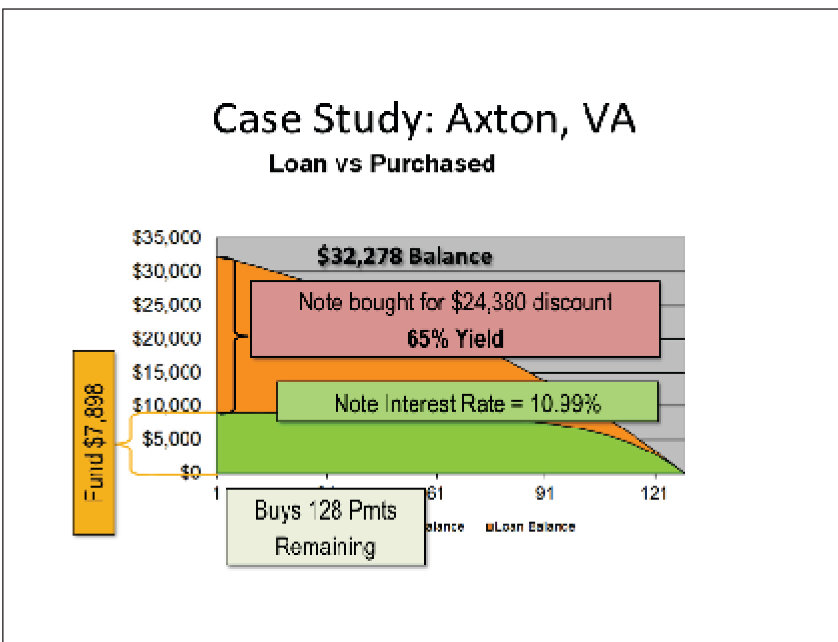
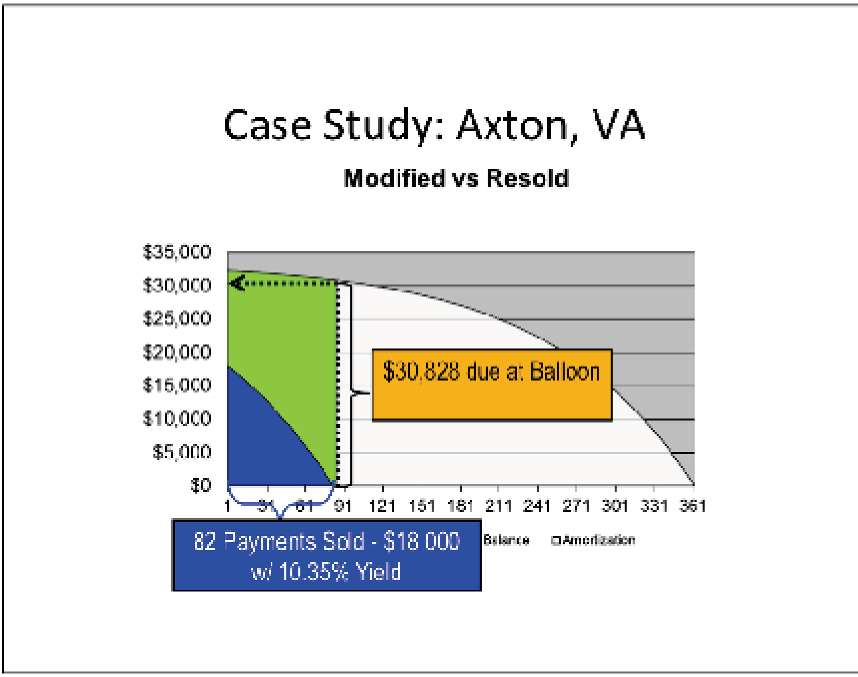
$307
$307
$307
$307
$307
$307
$307
$30,828
Yield =
Sold
$18,000


Case Study: Axton, VA
Loan vs Purchased
$32,278 Balance
Note bought for $24,380 discount
65% Yield
Note Interest Rate = 10.99%
Fund $7,898
Buys 128 Pmts Remaining
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
1
61
91
121
Loan Balance



The Numbers

Single Family Home Value (Collateral)	$25,000
Original Loan (Note)	$32,278
Original Terms	11% - 10.5 Yrs Left
Arrearage Amount	$16,249
Purchase Price For Note and Expenses	$9,022
Payments Received	$614
Proceeds From Sale of 82 Payments	$18,000
Proceeds From Balloon	$30,828
Proceeds From Arrearage Account	$16,249
Total Invested	$9,022
Total Return	$65,691
Net	**$23,215**

The Steps

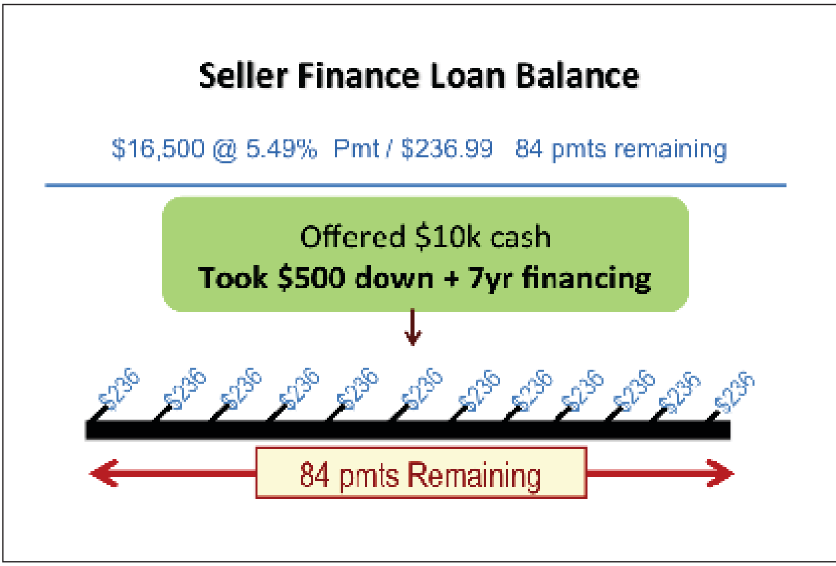
1. Joined the NoteSchool mentorship program
2. Attended mentor calls
3. Registered with hedge funds
4. Networked with anxious money investors
5. Put a purchase agreement on the note
6. Modified the note and collected 2 payments
7. Created contract with anxious money investor
8. Tim received $18,000 by selling the payments
9. Will receive the balloon and arrearage in 7 years
10. Anxious money investor receives $307 for 82 months
11. When the note balloons, Tim will receive $47,077

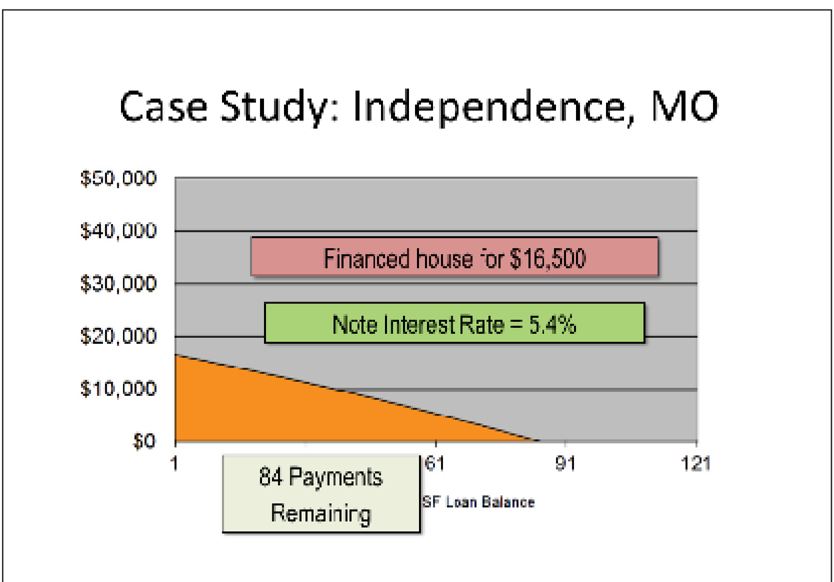
Case Study #5: Brian and Michelle W. - Blue Springs, MO

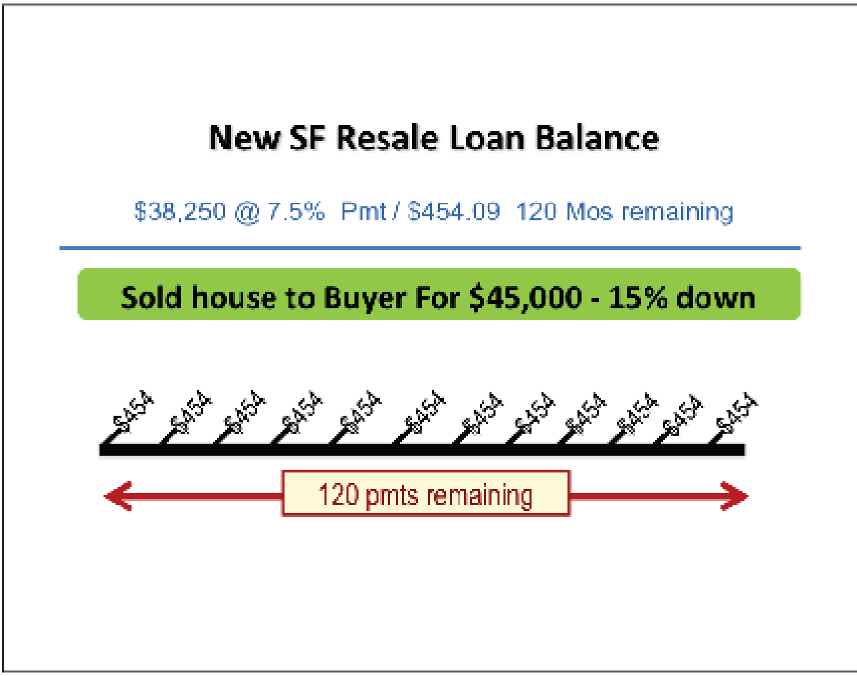
This case study is an excellent example of why real estate investors need to add the note business to their investment model. By "papering" their way into and out of this deal, Brian and Michelle were able to make a much bigger profit than if they just bought the real estate.

They found a nice little rental property they figured they could purchase at a discount. They made a cash offer, but were turned down. Rather than walking away from the deal they changed the offer.

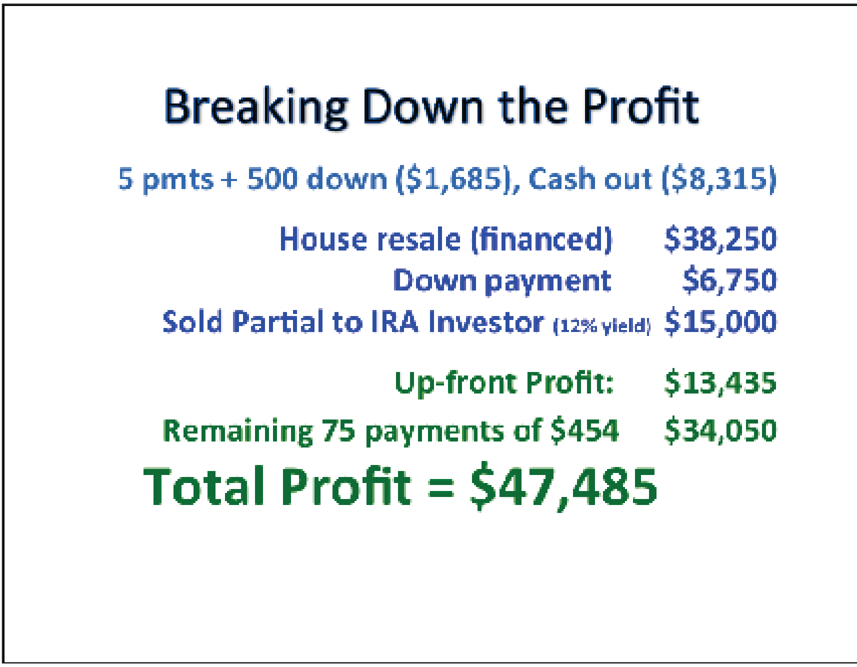
The property seller accepted their offer of $500 down and a 7-year seller financed loan (note). So Briuan and Michelle purchased the property and were now obligated to make payments of $236 per month to the property seller.






New SF Resale Loan Balance
$38,250 @ 7.5% Pmt / $454.09 120 Mos remaining
Sold house to Buyer For $45,000 - 15% down
$454 $454 $454 $454 $454 $454 $454 $454 $454 $454 $454 $454
120 pmts remaining


Seller Finance Loan Balance
$16,500 @ 5.49% Pmt / $236.99 84 pmts remaining
Owner calls to be cashed out
$236 $236 $236 $236 $236 $236 $236 $236 $236 $236 $236 $236
Sold 40 payments to Investor For $15,000



The Numbers

Purchased the property for $500 down and $236 per month for 7 years. Sold the property for $45,000 with $6750 down and $454 per month for 10 years

Proceeds From Selling 40 Payments	$15,000
Paid Off Underlying Debt	$8,315
75 Payments of $454 Per Month	$34,050
Upfront Profit	$13,435
Net	$47,485

The Steps

1. Joined the NoteSchool mentorship program
2. Attended mentor calls and attended several live trainings
3. Searched for real estate to buy
4. Registered with hedge funds
5. Networked with anxious money investors
6. Put a purchase agreement on the property
7. Became the mortgagor on the note
8. Sold the property to a homeowner and took a down payment
9. Became a mortgagee on that note
10. Sold 40 payments to an anxious money investor
11. Paid off their underlying debt at a discount
12. Already have all of their money back plus a profit
13. Will receive monthly payments after 40th payment is made

Case Study #6: Mahmood - DFW, TX

This is a great example of how a NoteSchool trained investor made income upfront and will cash in later by investing just $100 out of his IRA. Mahmood found a seller financed note on a $110,000 property in High Point NC. He negotiated a price of $56,000 for the note. Once he had the purchase agreement in writing, he sold the note to another investor for $62,400. He essentially flipped the note and made a $6400 fee. The investor he flipped it to will collect the next 144 payments (11% yield per year) and $52,740.59 when the note ballon payment is due. Since Mahmood invested $100 from his IRA at the initial closing, he will receive $13,115.30 when the ballon is paid. Now that's how you grow and IRA!

The Note

Fair Market Value:	**$110,000**
Original Note:	**$84,000**
Monthly Payment:	**$653.35**
Date of Origination	**12/05/2006**
Term:	**30 Years, with 15 Year Balloon**
Date of Maturity:	**01/01/2022**
Payments Remaining:	**144 Months (8½ Years)**
Pay Off at Maturity:	**$65,855.89**
Note Purchase Price:	**$56,000**
Sold Partial:	**All 144 Pmt's + Amount from Proceeds**
Yield:	**11.0%**
Sales Price:	**$62,400**
Up Front Profit:	**$6,400**

At Maturity

Payoff: $65,855.89
Investor Receives: $52,740.59

IRA Receives: $13,115.30

TOTAL PROFIT = $6,400 + $13,115.30 = **$19,515.30**

$100

$19,515.30

in 8½ Years

2,295% ROI

TAX FREE!

In all of the case studies that we have provided, the investors all applied a similar process:

1. They were properly trained by NoteSchool's experts
2. They looked at the assets that made sense for their financial goals
3. Understood the importance of proper due diligence
4. Learned to avoid a bad buy
5. Properly executed the contracts
6. Immediately implemented their exit strategies
7. Outsourced tasks to vetted vendors
8. Received guidance when needed

I hope by providing these case studies I have captured your attention, your interest, and spurred a decision to pursue this opportunity at the next level. With a lifetime of experience in this industry, I know all it takes to be successful in this space is specialized knowledge, persistence, and action.

Conclusion

In this booklet I gave you a quick overview of the market condition, how creative financing has increased dramatically, and how my specialized techniques cam maximize your returns. Since I have personally trained hundreds of people over the years, I know that anyone, regardless of their background, can invest successfully in these assets if they are willing to acquire specialized knowledge and take an entrepreneurs risk.

What I can't deliver in this booklet is experience. Experience is necessary to master anything. Experience simply takes time, participation and repetition. Experience can be dramatically shortened if you learn from and through the experience of others.

My 35 years of experience has prepared me these historic times within the mortgage backed asset industry. I am willing to share my experience and knowledge with others because I am an active buyer and seller of these assets and am always looking to surround myself with like-minded people. I look at the people I train as future partners in business.

NoteSchool LLC , Colonial Funding Group LLC and Colonial Capital Management LLC have all undergone tremendous growth in this market because of the team that I have attracted. From billions of dollars in transaction to dozens of years of expertise in teaching and training, the experience, knowledge and dedication of all of our team members are second to none.

WE ARE THE LEADER in the industry, and invite you to participate.

W. Eddie Speed
www.NoteSchool.com

What Now?

After completing Making Money From The Meltdown most readers email me with a very logical question: what's next?

They are smart to ask. Most books like this deliver a lot of expert information on the authors field of interest without offering a way to actually apply what they learned. Once they close the book, the experience ends.

Real Estate is one of the most competitive businesses to enter, yet many authorities claim just the opposite. The reason they do this... because it's true, with one caveat... You have to know where to look.

For some of you, this book is part of your own on-going note training, to stay dialed into the industry shifts and trends. For others, this book is helping you decide if the note business is something you could be successful in. If you are a seasoned professional, you are already familiar with the barriers.

Securing financing for deals doesn't have to be the painful experience it is today.

Setting up a business that pays you a monthly income without the headaches associated with tenants can be a simple step by step process.

Getting deals closed can be a quick and painless process with the right insights.

That's why I've put together a comprehensive course on notes that will help both curious and seasoned real estate investors. This course is available exclusively to readers of this book.

If you're curious about real estate notes, I'll lay out exactly how to put together your first deal and make a little money. Then I'll show you how to double the profits on the next note deal, and double that again on the next.

If you're seasoned, you'll find insights and processes inside that have made me a 30 year veteran in this business and given me my unparalleled half-billion dollar track record.

You'll see insights that even the most successful executives never share.

If you have access to the internet, and are eager to learn, you can easily learn this business inside and out. No prior experience needed. There is more than enough wealth to go around, my course is the logical next step in securing some of the fortune for yourself.

Glossary

A

Annual Percentage Rate (APR): The cost of a loan or other financing as an annual rate. The APR includes the interest rate, points, broker fees and certain other credit charges a borrower is required to pay.

Annuity: An amount paid yearly or at other regular intervals, often at a guaranteed minimum amount. Also, a type of insurance policy in which the policy holder makes payments for a fixed period or until a stated age, and then receives annuity payments from the insurance company.

Application Fee: The fee that a mortgage lender or broker charges to apply for a mortgage to cover processing costs.

Appraisal: A professional analysis used to estimate the value of the property. This includes examples of sales of similar properties.

Appraiser: A professional who conducts an analysis of the property, including examples of sales of similar properties in order to develop an estimate of the value of the property. The analysis is called an "appraisal."

Appreciation: An increase in the market value of a home due to changing market conditions and/or home improvements.

Arbitration: A process where disputes are settled by referring them to a fair and neutral third party (arbitrator). The disputing parties agree in advance to agree with the decision of the arbitrator. There is a hearing where both parties have an opportunity to be heard, after which the arbitrator makes a decision.

Asbestos: A toxic material that was once used in housing insulation and fireproofing. Because some forms of asbestos have been linked to certain lung diseases, it is no longer used in new homes. However, some older homes may still have asbestos in these materials.

Assessed Value: Typically the value placed on property for the purpose of taxation.

Assessor: A public official who establishes the value of a property for taxation purposes.

Asset: Anything of monetary value that is owned by a person or company. Assets include real property, personal property, stocks, mutual funds, etc.

Assignment of Mortgage: A document evidencing the transfer of ownership of a mortgage from one person to another.

Assumable Mortgage: A mortgage loan that can be taken over (assumed) by the buyer when a home is sold. An assumption of a mortgage is a transaction in which the buyer of real property takes over the seller's existing mortgage; the seller remains liable unless released by the lender from the obligation. If the mortgage contains a due-on-sale clause, the loan may not be assumed without the lender's consent.

Assumption: A homebuyer's agreement to take on the primary responsibility for paying an existing mortgage from a home seller.

Assumption Fee: A fee a lender charges a buyer who will assume the seller's existing mortgage.

Automated Underwriting: An automated process performed by a technology application that streamlines the processing of loan applications and provides a recommendation to the lender to approve the loan or refer it for manual underwriting.

B

Balance Sheet: A financial statement that shows assets, liabilities, and net worth as of a specific date.

Balloon Mortgage: A mortgage with monthly payments often based on a 30-year amortization schedule, with the unpaid balance due in a lump sum payment at the end of a specific period of time (usually 5 or 7 years). The mortgage may contain an option to "reset" the interest rate to the current market rate and to extend the due date if certain conditions are met.

Balloon Payment: A final lump sum payment that is due, often at the maturity date of a balloon mortgage.

Bankruptcy: Legally declared unable to pay your debts. Bankruptcy can severely impact your credit and your ability to borrow money.

Before-tax Income: Income before taxes are deducted. Also known as "gross income."

Biweekly Payment Mortgage: A mortgage with payments due every two weeks (instead of monthly).

Bona fide: In good faith, without fraud.

Bridge Loan: A short-term loan secured by the borrower's current home (which is usually for sale) that allows the proceeds to be used for building or closing on a new house before the current home is sold. Also known as a "swing loan."

Broker: An individual or firm that acts as an agent between providers and users of products or services, such as a mortgage broker or real estate broker. See also "Mortgage Broker."

Building Code: Local regulations that set forth the standards and requirements for the construction, maintenance and occupancy of buildings. The codes are designed to provide for the safety, health and welfare of the public.

Buy-down: An arrangement whereby the property developer or another third party provides an interest subsidy to reduce the borrower's monthly payments typically in the early years of the loan.

Buy-down Account: An account in which funds are held so that they can be applied as part of the monthly mortgage payment as each payment comes due during the period that an interest rate buy-down plan is in effect.

C

Cap: For an adjustable-rate mortgage (ARM), a limitation on the amount the interest rate or mortgage payments may increase or decrease. See also “Lifetime Payment Cap,” “Lifetime Rate Cap,” “Periodic Payment Cap,” and “Periodic Rate Cap.”

Capacity: Your ability to make your mortgage payments on time. This depends on your income and income stability (job history and security), your assets and savings, and the amount of your income each month that is left over after you’ve paid for your housing costs, debts and other obligations.

Cash-out Refinance: A refinance transaction in which the borrower receives additional funds over and above the amount needed to repay the existing mortgage, closing costs, points, and any subordinate liens.

Certificate of Deposit: A document issued by a bank or other financial institution that is evidence of a deposit, with the issuer’s promise to return the deposit plus earnings at a specified interest rate within a specified time period.

Certificate of Eligibility: A document issued by the U.S. Department of Veterans Affairs (VA) certifying a veteran’s eligibility for a VA-guaranteed mortgage loan.

Chain of Title: The history of all of the documents that have transferred title to a parcel of real property, starting with the earliest existing document and ending with the most recent.

Change Orders: A change in the original construction plans ordered by the property owner or general contractor.

Clear Title: Ownership that is free of liens, defects, or other legal encumbrances.

Closing: The process of completing a financial transaction. For mortgage loans, the process of signing mortgage documents, disbursing funds, and, if applicable, transferring ownership of the property. In some jurisdictions, closing is referred to as "escrow," a process by which a buyer and seller deliver legal documents to a third party who completes the transaction in accordance with their instructions. See also "Settlement."

Closing Agent: The person or entity that coordinates the various closing activities, including the preparation and recordation of closing documents and the disbursement of funds. (May be referred to as an escrow agent or settlement agent in some jurisdictions.) Typically, title companies, escrow companies or attorneys conduct the closing.

Closing Costs: The upfront fees charged in connection with a mortgage loan transaction. Money paid by a buyer (and/or seller or other third party, if applicable) to effect the closing of a mortgage loan, generally including, but not limited to a loan origination fee, title examination and insurance, survey, attorney's fee, and prepaid items, such as escrow deposits for taxes and insurance.

Closing Date: The date on which the sale of a property is to be finalized and a loan transaction completed. Often, a real estate sales professional coordinates the setting of this date with the buyer, the seller, the closing agent, and the lender.

Closing Statement: See "HUD-1 Settlement Statement."

Co-borrower: Any borrower other than the first borrower whose name appears on the application and mortgage note, even when that person owns the property jointly with the first borrower and shares liability for the note.

Collateral: An asset that is pledged as security for a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan agreement. In the case of a mortgage, the collateral would be the house and real property.

Commission: The fee charged for services performed, usually based on a percentage of the price of the items sold (such as the fee a real estate agent earns on the sale of a house).

Commitment Letter: A binding offer from your lender that includes the amount of the mortgage, the interest rate, and repayment terms.

Common Areas: Those portions of a building, land, or improvements and amenities owned by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

Comparables: An abbreviation for "comparable properties," which are used as a comparison in determining the current value of a property that is being appraised.

Concession: Something given up or agreed to in negotiating the sale of a house. For example, the sellers may agree to help pay for closing costs.

Condominium: A unit in a multiunit building. The owner of a condominium unit owns the unit itself and has the right, along with other owners, to use the common areas but does not own the common elements such as the exterior walls, floors and ceilings or the structural systems outside of the unit; these are owned by the condominium association. There are usually condominium association fees for building maintenance, property upkeep, taxes and insurance on the common areas and reserves for improvements.

Construction Loan: A loan for financing the cost of construction or improvements to a property; the lender disburses payments to the builder at periodic intervals during construction.

Contingency: A condition that must be met before a contract is legally binding. For example, home purchasers often include a home inspection contingency; the sales contract is not binding unless and until the purchaser has the home inspected.

Conventional Mortgage: A mortgage loan that is not insured or guaranteed by the federal government or one of its agencies, such as the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), or the Rural Housing Service (RHS). Contrast with "Government Mortgage."

Conversion Option: A provision of some adjustable-rate mortgage (ARM) loans that allows the borrower to change the ARM to a fixed-rate mortgage at specified times after loan origination.

Convertible ARM: An adjustable-rate mortgage (ARM) that allows the borrower to convert the loan to a fixed-rate mortgage under specified conditions.

Cooperative (Co-op) Project: A project in which a corporation holds title to a residential property and sells shares to individual buyers, who then receive a proprietary lease as their title.

Cost of Funds Index (COFI): An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) loans. It is based on the weighted monthly average cost of deposits, advances, and other borrowings of members of the Federal Home Loan Bank of San Francisco.

Counter-offer: An offer made in response to a previous offer. For example, after the buyer presents their first offer, the seller may make a counter-offer with a slightly higher sale price.

Credit: The ability of a person to borrow money, or buy goods by paying over time. Credit is extended based on a lender's opinion of the person's financial situation and reliability, among other factors.

Credit Bureau: A company that gathers information on consumers who use credit. These companies sell that information to lenders and other businesses in the form of a credit report.

Credit History: Information in the files of a credit bureau, primarily comprised of a list of individual consumer debts and a record of whether or not these debts were paid back on time or “as agreed.” Your credit history is called a credit report when provided by a credit bureau to a lender or other business.

Credit Life Insurance: A type of insurance that pays off a specific amount of debt or a specified credit account if the borrower dies while the policy is in force.

Credit Report: Information provided by a credit bureau that allows a lender or other business to examine your use of credit. It provides information on money that you’ve borrowed from credit institutions and your payment history.

Credit Score: A numerical value that ranks a borrower’s credit risk at a given point in time based on a statistical evaluation of information in the individual’s credit history that has been proven to be predictive of loan performance.

Creditor: A person who extends credit to whom you owe money.

Creditworthy: Your ability to qualify for credit and repay debts.

D

Debt: Money owed from one person or institution to another person or institution.

Debt-to-Income Ratio: The percentage of gross monthly income that goes toward paying for your monthly housing expense, alimony, child support, car payments and other installment debts, and payments on revolving or open-ended accounts, such as credit cards.

Deed: The legal document transferring ownership or title to a property

Deed-in-Lieu of Foreclosure: The transfer of title from a borrower to the lender to satisfy the mortgage debt and avoid foreclosure. Also called a "voluntary conveyance."

Deed of Trust: A legal document in which the borrower transfers the title to a third party (trustee) to hold as security for the lender. When the loan is paid in full, the trustee transfers title back to the borrower. If the borrower defaults on the loan the trustee will sell the property and pay the lender the mortgage debt.

Default: Failure to fulfill a legal obligation. A default includes failure to pay on a financial obligation, but also may be a failure to perform some action or service that is non-monetary. For example, when leasing a car, the lessee is usually required to properly maintain the car.

Delinquency: Failure to make a payment when it is due. The condition of a loan when a scheduled payment has not been received by the due date, but generally used to refer to a loan for which payment is 30 or more days past due.

Depreciation: A decline in the value of a house due to changing market conditions or lack of upkeep on a home.

Discount Point: A fee paid by the borrower at closing to reduce the interest rate. A point equals one percent of the loan amount.

Down Payment: A portion of the price of a home, usually between 3-20%, not borrowed and paid up-front in cash. Some loans are offered with zero down-payment.

Due-on-Sale Clause: A provision in a mortgage that allows the lender to demand repayment in full of the outstanding balance if the property securing the mortgage is sold.

E

Earnest Money Deposit: The deposit to show that you're committed to buying the home. The deposit usually will not be refunded to you after the seller accepts your offer, unless one of the sales contract contingencies is not fulfilled.

Easement: A right to the use of, or access to, land owned by another.

Employer-Assisted Housing: A program in which companies assist their employees in purchasing homes by providing assistance with the down payment, closing costs, or monthly payments.

Encroachment: The intrusion onto another's property without right or permission.

Encumbrance: Any claim on a property, such as a lien, mortgage or easement.

Equal Credit Opportunity Act (ECOA):

A federal law that requires lenders to make credit equally available without regard to the applicant's race, color, religion, national origin, age, sex, or marital status; the fact that all or part of the applicant's income is derived from a public assistance program; or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act. It also requires various notices to consumers.

Equity: The value in your home above the total amount of the liens against your home. If you owe $100,000 on your house but it is worth $130,000, you have $30,000 of equity.

Escrow: An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate.

Escrow Account: An account that a mortgage servicer establishes on behalf of a borrower to pay taxes, insurance premiums, or other charges when they are due. Sometimes referred to as an “impound” or “reserve” account.

Escrow Analysis: The accounting that a mortgage servicer performs to determine the appropriate balances for the escrow account, compute the borrower’s monthly escrow payments, and determine whether any shortages, surpluses or deficiencies exist in the account.

Eviction: The legal act of removing someone from real property.

Exclusive Right-to-Sell Listing: The traditional kind of listing agreement under which the property owner appoints a real estate broker (known as the listing broker) as exclusive agent to sell the property on the owner’s stated terms, and agrees to pay the listing broker a commission when the property is sold, regardless of whether the buyer is found by the broker, the owner or another broker. This is the kind of listing agreement that is commonly used by a listing broker to provide the traditional full range of real estate brokerage services. If a second real estate broker (known as a selling broker) finds the buyer for the property, then some commission will be paid to the selling broker.

Exclusive Agency Listing: A listing agreement under which a real estate broker (known as the listing broker) acts as an exclusive agent to sell the property for the property owner, but may be paid a reduced or no commission when the property is sold if, for example, the property owner rather than the listing broker finds the buyer. This kind of listing agreement can be used to provide the owner a limited range of real estate brokerage services rather than the traditional full range. As with other kinds of listing agreements, if a second real estate broker (known as a selling broker) finds the buyer for the property, then some commission will be paid to the selling broker.

Executor: A person named in a will and approved by a probate court to administer the deposition of an estate in accordance with the instructions of the will.

F

Fair Credit Reporting Act (FCRA): A consumer protection law that imposes obligations on (1) credit bureaus (and similar agencies) that maintain consumer credit histories, (2) lenders and other businesses that buy reports from credit bureaus, and (3) parties who furnish consumer information to credit bureaus. Among other provisions, the FCRA limits the sale of credit reports by credit bureaus by requiring the purchaser to have a legitimate business need for the data, allows consumers to learn the information on them in credit bureau files (including one annual free credit report), and specifies procedure for challenging errors in that data.

Fair Market Value: The price at which property would be transferred between a willing buyer and willing seller, each of whom has a reasonable knowledge of all pertinent facts and is not under any compulsion to buy or sell.

Fannie Mae: A New York stock exchange company. It is a public company that operates under a federal charter and is the nation's largest source of financing for home mortgages. Fannie Mae does not lend money directly to consumers, but instead works to ensure that mortgage funds are available and affordable, by purchasing mortgage loans from institutions that lend directly to consumers.

Federal Housing Administration (FHA): An agency within the U.S. Department of Housing and Urban Development (HUD) that insures mortgages and loans made by private lenders.

FHA-Insured Loan: A loan that is insured by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD).

First Mortgage: A mortgage that is the primary lien against a property.

First-Time Home Buyer: A person with no ownership interest in a principal residence during the three-year period preceding the purchase of the security property.

Fixed-Period Adjustable-Rate Mortgage: An adjustable-rate mortgage (ARM) that offers a fixed rate for an initial period, typically three to ten years, and then adjusts every six months, annually, or at another specified period, for the remainder of the term. Also known as a "hybrid loan."

Fixed-Rate Mortgage: A mortgage with an interest rate that does not change during the entire term of the loan.

Flood Certification Fee: A fee charged by independent mapping firms to identify properties located in areas designated as flood zones.

Flood Insurance: Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood hazard zones.

Foreclosure: A legal action that ends all ownership rights in a home when the homebuyer fails to make the mortgage payments or is otherwise in default under the terms of the mortgage.

Forfeiture: The loss of money, property, rights, or privileges due to a breach of a legal obligation.

Fully Amortized Mortgage: A mortgage in which the monthly payments are designed to retire the obligation at the end of the mortgage term.

G

General Contractor: A person who oversees a home improvement or construction project and handles various aspects such as scheduling workers and ordering supplies.

Gift Letter: A letter that a family member writes verifying that s/he has given you a certain amount of money as a gift and that you don't have to repay it. You can use this money towards a portion of your down payment with some mortgages.

Good-Faith Estimate: A form required by the Real Estate Settlement Procedures Act (RESPA) that discloses an estimate of the amount or range of charges, for specific settlement services the borrower is likely to incur in connection with the mortgage transaction.

Government Mortgage: A mortgage loan that is insured or guaranteed by a federal government entity such as the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), or the Rural Housing Service (RHS).

Government National Mortgage Association (Ginnie Mae): A government-owned corporation within the U.S. Department of Housing and Urban Development (HUD) that guarantees securities backed by mortgages that are insured or guaranteed by other government agencies. Popularly known as "Ginnie Mae."

Gross Monthly Income: The income you earn in a month before taxes and other deductions. It also may include rental income, self-employed income, income from alimony, child support, public assistance payments, and retirement benefits.

Ground Rent: Payment for the use of land when title to a property is held as a leasehold estate (that is, the borrower does not actually own the property, but has a long-term lease on it).

Growing-Equity Mortgage (GEM):

A fixed-rate mortgage in which the monthly payments increase according to an agreed-upon schedule, with the extra funds applied to reduce the loan balance and loan term.

H

Hazard Insurance: Insurance coverage that compensates for physical damage to a property from fire, wind, vandalism, or other covered hazards or natural disasters.

Home Equity Conversion Mortgage (HECM): A special type of mortgage developed and insured by the Federal Housing Administration (FHA) that enables older home owners to convert the equity they have in their homes into cash, using a variety of payment options to address their specific financial needs. Sometimes called a “reverse mortgage.”

Home Equity Line of Credit (HELOC): A type of revolving loan, that enables a home owner to obtain multiple advances of the loan proceeds at his or her own discretion, up to an amount that represents a specified percentage of the borrower’s equity in the property.

Home Inspection: A professional inspection of a home to determine the condition of the property. The inspection should include an evaluation of the plumbing, heating and cooling systems, roof, wiring, foundation and pest infestation.

Homeowner’s Insurance: A policy that protects you and the lender from fire or flood, which damages the structure of the house; a liability, such as an injury to a visitor to your home; or damage to your personal property, such as your furniture, clothes or appliances

Homeowner’s Warranty (HOW): Insurance offered by a seller that covers certain home repairs and fixtures for a specified period of time.

Homeowners’ Association: An organization of homeowners residing within a particular area whose principal purpose is to ensure the provision and maintenance of community facilities and services for the common benefit of the residents.

Housing Expense Ratio: The percentage of your gross monthly income that goes toward paying for your housing expenses.

HUD-1 Settlement Statement: A final listing of the closing costs of the mortgage transaction. It provides the sales price and down payment, as well as the total settlement costs required from the buyer and seller.

Hybrid Loan: An adjustable-rate mortgage (ARM) that offers a fixed rate for an initial period, typically three to ten years, and then adjusts every six months, annually, or at another specified period, for the remainder of the term.

I

Interest Accrual Rate: The percentage rate at which interest accumulates or increases on a mortgage loan.

Interest Rate Cap: For an adjustable rate mortgage (ARM), a limitation on the amount the interest rate can change per adjustment or over the lifetime of the loan, as stated in the note.

Interest Rate Ceiling: For an adjustable-rate mortgage (ARM), the maximum interest rate, as specified in the mortgage note.

Interest Rate Floor: For an adjustable rate mortgage (ARM), the minimum interest rate, as specified in the mortgage note.

Investment Property: A property purchased to generate rental income, tax benefits, or profitable resale rather than to serve as the borrower's primary residence. Contrast with "second home."

Income Property: Real estate developed or purchased to produce income, such as a rental unit.

Index: A number used to compute the interest rate for an adjustable-rate mortgage (ARM). The index is generally a published number or percentage, such as the average interest rate or yield on U.S. Treasury bills. A margin is added to the index to determine the interest rate that will be charged on the ARM. This interest rate is subject to any caps on the maximum or minimum interest rate that may be charged on the mortgage, stated in the note.

Individual Retirement Account (IRA): A tax-deferred plan that can help you build a retirement nest egg.

Inflation: An increase in prices.

Initial Interest Rate: The original interest rate for an adjustable-rate mortgage (ARM). Sometimes known as the "start rate."

Inquiry: A request for a copy of your credit report by a lender or other business, often when you fill out a credit application and/or request more credit. Too many inquiries on a credit report can hurt your credit score; however, most credit scores are not affected by multiple inquiries from auto or mortgage lenders within a short period of time.

Installment: The regular periodic payment that a borrower agrees to make to a lender.

Installment Debt: A loan that is repaid in accordance with a schedule of payments for a specified term (such as an automobile loan).

Interest: The cost you pay to borrow money. It is the payment you make to a lender for the money it has loaned to you.

J

Judgment Lien: A lien on the property of a debtor resulting from the decree of a court.

Jumbo Loan: A loan that exceeds the mortgage amount eligible for purchase by Fannie Mae or Freddie Mac. Also called "non-conforming loan."

Junior Mortgage: A loan that is subordinate to the primary loan or first-lien mortgage loan, such as a second or third mortgage.

K

Keogh Funds: A tax-deferred retirement-savings plan for small business owners or self-employed individuals who have earned income from their trade or business. Contributions to the Keogh plan are tax-deductible.

L

Late Charge: A penalty imposed by the lender when a borrower fails to make a scheduled payment on time.

Lease-Purchase Option: An option sometimes used by sellers to rent a property to a consumer, who has the option to buy the home within a specified period of time. Typically, part of each rental payment is put aside for the purpose of accumulating funds to pay the down payment and closing costs.

Liabilities: A person’s debts and other financial obligations.

Liability Insurance: Insurance coverage that protects property owners against claims of negligence, personal injury or property damage to another party.

LIBOR-Index: An index used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans, based on the average interest rate at which international banks lend to or borrow funds from the London Interbank Market.

Lien: A claim or charge on property for payment of a debt. With a mortgage, the lender has the right to take the title to your property if you don’t make the mortgage payments.

Lifetime Cap: For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate or monthly payment can increase or decrease over the life of the loan.

Liquid Asset: A cash asset or an asset that is easily converted into cash.

Loan Origination: The process by which a loan is made, which may include taking a loan application, processing and underwriting the application, and closing the loan.

Loan Origination Fees: Fees paid to your mortgage lender or broker for processing the mortgage application. This fee is usually in the form of points. One point equals one percent of the mortgage amount.

Loan-To-Value (LTV) Ratio: The relationship between the loan amount and the value of the property (the lower of appraised value or sales price), expressed as a percentage of the property's value. For example, a $100,000 home with an $80,000 mortgage has an LTV of 80 percent.

Lock-In Rate: A written agreement guaranteeing a specific mortgage interest rate for a certain amount of time.

Low-Down-Payment Feature: A feature of some mortgages, usually fixed-rate mortgages, that helps you buy a home with a low down payment.

M

Manufactured Housing: Homes that are built entirely in a factory in accordance with a federal building code administered by the U.S. Department of Housing and Urban Development (HUD). Manufactured homes may be single or multi-section and are transported from the factory to a site and installed. Homes that are permanently affixed to a foundation often may be classified as real property under applicable state law, and may be financed with a mortgage. Homes that are not permanently affixed to a foundation generally are classified as personal property, and are financed with a retail installment sales agreement.

Margin: A percentage added to the index for an adjustable-rate mortgage (ARM) to establish the interest rate on each adjustment date.

Market Value: The current value of your home based on what a purchaser would pay. An appraisal is sometimes used to determine market value.

Maturity Date: The date on which a mortgage loan is scheduled to be paid in full, as stated in the note.

Merged Credit Report: A credit report issued by a credit reporting company that combines information from two or three major credit bureaus.

Modification: Any change to the terms of a mortgage loan, including changes to the interest rate, loan balance, or loan term.

Money Market Account: A type of investment in which funds are invested in short-term securities.

Mortgage: A loan using your home as collateral. In some states the term mortgage is also used to describe the document you sign (to grant the lender a lien on your home). It also may be used to indicate the amount of money you borrow, with interest, to purchase your house. The amount of your mortgage often is the purchase price of the home minus your down payment.

Mortgage Broker: An individual or firm that brings borrowers and lenders together for the purpose of loan origination. A mortgage broker typically takes loan applications and may process loans. A mortgage broker also may close the loan.

Mortgage Insurance (MI): Insurance that protects lenders against losses caused by a borrower's default on a mortgage loan. MI typically is required if the borrower's down payment is less than 20 percent of the purchase price.

Mortgage Insurance Premium (MIP):

The amount paid by a borrower for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (PMI) company.

Mortgage Lender: The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property and the loan application process through closing.

Mortgage Life Insurance: A type of insurance that will pay off a mortgage if the borrower dies while the loan is outstanding; a form of credit life insurance.

Mortgage Rate: The interest rate you pay to borrow the money to buy your house.

Mortgagee: The institution or individual to whom a mortgage is given.

Mortgagor: The owner of real estate who pledges property as security for the repayment of a debt; the borrower.

Multifamily Mortgage: A mortgage loan on a building with five or more dwelling units.

Multifamily Properties: Typically, buildings with five or more dwelling units.

Multiple Listing Service (MLS): A clearinghouse through which member real estate brokerage firms regularly and systematically exchange information
on listings of real estate properties and share commissions with members who locate purchasers. The MLS for an area is usually operated by the local, private real estate association as a joint venture among its members designed to foster real estate brokerage services.

Mutual Funds: A fund that pools the money of its investors to buy a variety of securities.

N

Negative Amortization: An increase in the balance of a loan caused by adding unpaid interest to the loan balance; this occurs when the payment does not cover.

Net Monthly Income: Your take-home pay after taxes. It is the amount of money that you actually receive in your paycheck.

Net Worth: The value of a company or individual's assets, including cash, less total liabilities.

Non-Liquid Asset: An asset that cannot easily be converted into cash.

Note: A written promise to pay a specified amount under the agreed upon conditions.

Note Rate: The interest rate stated on a mortgage note, or other loan agreement.

O

Offer: A formal bid from the home buyer to the home seller to purchase a home.

Open House: When the seller's real estate agent opens the seller's house to the public. You don't need a real estate agent to attend an open house.

Original Principal Balance: The total amount of principal owed on a mortgage before any payments are made.

Origination Fee: A fee paid to a lender or broker to cover the administrative costs of processing a loan application. The origination fee typically is stated in the form of points. One point is one percent of the mortgage amount.

Owner Financing: A transaction in which the property seller provides all or part of the financing for the buyer's purchase of the property.

Owner-Occupied Property: A property that serves as the borrower's primary residence.

P

Partial Payment: A payment that is less than the scheduled monthly payment on a mortgage loan.

Payment Change Date: The date on which a new monthly payment amount takes effect, for example, on an adjustable-rate mortgage (ARM) loan.

Payment Cap: For an adjustable-rate mortgage (ARM) or other variable rate loan, a limit on the amount that payments can increase or decrease during any one adjustment period.

Personal Property: Any property that is not real property.

PITI: An acronym for the four primary components of a monthly mortgage payment: principle, interest, taxes, and insurance (PITI).

PITI Reserves: A cash amount that a borrower has available after making a down payment and paying closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

Planned Unit Development (PUD): A real estate project in which individuals hold title to a residential lot and home while the common facilities are owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

Point: One percent of the amount of the mortgage loan. For example, if a loan is made for $50,000, one point equals $500.

Power of Attorney: A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

Pre-Approval: A process by which a lender provides a prospective borrower with an indication of how much money he or she will be eligible to borrow when applying for a mortgage loan. This process typically includes a review of the applicant's credit history and may involve the review and verification of income and assets to close.

Pre-Approval Letter: A letter from a mortgage lender indicating that you qualify for a mortgage of a specific amount. It also shows a home seller that you're a serious buyer.

Pre-Qualification: A preliminary assessment by a lender of the amount it will lend to a potential home-buyer. The process of determining how much money a prospective home-buyer may be eligible to borrow before he or she applies for a loan.

Pre-Qualification Letter: A letter from a mortgage lender that states that you're pre-qualified to buy a home, but does not commit the lender to a particular mortgage amount.

Predatory Lending: Abusive lending practices that include making mortgage loans to people who do not have the income to repay them or repeatedly refinancing loans, charging high points and fees each time and "packing" credit insurance onto a loan.

Prepayment: Any amount paid to reduce the principal balance of a loan before the scheduled due date.

Prepayment Penalty: A fee that a borrower may be required to pay to the lender, in the early years of a mortgage loan, for repaying the loan in full or prepaying a substantial amount to reduce the unpaid principle balance.

Principal: The amount of money borrowed or the amount of the loan that has not yet been repaid to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan minus the amount you've repaid.

Private Mortgage Insurance: Insurance for conventional mortgage loans that protects the lender from loss in the event of default by the borrower. See Mortgage Insurance

Promissory Note: A written promise to repay a specified amount over a specified period of time.

Property Appreciation: See "Appreciation."

Purchase and Sale Agreement: A document that details the price and conditions for a transaction. In connection with the sale of a residential property, the agreement typically would include: information about the property to be sold, sale price, down payment, earnest money deposit, financing, closing date, occupancy date, length of time the offer is valid, and any special contingencies.

Purchase Money Mortgage: A mortgage loan that enables a borrower to acquire a property.

Q

Qualifying Guidelines: Criteria used to determine eligibility for a loan.

Qualifying Ratios: Calculations that are used in determining the loan amount that a borrower qualifies for, typically
a comparison of the borrower's total monthly income to monthly debt payments and other recurring monthly obligations.

Quality Control: A system of safeguards to ensure that loans are originated, underwritten and serviced according to the lender's standards and, if applicable, the standards of the investor, governmental agency, or mortgage insurer.

R

Radon: A toxic gas found in the soil beneath a house that can contribute to cancer and other illnesses.

Rate Cap: The limit on the amount an interest rate on an adjustable-rate mortgage (ARM) can increase or decrease during an adjustment period.

Rate Lock: An agreement in which an interest rate is "locked in" or guaranteed for a specified period of time prior to closing. See also "Lock-in Rate."

Ratified Sales Contract: A contract that shows both you and the seller of the house have agreed to your offer. This offer may include sales contingencies, such as obtaining a mortgage of a certain type and rate, getting an acceptable inspection, making repairs, closing by a certain date, etc.

Real Estate Professional: An individual who provides services in buying and selling homes. The seller pays the real estate professional a percentage of the home sale price. Unless you've specifically contracted with a buyer's agent, the real estate professional represents the interest of the seller. Real estate professionals may be able to refer you to local lenders or mortgage brokers, but are generally not involved in the lending process.

Real Estate Settlement Procedures Act (RESPA): A federal law that requires lenders to provide home mortgage borrowers with information about transaction-related costs prior to settlement, as well as information during the life of the loan regarding servicing and escrow accounts. RESPA also prohibits kickbacks and unearned fees in the mortgage loan business.

Real Property: Land and anything permanently affixed thereto — including buildings, fences, trees, and minerals.

Recorder: The public official who keeps records of transactions that affect real property in the area. Sometimes known as a "Registrar of Deeds" or "County Clerk."

Recording: The filing of a lien or other legal documents in the appropriate public record.

Refinance: Getting a new mortgage with all or some portion of the proceeds used to pay off the prior mortgage.

Rehabilitation Mortgage: A mortgage loan made to cover the costs of repairing, improving, and sometimes acquiring an existing property.

Remaining Term: The original number of payments due on the loan minus the number of payments that have been made.

Repayment Plan: An arrangement by which a borrower agrees to make additional payments to pay down past due amounts while still making regularly scheduled payments.

Replacement Cost: The cost to replace damaged personal property without a deduction for depreciation.

Rescission: The cancellation or annulment of a transaction or contract by operation of law or by mutual consent. Borrowers have a right to cancel certain mortgage refinance and home equity transactions within three business days after closing, or for up to three years in certain instances.

Revolving Debt: Credit that is extended by a creditor under a plan in which
(1) the creditor contemplates repeated transactions; (2) the creditor may impose a finance charge from time to time on an outstanding unpaid balance; and (3) the amount of credit that may be extended to the consumer during the term of the plan is generally made available to the extent that any outstanding balance is repaid.

Right of First Refusal: A provision in an agreement that requires the owner
of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

Rural Housing Service (RHS): An agency within the U.S. Department of Agriculture (USDA), which operates a range of programs to help rural communities and individuals by providing loan and grants for housing guarantee loans for the purchase or construction of single family housing.

S

Securities: A financial form that shows the holder owns a share or shares of a company (stock) or has loaned money to a company or government organization (bond).

Sale-Leaseback: A transaction in which the buyer leases the property back to the seller for a specified period of time.

Second Mortgage: A mortgage that has a lien position subordinate to the first mortgage.

Secondary Mortgage Market: The market in which mortgage loan and mortgage-backed securities are bought and sold.

Secured Loan: A loan that is backed by property such as a house, car, jewelry, etc.

Security: The property that will be given or pledged as collateral for a loan.

Securities: Financial forms that shows the holder owns a share or shares of a company (stocks) or has loaned money to a company or government organization (bonds).

Seller Take-Back: An agreement in which the seller of a property provides financing to the buyer for the home purchase. See also “Owner Financing.”

Servicer: A firm that performs servicing functions, including collecting mortgage payments, paying the borrower’s taxes and insurance and generally managing borrower escrow accounts.

Servicing: The tasks a lender performs to protect the mortgage investment, including the collection of mortgage payments, escrow administration, and delinquency management.

Settlement: The process of completing a loan transaction at which time the mortgage documents are signed and then recorded, funds are disbursed, and the property is transferred to the buyer (if applicable). Also called closing or escrow in different jurisdictions. See also “Closing”

Settlement Statement: A document that lists all closing costs on a consumer mortgage transaction.

Single-Family Properties: One to four unit properties including detached homes, townhouses, condominiums, and cooperatives, and manufactured homes attached to a permanent foundation and classified as real property under applicable state law.

Soft Second Loan: A second mortgage whose payment is forgiven or is deferred until resale of the property.

Service members Civil Relief Act: A federal law that restricts the enforcement of civilian debts against certain military personnel who may not be able to pay because of active military service. It also provides other protections to certain military personnel.

Subordinate Financing: Any mortgage or other lien with lower priority than the first mortgage.

Survey: A precise measurement of a property by a licensed surveyor, showing legal boundaries of a property and the dimensions and location of improvements.

Sweat Equity: A borrower’s contribution to the down payment for the purchase of a property in the form of labor or services rather than cash.

T

Taxes and Insurance: Funds collected as part of the borrower's monthly payment and held in escrow for the payment of the borrower's, or funds paid by the borrower for, state and local property taxes and insurance premiums.

Termite Inspection: An inspection to determine whether a property has termite infestation or termite damage. In many parts of the country, a home must be inspected for termites before it can be sold.

Third-Party Origination: A process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package a mortgage loan. See also "Mortgage Broker."

Title: The right to, and the ownership of, property. A title or deed is sometimes used as proof of ownership of land.

Title Insurance: Insurance that protects lenders and homeowners against legal problems with the title.

Title Search: A check of the public records to ensure that the seller is the legal owner of the property and to identify any liens or claims against the property.

Trade Equity: Real estate or assets given to the seller as part of the down payment for the property.

Transfer Tax: State or local tax payable when title to property passes from one owner to another.

Treasury Index: An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the results of auctions by the U.S. Treasury of Treasury bills and securities.

Truth-In-Lending Act (TILA): A federal law that requires disclosure of a truth-in-lending statement for consumer credit. The statement includes a summary of the total cost of credit, such as the annual percentage rate (APR) and other specifics of the credit.

Two to Four Family Property: A residential property that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed; a loan secured by such a property is considered to be a single-family mortgage.

U

Underwriting: The process used to determine loan approval. It involves evaluating the property and the borrower's credit and ability to pay the mortgage.

Uniform Residential Loan Application: A standard mortgage application you will have to complete. The form requests your income, assets, liabilities, and a description of the property you plan to buy, among other things.

Unsecured Loan: A loan that is not backed by collateral.

V

Veterans Affairs (U.S. Department of Veterans Affairs): A federal government agency that provides benefits to veterans and their dependents, including health care, educational assistance, financial assistance, and guaranteed home loans.

VA Guaranteed Loan: A mortgage loan that is guaranteed by the U.S. Department of Veterans Affairs (VA).

W

Walk-Through: A common clause in a sales contract that allows the buyer to examine the property being purchased at a specified time immediately before the closing, for example, within the 24 hours before closing.

Warranties: Written guarantees of the quality of a product and the promise to repair or replace defective parts free of charge.

Federal Trade Commission ftc.gov

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