

Dean Engle

The **SECRET** **DISCOUNTED** **BANK NOTES**

What the Fat Cats of Wall St.
don't want you to know!



**'Under
-the-radar'
techniques**

for making
money from the
mortgage meltdown.

www.notebuyingprofits.com

You're about to learn an "under the radar" technique for making money from the mortgage meltdown, and how more than a dozen FAT CAT Wall Street banking executives are raising hundreds of millions of dollars to take advantage of – and profit from – the mess they helped to create.

These FAT CATS hope you never learn about this opportunity so they can keep raking in the easy money. But we are going to come clean and show you how any average investor can profit from this same situation.

Dean Engle, San Francisco, CA

Earnings Disclaimer

By using or purchasing products from NoteBuyingProfits.com, you understand that there are no warranties or guarantees about potential earnings or losses. You further understand that starting or taking part in any type of business inherently involves a certain level of risk. Any investment into a corporation, business start-up or the real estate market is not without certain inherent risks and pitfalls. As such, there is no guarantee or representation that you will make a profit or not lose money by purchasing our products or using our services.

Statements regarding the potential for earnings, profits or income that are included on our website are estimates and are not meant to guarantee or represent that you will experience similar results.

Performance experienced by endorsers on our website is not what you should expect to experience. Notebuyingprofits.com has not investigated or substantiated any of the comments or claims. In some cases, users may have been incentivized to submit their comments and Notebuyingprofits.com has not verified the figures quoted or the claims made.

Prior to engaging in any new or existing business or investment it is prudent to conduct due diligence and consult with a professional regarding the financial and/or legal risks involved. Notebuyingprofits.com does not represent itself as a legal, financial or investment professional.

FTC Mandated Disclaimer

Disclaimer: The FTC requires that we disclose any material connection we may have with anyone who provides testimonials or comments (endorser) regarding our website, our products or services. We do NOT have Material Connections with endorsers. We do NOT pay fees or provide free promotional materials or benefits to endorsers. We do NOT independently verify, nor do we seek independent verification of claims made by endorsers; however, to the best of our knowledge we believe they are giving their honest opinions.

See www.notebuyingprofits.com/disclaimers.html for a complete disclaimer, including expected results.

Table of Contents

Earnings Disclaimer	3
Table of Contents	4
The Dirty Little Secret about the Fat Cats of Wall Street	5
How to Beat the FAT CATS	11
The Second Dirty Little Secret in the Discounted Note Business.....	13
Introduction	17
Getting Started.....	19
What's Possible When You Invest in Discounted Bank Notes.....	24
The Benefits of Discounted Bank Notes	27
Why Do Notes Work?	31
The 7 Principles.....	34
Two Lessons to Get Going.....	38
Breaking Down the Discounted Bank Note Business.....	40
What's in it for Me?	45
The 3 Steps to Making Money with Discounted Bank Notes	60
What are the Biggest Challenges I'll Face?	70
How much money can I make buying Discounted Bank Notes?.....	75
Can I lose money?	79
What do I do if I get stuck?	82
Strategies to Get Started.....	83
Resource Tool#1 – Note Buyer's Glossary.....	88
Resource Tool #2 – How to Talk to a Bank.....	91
A Call-to-Action.....	95
Contact Information	99

The Dirty Little Secret about the Fat Cats of Wall Street

You're about to learn an "under the radar" technique for making money from the mortgage meltdown. And you'll learn the dirty little secret about how more than a dozen FAT CAT banking executives are raising hundreds of millions of dollars to take advantage of – and profit from! – the mess they helped create.

These FAT CATS hope you never learn about this opportunity so they can keep raking in the easy money. But we are going to come clean and show you how any average investor can profit from this same situation.

So, let's get a better understanding about you. Are you someone who:

- Has been chasing short sales that have taken you months to complete
- Buys homes at foreclosure auction and you're seeing more and more competition to buy a home at foreclosure sale

- Has invested in stocks, bonds or other “alternative” investments that haven’t performed the way you’ve wanted, and you’re looking for a place to invest your cash
- Has experience in the mortgage industry or as a realtor, and you’re looking for a way to use your skills and knowledge to create new income streams to replace revenue you’ve lost
- Has the gift of gab and is looking for your next calling in the current financial chaos
- Is ticked off that FAT CATS should be able to make off with millions after having created the mess that we’re in (and that even you yourself may be in, personally!)?

If you said yes to any of these, then you’re in the right place.

I wrote this book because I’ve had friends come up to me with sob story after sob story of their investments that are upside-down, or underwater. And because I’ve had other friends tell me that they’re trying to chase real estate in today’s market (REO’s or Short Sales or pre-foreclosures), and they’re just

not able to close enough of them, or to close them quickly enough, to make them enough money to put food on the table.

Let me make something very, very clear to you right now. If you don't have what I call "Discounted Bank Notes" in your portfolio of investments, or if your network of contacts doesn't include bankers and investors who are working in the world of discounted real estate debt, then you're missing out on one of the largest investment opportunities in the world.

Don't believe me? Then listen to what some of the FAT CATS have to say about it.

Jon Daurio is the CEO of Kondaur Capital, one of the largest investors of discounted bank notes, based out of the offices of one of the largest creators of discounted bank notes, and formerly the world's largest subprime lender, Ameriquest Mortgage, located in Orange, California. He wants to own the market for Discounted Bank Notes.

How big is the market that Daurio is chasing?

It's gigantic.

Here's how big Daurio believes it is: "I figure there are about \$12 trillion in outstanding mortgages, about half of which are not securitized. So that's about \$6 trillion dollars. Say 10 percent of those loans are scratch & dent, so the total potential market for us is something like \$600 Billion."¹

How big is \$600 Billion?

Imagine if every citizen of the State of Connecticut had a mortgage. That's roughly 3.5million people, according to Wikipedia's 2008 estimate.² Now, take every single one of those mortgages and throw them into a bucket called "Discounted Notes".

That's the bucket that Daurio is feeding out of.

¹ Orange County Register, Monday, March 16, 2009. "Ex-subprime exec works flip side of the market", <http://www.ocregister.com/articles/span-style-font-2334783-weight-bold>

² Assumes that the average mortgage size is \$175,000 – as calculated across 34million mortgages profiled in the OCC's Mortgage Metrics Report for First Quarter 2009, available here: <http://www.occ.gov/ftp/release/2009-77.htm>

It's not a bucket. It's a veritable trough.

\$600 Billion is a lot of discounted notes.

So ... is there any money to be made from this bucket?

Here's what one of the other FAT CATS – one of Daurio's competitors – has to say about feeding from that bucket. “It has been very successful — very strong,” said John Lawrence, head of loan servicing at PennyMac, a \$1 Billion hedge fund set up to invest in discounted bank notes. He continues, “In fact, it's off-the-charts good.”³

The top brass at PennyMac used to run a small mortgage lender called ...
Countrywide.

³ New York Times, March 4, 2009. “Ex-Leaders of Countrywide Profit From Discounted Loans”

And now?

“[They] stand to make millions from the home mortgage mess,” said the New York Times recently.⁴

So if the smartest men on the planet who made a killing recently from the real estate boom –Angelo Mozilo, who used to run Countrywide made \$470 Million over 5 years during the boom – see this as an opportunity, then do you really want to let them make a killing ALONE?⁵

Again?!

If you answered “No” and you think that it’s time for YOU to get a piece of the action, then read on.

This is your time to get even. Don't let the guys who made the mess be the only ones who make a killing from cleaning it up!

⁴ Ibid.

⁵ Wall St Journal, November 20, 2008 Executive Incentives.
http://online.wsj.com/public/resources/documents/st_ceos_20081111.html.

How to Beat the FAT CATS

As the old saying goes: “If you can’t beat ‘em, join ‘em.”

The quicker you understand what I’m about to share with you, the more successful – and the more quickly successful – you’ll be.

Chances are you won’t be able to compete with the BIG FAT CATS in the discounted bank note business. They have hundreds of millions of dollars to push around, after all. But here’s an interesting little secret – in fact it’s THE dirty little secret about those FAT CATS.

The FAT CATS can’t become millionaires and billionaires ... without your help!

What the FAT CATS need, in fact, is for you and other investors to buy from them so that they can make a profit!

You see, some of the most successful FAT CATS out there are actually trying to get investors like you to pay as much as possible for notes that they want to sell TO YOU! That's how they make their money ... by buying low and selling high to people who don't know much about notes. Some of them will do **anything they can** to get you to pay as much as possible for their notes.

Now, what I'm NOT telling you is to avoid these FAT CATS like the plague: not at all. In fact, what I'm going to tell you is that you can – and should – buy as much as you can from them. It may sound odd, but you'll actually find some of your best deals from FAT CATS, because they **need to sell** their notes. And because they have so many that they want to sell (some of them have thousands of notes in their portfolio that they are looking to sell at any given time), they don't always know the situation on a single note as well as you do.

The Second Dirty Little Secret in the Discounted Note Business

The key to success – the second dirty little secret in the discounted bank note business – is that when you're in this business, you're actually in the **information** business. The way you **really** make your money in the discounted note business is that you KNOW MORE about what you're buying than the seller does about what they're selling.

Sure, sure, if you have investors who only ask for a 5% rate of return on their money you might be able to make money simply because your cost of money is lower than the seller's, but when you really get down to analyzing the best deals that anyone ever does in this business, it's almost always because the information the buyer has about a certain note is better than the information the seller has about that same note!

So is there any chance that you might know MORE than one of these FAT CATS knows about the notes that they have?

Absolutely.

Let me give you a concrete example. One of my students bought a note – one that was in bankruptcy – from one of these FAT CATS.

“Even with [multiple] asset managers, they do miss important details,” he wrote to me the other day. He went on to explain how, in one case, he ended up making a rate of return on his money that was a LOT higher than he originally anticipated when he first looked at how much they wanted for their note.

His point to me was this (and I’ll translate his “code” for you below): “They sold me a loan that was coming out of BK13 and completely missed the amount due in arrears through the trustee. All of this info was readily available on Pacer in the BK plan.”

Now, hang on a second before you tell me that you’re overwhelmed with the lingo he just used above. In very simple terms, what he said was the following: in a Chapter 13 bankruptcy filing, the borrower makes 2 payments – (1) their normal mortgage payment to the lender, and (2) an additional

payment to the bankruptcy court to cover all their late payments and accrued interest.

The seller on this note **completely missed the second payment** that was being made by the borrower to the bankruptcy court, and didn't even know about those payments. But my student caught that (as an advanced student of mine, he received the training he needed to know the fundamentals of consumer bankruptcy, and knew what to look for when he was buying the note). And so he decided to buy the note at a deeply discounted price that he had negotiated with the FAT CAT.

“The second payment,” he pointed out to me, “raised our yield on the note by 5 percent.” That’s like suddenly discovering that your 2% interest rate on your 1-year CD is now yielding 7% because the bank found some special program that pays new CD holders an extra 5%!

Would you be happy if you found that out?! My student certainly was. And he knows that he can – and continues to – make money from these FAT CATS.

With what I teach you, you'll find a whole lot more tricks that will level the playing field in your favor and against those FAT CATS that you can immediately start buying from.

And yes, I did say “immediately start buying from”. It took one of my students exactly 12 minutes to start buying his first note from one of these new note clearinghouses. That could be you—getting immediate access to notes from a seller that wants your business!

Introduction

Buying or finding notes – finding notes is when you don't use your own money and get paid by bringing a buyer and seller together – is the largest and most profitable real estate investment strategy that's become available to individual real estate investors in the past 30 years.

Those that “get it” are seeing profits beyond what they ever expected. In this book I'll share 5 case studies with you from 4 different people who have been investing in this market over the past few years.

Buying notes enables you to take advantage of one of the “biggest and baddest” bank failures in this country's history. You can buy what those banks own (mortgages, deeds of trust, and notes) – at big discounts.

One of the best things about this investment strategy, though, is that you can be a Note Investor without ever having to touch real estate.

Let me repeat this, because it's one of the best things about this type of investing.

What You Don't Need to Worry About with Discounted Note Buying:

- Tenants who don't pay their rent on time
- Toilets – either cleaning OR unplugging them
- Termites and other pests that bore away a property investor's asset
- Realtors who don't want to help you get your short sale closed
- Driving to and from your investment property. There is no driving necessary when you buy Discounted Bank Notes – in fact there's no need to even leave the comfort of your own home. If you dream of working from home, then buying Discounted Bank Notes is for you! All you need are a laptop and a cellphone!

Getting Started

I've had hundreds of people ask me about the value of buying notes. "Is it hard?" they ask. Or "Do banks really sell notes at a discount?" What they're really asking is "Can you actually make money buying notes?"

Prior to investing in non-performing bank notes, I spent many years working in banks, doing a lot of internal strategy work for Chase, and before that as a management consultant working for large banks to help them analyze and evaluate their business models. We studied what worked in a particular business area by studying industry leaders, and then analyzing step-by-step what – and how – they did what they did.

I applied that approach to the world of real estate – and the world of note investing in particular, and what I found surprised me.

First of all, it's an area that although few individual investors may have heard about it or know how it works, there are huge companies and funds that are making a killing in this area of real estate right now.

I already gave you the example of the former Countrywide executives at PennyMac, so I won't repeat myself here.

One of the keys to success is adapting to changing markets. One of the most significant changes in the past three years has been mortgage default rates. Obviously that's had an impact on home prices, and foreclosure rates have skyrocketed.

California, one of the worst-hit states, saw 637 Foreclosures⁶ in the second quarter of 1996, and 43,620 in the first quarter of 2009!

What's going on behind the scenes, though, is even more important than what you read about in the headline stats. Every foreclosure begins as a non-performing loan at a bank. And only if the bank "gives up" does that loan get taken all the way to foreclosure and then sold as Real Estate Owned (REO) if it's not bought at the foreclosure sale by an investor.

⁶ MDA Dataquick, April 22, 2009 "Golden state mortgage defaults jump to record high"

Many banks don't "give up", though, and end up working those non-performing loans as best they can. "Working out" is the common expression of what banks attempt to do as they're trying to reduce (or mitigate) their losses when the loan goes delinquent. So "working out" a loan typically happens in the loss mitigation department.

What happens when those banks face massive foreclosure volumes, as they've been facing over the past two years, is that they become incapable of "working out" those loans. That is what has spurred Pennymac and a host of other investment companies to pile into the market over the past two years in order to take advantage of the banks' pain.

The less capable the banks are of working out their own non-performing loans, the more willing they may be to sell off those loans and to get rid of their snowballing problem.

The snowballing foreclosure problem is showing no signs of letting up, by the way. In fact, it's still increasing at a record pace.

San Diego County saw Notices of Default rise from 3,055 in January 2009 to 3,673 in April 2009, an increase of just over 20%⁷ in a single quarter. That's an annualized rate of over 80%!

Pennymac is very well positioned to take advantage of this increase in volume.

But there is an endless amount of supply to go around.

Pennymac is ready to raise an additional \$750 Million in 2009 to chase discounted bank notes. And it's one of the top 10 funds targeting discounted bank notes in the country.

The International Monetary Fund (the IMF) has estimated that the US could face a problem of up to \$4 Trillion in discounted, or non-performing bank notes.⁸

⁷ Ward Hanigan hosts a Foreclosure Forum with detailed stats for San Diego county on his website: www.foreclosureforum.com

⁸ Calculated Risk blog, April 4, 2009: <http://www.calculatedriskblog.com/2009/04/report-imf-to-warn-of-4-trillion-in.html>

In other words, there would need to be 1,333 Pennymacs to buy up all the toxic assets that US banks may currently have, according to the IMF.

If you feel like you're chasing too few good REO deals, or wasting your time on oh-so-hard Short Sales, then you're focused on the wrong market.

Stop chasing short sales and go focus on the big gorilla in the room right now:
Discounted Bank Notes.

What's Possible When You Invest in Discounted Bank Notes

Once you focus on notes, you completely turn the investment process on its head, because you enter a world of scale, rather than deals. What's possible with notes includes:

- **Million-dollar relationships.** Generating relationships with a single individual at a bank that can provide you with deal after deal after deal – sometimes hundreds of deals over several years. There's a reason why when you look around in the marketplace of note buyers you see a lot of big companies – they understand the potential for scale
- **The slinky effect.** There's a unique opportunity for small, individual buyers of notes, no matter how many big funds and big companies exist in this market. Picture this: the note market is like a staircase with 4 stairs. And notes are like a slinky, going down those stairs. The top stair is the big banks that have more than \$100M in loans. The next step down is the smaller banks and investment funds that have \$20-100M in loans. The third step is large individual investors that have \$1-20M in loans, and the last

step are individuals who invest out of their IRAs and invest in 1-10 loans. The big banks start with a large package of notes – maybe more than 1,000 at a time, and they sell them to a smaller investment company (so the slinky goes down a stair). Then that company breaks up their loans into smaller package (the slinky goes down another stair) and then the slinky finally makes it to the bottom stair (to the individual investors who know where to stand in order to get those loans).

- **Volume.** If you know where to look, what to ask for, and who to ask, there is a very large supply of non-performing paper in the marketplace. If you learn how to negotiate with sellers, then you can get set up for a steady pipeline of deals to invest in. It's that simple.

For you as an investor, you have the opportunity to create a new lead source that generates massively more leads than any of your other investment strategies at a fraction of the investment of both time and money that's traditionally required in other types of real estate investing.

And the best part of all is that you can do it without having to leave the comfort of your home or office. No more driving the neighborhood for fixer-uppers!

The Benefits of Discounted Bank Notes

The main reasons to invest in Notes are to:

- Simplify and multiply your lead generation
- Generate income continuity, regardless of whether you buy or whether you connect a buyer and seller and take a fee
- Grow your real estate business beyond your regular investment geography
- Avoid the hassles of property and tenant management
- Take advantage of one of the largest opportunities in the real estate markets ever

Simplify and multiply your lead generation: two very successful investors I know have used a single bank relationship to build significant wealth. One bought non-performing notes for seven years from one bank before it was acquired by Citibank. Another spent an entire year buying more than 1 note per week from National City Bank. That same person just raised \$50M to buy notes and has done very well for himself.

In terms of multiplying your lead generation – there are over 8,000 banks the FDIC regulates, and another 800 that are regulated by the Office of Thrift Supervision.

Generate income continuity: an average rehab project may take 2-3 months of work plus another 2 months to list and sell. On 40 notes we recently invested in, we averaged 4.5 months from when we bought to when we either sold them or foreclosed and sold the house.

Grow your real estate business beyond your usual geography: I recently attended a real estate conference in San Francisco and met an investor by the name of Jenny. She said she typically invested in the San Francisco Bay Area. We started talking about notes and she mentioned she was actually in the process of buying her first note ever.

In Columbus, Ohio.

I asked her what made her comfortable about investing that far away from her. She said she had an opportunity to buy a 1st mortgage of \$120,000 for

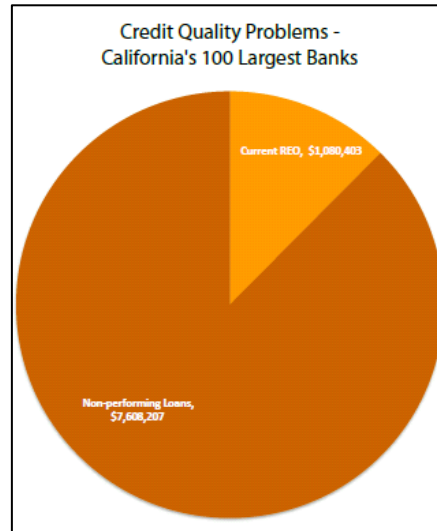
\$58,000, on a house that she had appraised at \$180,000. That's a discount of over \$60,000 on a note!

Avoid the hassles of property and tenant management: one of the main reasons I got into notes was that I could avoid doing what I do worst – managing properties. I've



acquired 95 notes in the past three years, or just over 1 every two weeks. I've seen two of the properties in person; have taken back less than 10 as REO's, and have managed absolutely no property rehab work. The most we ever did was to paint and carpet a property in Hollister, California before reselling it for a quick sale. I like showing photos of this property on the last page. It was the 2nd note I bought – 3,000 miles from my home in Lakeland, Florida. The front door was ajar - this was the kitchen as photographed by a realtor I had take a look at the property. And we did no property management at all on the note and property. Ended up making just under \$20,000 on a \$54,000 investment, in just under 2 months.

Take advantage of one of the largest real estate markets in history: the non-performing loan market is many times the size of the REO market. Take a look at the chart below⁹ – which is a composite taken of the top 100 California banks, and what they had on their balance sheets in Q3 of 2008. Their total REO volume was \$1B. Their non-performing loan volume (which includes both commercial and residential real estate) was almost 8 times the REO volume, at \$7.6B.



⁹ From RealPropertyAlpha: <http://realpropertyalpha.com/2009/02/15/credit-quality-problems-california-100-largest-banks/>

Why Do Notes Work?

To the uninformed, Notes feel like sophisticated investments, managed by sophisticated bankers who sit in plush offices and push paper. If that's how you view Notes then you'll never get into one of the most profitable areas of real estate, with the highest concentrations of money, and the biggest opportunities that we've seen in the past three decades at least.

Notes are actually surprisingly easy-to-buy, easy-to-manage and simple-to-track investments that have one of 6 defined exit strategies you can pursue.

Here's why Notes work so well:

- Multiple notes per bank
- Deep discounts
- Limited paperwork
- The Three "T's" of Termites, Toilets and Tenants, Don't Apply

- **Multiple notes per bank:** a friend of mine in the industry, we'll call him Andrew, had one of his account reps call and fax in an offer to one

bank over and over and over again to the same bank rep, for about six months. In the end, the bank rep got so sick and tired of Andrew's guy faxing her an offer one of her notes that she finally called the guy and just told him "fine – send the money – I accept." A year later, Andrew had made well over one million dollars on that one bank relationship – and had bought dozens and dozens of notes from the bank. Unless you really screw up a relationship, you should be able to buy note after note from a bank once you've closed your first deal.

- **Deep Discounts:** it's not uncommon to buy notes at a discount of over 50% off of the current value of a house. I recently bought a pool of notes from a Wall Street bank at 22% of the notes' balance, and at 49% of what we considered to be the 30-day sale price of the homes. Typically, you can buy or find notes in the range of 40-65% of the value of the property.
- **Limited Paperwork:** there is a single document that you need to sign in order to buy a note and get into a deal. It is easy to negotiate. There aren't 8 different addenda as there are when you're buying a property in California.

- **The Three “T’s” of Termites, Toilets and Tenants Don’t Apply:**
certain investors outsource to capable third parties the entire management of their investments, soup to nuts. There are many “servicers”, as they’re called, that will manage the collections or loss mitigation process for you. You can do a lot of this yourself if you’re more of the hands-on investor, however. The most appealing part about notes to most people is that you don’t have to deal with things like tenants, toilets or termites. After all, when you buy a note, you don’t own the property.

The 7 Principles

If you want to succeed in the note business, then heed the following principles. Not all are intuitive, even if you're a well-established real estate investor to begin with. The quicker you grasp these 7 principles, the better armed you'll be to jump into this business.

1. **Not 1 but 2.** Every note that you buy will be tied to a Security Instrument (more commonly known as a Mortgage, a Deed of Trust, or a Security Deed). Don't buy one without the other.
2. **Notes are not real estate, they're personal property.** One of the unique things about notes and mortgages is that they qualify as personal, and not real, property. That's to your advantage when it comes to taxes and liability – buying notes is a tax-efficient way to accrue gains. Since they qualify as personal, and not real property, you also don't have the liabilities that come with people tripping on the sidewalk in front of "your" house. You don't own any real property.

3. **There's no equity.** If you're looking to create "equity" in your investment, then skip over this asset class altogether. What you game with a note is the difference between what you paid for the note, and how much is owed on it (the note's balance).

4. **There's no appreciation.** This goes back to the first principle in which notes aren't real property. Since they're not real property, there's no appreciation to be had. Once again – when you "work" your note investments, you're working on creating the maximum spread between what you buy a note for, and how much of the note's balance you can recover. If you're buying a performing note, or if you modify a non-performing note and make it perform again, then you will end up maximizing your yield.

5. **A \$ lost is not a \$ lost.** If you buy a house and it loses \$1 in value, you've lost \$1. If you buy a note and deed of trust against a house, and that house loses \$1 in value, you have not lost \$1. This is critical to understand.

6. **It's not about the deal.** Buying or finding notes is about building a business, an alternative to the J-O-B. Why? Because it's a scalable process of finding either 1 or more sources to buy notes from, and then following a set of steps over and over again in order to make money. If you're the type of person who loves "the deal", and the process of chasing down a seller or a homeowner and working out some sophisticated arrangement of lease purchases and options and trusts and performance deeds with fractional interest, then notes aren't for you. Notes are for the person who wants to build a business. The largest businesses investing exclusively in notes have around \$1 Billion under management. That's scale.

7. **Three things you thought were right side up are upside down, and vice-versa.** Those three things are:

- **Bankruptcy**

When you think about bankruptcy, you'd be right to think that it's usually a good thing if it were you that were filing it. When it's your

borrower that files bankruptcy, it's a bad thing because it delays your exit strategy.

- **Foreclosure**

Usually foreclosure is a bad thing when it happens to you. When you're buying non-performing notes, you typically end up foreclosing in 50% or more of all notes you buy. In that case, foreclosure is a good thing. A little fire under someone's feet usually prompts them to take action.

- **Short Sales**

You've heard the horror stories of the 8-month short sale deals, or it's happened to you. Imagine getting a phone call from the lender on a property in which the lender tells you that they'll accept a short sale, and they tell you exactly where you need to be – AND on top of it all, they move lightning fast and don't ask you to give them a single piece of information on the borrower?! It can happen. It does happen. It's one of the best strategies for closing out a loan investment after you've bought one.

Two Lessons to Get Going

So how do you get started in Discounted Bank Notes?

There are two lessons to remember.

First off – listen to Nolan Bushnell, founder of Atari and Chuck E. Cheese's, who famously summed up his view of success as an entrepreneur: “The critical ingredient is getting off your butt and doing something. It's as simple as that.”

Lesson # 1 is: Take Action!

Second, and most important, you need to know what you know. That may sound confusing but follow me here.

Peter Drucker, the management guru, once said: “A person can perform only from strength. One cannot build performance on weakness, let alone on something one cannot do at all.”

Lesson # 2 is – Lead from your Strengths. Let's help you figure out what those strengths are as they relate to the Discounted Note Business.

Breaking Down the Discounted Bank Note Business

There are three components to the Discounted Bank Note business:

1. **Finding deals** – or talking to banks and other sellers that have discounted notes.
2. **Buying notes** – buying discounted notes requires money, or access to money.
3. **Getting out and making money** – someone needs to manage the discounted bank note once it has been bought.

Now then, what do these three components have to do with you?

And how does Peter Drucker's advice fit in here?

In order to apply Drucker's wisdom, you need to figure out which of the three components of the business to start out with, in order to get up and running (and to make money) as fast as possible.

It helps to get started on your strongest foot, right? If you wanted to get in shape and you loved water and were afraid of heights, it wouldn't be a good idea to sign up for a workout program that focused on rock climbing rather than swimming, would it?

To put it another way, let's identify where you're most skilled, and where you have the LEAST amount of work to do in order to excel and make money.

Here's Peter Drucker again: "We all have a vast number of areas in which we have no talent or skill and little chance of becoming even mediocre **It takes far more energy to improve from incompetence to mediocrity** than it takes to **improve from first-rate performance to excellence.**"

What am I talking about?

Remember that the Discounted Bank Note business has 3 components:

1. Finding deals
2. Buying notes

3. Getting out and making money

If your real skill is in talking to people and "connecting", you should focus on taking advantage of the Discounted Bank Note business by Finding Deals.

Similarly, if your excellence area is as an engineer – and you like "managing a business", you should focus on taking advantage of the Discounted Bank Note business on the operations side, by what I call “working out” notes – or overseeing the servicing of your notes yourself.

Finally, if you don't have access to money right now, there are sources for money that you can turn to, and that we'll help you to find. It's a question of knowing WHO and WHERE to ask for it!

Let me point out something very important here for those of you asking yourselves: “Hang on a minute, here, Dean. I'm an entrepreneur and I want to build a business that will do ALL of these three steps – I don't want to just focus on one of them.”

No matter which of the categories you fall into, you can **always** partner up with or hire out to someone with the skills of the other category if you want to create your own Note Buying Business.

It's important to recognize that even if you don't have the skills to be a Note Finder right now, or if you're not really operations-oriented, **you can still participate in this enormous market.**

Really?

It doesn't take money in order to succeed?

No, it doesn't.

Take Sherry Nickels. She has been a Note Finder for several years – her role is to put a note buyer in touch with a note seller, and then to let the seller sell and the buyer buy. She gets paid once they complete a trade.

She has been doing very well for herself. And she has never needed to have any money to buy a note or a bunch of notes, herself. (To find out more about Sherry and the way she makes money in this business, head to our Membership area to find out more about Note Finding, at <http://www.notebuyingprofits.com/members/?p=1665>.)

What's in it for Me?

So you're probably asking yourself "what's in it for me?"

Well, let me share a couple of examples with you about people who have been doing this business, and let you hear from them what they think.

Rick B.'s First Two Notes

Rick used to buy properties at auction in North Georgia. Then, two things happened in 2007 and 2008: a) the appreciation he was used to getting on the houses that he would rehab or fix up, dropped to close to nothing, and; b) his wife came down with cancer, and all the cash he had saved up he ended up spending on medical bills.

Now here are a couple of things about buying properties on the courthouse steps when they go to foreclosure: "a lot of times I missed houses by two or three thousand dollars," says Rick – because you never really know what someone else wants to pay for the house. So everyone would ask Rick, "Well, why don't you just have more money?"

“Well, I didn't have more money,” says Rick. That was the situation he was in.

So then he took my course on buying Discounted Bank Notes. And he told himself: “I really want to do one note.” So he developed his own strategy for finding hugely discounted, and CHEAP, bank notes.

He went to the bankruptcy court and did some research, and found people with multiple mortgages against their property who were in bankruptcy. Now, one of the things about this strategy is that what Rick doesn't like to admit is that he was on the brink of bankruptcy himself. He did this strategy, “Because I was broke, literally” he admits.

And he found a few gems!

Did he borrow the money to buy the notes he found?

No. Rick had less than \$5,000 available to invest.

So here was Rick's first note deal. He bought a 2nd note (which means that it was the 2nd note behind a larger one that was called a "First".) The first was a \$78,000 note that the borrower owed \$64,276 on. And Rick was buying the 2nd note – the balance on it (the amount the borrower owed on the note), was \$20,000.

Oh, the value of the house, I forgot to mention, was \$130,000.

Guess how much Rick bought the 2nd note for – the one that had a balance of \$20,000?

\$2,000.

That's 10% of the balance on that note. That's what he paid for it. He received an \$18,000 discount on the note.

Well, I hear you saying. Discount is great, but what did he DO with it after that?

Well, Rick had his servicer offer the borrower a modification on the note – in other words he agreed to accept a lower payment than what they were required to pay, in order to make it easier on the borrower to make those payments. The note had actually increased in price every month, because the rate on their mortgage had increased so that the borrower was **supposed to be paying** \$347 per month. Instead, Rick told his servicer to give the message to the borrower that he would be willing to accept the regular monthly payment the borrower **originally had paid**, which was only \$297 per month.

Guess what happened?

The borrower was thrilled, and started making those \$297 payments again.

So, the numbers once again: Rick paid \$2,000 for the note, and is collecting \$297 per month.

If he had invested that \$2,000 in a CD at the bank, Rick would have been receiving a monthly interest payment of ... hang on to your seat here ... \$3.33 (at a 2% interest rate).

<u>The Numbers</u>	
Purchase:	\$2,000
Cash monthly:	\$297
Yield:	~180%

Rick is receiving a monthly payment worth 89 times what the bank would have paid him on a 1-year CD! Oh, and the first note – what happened with that one? Well, the borrower was making payments on the 1st the entire time.

How much work does he have to do to maintain or what's called "service" his note? None. It's done for him by a licensed and regulated servicing company so that he doesn't need to worry about it.

Oh – it gets better, though.

Rick's 2nd deal he got into was also a 2nd note – this one had a balance of \$59,000. The 1st note on the property had a balance of \$49,000. And the house was worth \$122,000. Guess how much he bought the 2nd note for in this case?

\$3,500 is what he paid for a 2nd note with a balance of \$59,000. That's a discount of 94%!

And what he end up doing with this note?

Well, the borrower wasn't paying on the note, and Rick hired on an attorney to foreclose on the borrower. He paid the attorney \$1,279. Was it difficult for him? No – it was just business, nothing personal, and his attorney did all the work.

<u>The Numbers</u>	
Purchase:	\$3,500
Attorney fees:	\$1,279
Total Cost:	\$4,779
Cash Out:	\$36,987
Profit:	\$32,208
Hold Time:	3 months

What happened in the end? Well, Rick's attorney took the property to sale, meaning that the property was sold on the courthouse steps (if you've never been to a foreclosure auction in your county, get yourself down to the County Courthouse so that you can see what actually happens at a foreclosure or a Sheriff's sale).

So the day of the auction, an investor bid \$36,987 on Rick's note. Remember how much he had paid: \$3,500. So Rick made a profit of \$32,208 in 92 days.

Where is Rick at now? “My plan as I build up is to just get one every other month and then build up to one a month, one or two a month, like next year, and start getting into larger pools.” The word “pools” refers to larger groups of notes that are sold in packages. Right now, Rick’s focused on buying one at a time. It’s the way I got started, in fact.

Dean’s First Note

Here’s the story of my first note. I was chasing Short Sales at the time (in 2004 and 2005) – and I was looking for houses that I could help the owner sell, and make some money on the sale. This one house was empty, on a nice little street called Magellan Drive in the hills of Oakland, California.

By my estimate, the house was worth about \$750,000 or so. The 1st mortgage was foreclosing, so that’s why it popped up onto my list – I was chasing foreclosure notices. I noticed that there was a 2nd mortgage on it when I was doing research on it. The 2nd mortgage was with National City Bank.

I knew someone who had worked at National City. So the next day I called her up – this was December 19th, 2005, I have the notes from that call right in front of me to this day (part of my unique deal-generating-and-tracking-system, which I'll soon be releasing in order to give you the breakthrough power of working with bankers, by the way).

“Hey, Saprina,” I said. “Didn’t you tell me one day that National City sells notes?” “Yes,” she replied. “I used to sell notes for them all the time.”

“So do you think they might sell me this one?” I asked her. She asked me for the “numbers”, so I gave them to her.

I ran her through the numbers. Here they are below, by the way.

- \$400,000: 1st Mortgage
- \$150,000: 2nd Mortgage
- \$750,000: Approximate House Value

After she heard the details on the note –she did some quick math on it and then told me matter-of-factly: “Yes they will sell, and if you’re interested, I can tell you exactly what you should offer.”

I was dumbstruck. "You can do what?!"

"Well, I used to work there, so I can tell you exactly what you should offer," she stated again in her no-nonsense tone.

She had my attention. "Go ahead, tell me," I told her. She told me to start at \$20,000. Wow, I thought, \$20,000 for a \$150,000 note?!

"Yes, but they'll probably counter at around 35-40% of the note balance, so around \$50-60,000." She went on: "they'll settle for somewhere around \$27,500." What did I do? I followed her instructions...to the letter.

And here's what happened:

The bank agreed to sell it for \$23,500. They gave me a \$126,500 discount on the note. Talk about a discounted bank note!

So then what?

What I did with the note once we bought it (I bought it with a partner I had at the time) – well I ended up selling this note to another bank.

You see, there was what is called a 3rd note against the property. Another bank had let the homeowner borrow money for his business, and they had “secured” (a fancy way for saying they had recorded a mortgage) it against the borrower’s personal home.

Well the bank holding that 3rd note actually paid us \$120,000 for our 2nd position note! We made a profit of \$96,500 on our very first note. In less than 60 days.

<u>The Numbers</u>	
Purchase:	\$23,500
Cash Out:	\$120,000
Profit:	\$96,500
Hold Time:	<60 days

Kevin C.'s 1st Deal

Kevin bought his first note (it was a 2nd note) for \$14,500 on a property in Idaho. How did it go? The balance at the time was \$20,665, at a 30% discount off the balance.

“I did absolutely nothing with this deal for nearly a month,” he admits, “because I didn't know what to do and I was waiting for the collateral file and my assignments ... I didn't know what I was supposed to do!”

But finally, Kevin called and left the homeowner a message.

“The homeowner called me on a Saturday afternoon complaining that their loan had been bounced all over, they had been making payments to [their former lender] all along and were not delinquent on their loan. Whoa! I was taken aback, shocked, and didn't know how to follow up on that, other than to try to get the borrower to start making their payments to my company.”

Well, to come to the conclusion of the story, Kevin “got the borrower to start making their regular payments ... which they began to catch up on over the next few months.”

So he started collecting payments. \$282 per month. And he received 8 payments in a row.

And then, he had an epiphany.

After a few months, he started thinking, “How can I get cashed out of this deal, collect my 50% return, and go buy some more notes?” So he had his servicer offer to the borrowers that they would accept a discounted payoff on Kevin’s note if the borrower were to refinance their home. The rate on the note Kevin was holding was 13.75%! (That’s what you sometimes get for investing in 2nds – some GREAT interest rates).

Kevin’s servicer wrote a letter to the borrowers explaining that at current interest rates (around 6.5%), they could refinance both the first and the second

into a new loan at a shorter term (10-15yrs) and **pay less** than they are paying on their current two loans!

Several weeks later, the servicer called Kevin to state they'd received a request for payoff from a title company, which meant the borrowers were refinancing!

“We made \$9,592 with a yield of 103%,” Kevin told me, “in about 9 months.” He paid \$14,500 and cashed out just over \$24,000 in less than a year.

<u>The Numbers</u>	
Purchase:	\$14,500
Cash Out:	\$24,092
Profit:	\$9,592
Hold Time:	9 months

Kevin's 2nd Deal

After this deal, Kevin began to love 2nd notes. They are inexpensive; they are hands-on (which Kevin loves – he and his servicing company work closely with his borrowers) and they can have some of the highest profits of any notes available.

Usually, I advise my students to start with small 1st notes, because they're not as complicated to engage in as a 2nd note, but Kevin wanted to push himself. He was a go-getter!

So what was his 2nd deal? It was also a 2nd note. This one cost him only \$2,162 (tell me the truth – do you have \$2,162 for a deal that could make you a phenomenal return on your money?!). He also spent \$113.51 in due diligence (Kevin is “anal” and keeps track of his expenses very carefully, which is part of the reasons for his success).

The balance on the note was \$7,000, and the borrower owed another \$3,400 in “arrears” – that’s how much they needed to pay in order to bring the note “current” as we say in the business.

Kevin’s servicer called the borrowers – a man and his fiancé, and Kevin had the servicer send a letter asking the borrowers to call so that they could work out a payment arrangement with the borrowers.

No response.

So Kevin hired an attorney (which merely takes a phone call to a law firm whose contact information I make available to all of my students, by the way) to foreclose on his loan. The foreclosure attorney sent out a letter to the borrowers, and lo-and-behold, the borrowers called!

The borrowers wanted to pay off their loan. The amount Kevin instructed his servicer to offer them was a discount on the more than \$10,000 that they owed him. He offered them \$8,000 if they paid within 30 days.

They took him up on his offer, and one week later, Kevin received a cashier's check for \$8,000.

He made profit of \$3,964 in just under 6 months, on a note that he bought for \$2,162.

Kevin's annualized return was 416.42%

(I told you he's precise!).

<u>The Numbers</u>	
Purchase:	\$2,162
Purchase fee:	\$113
Research:	\$259
Attorney fees:	\$1,502
Total Cost:	\$4,036
Cash Out:	\$8,000
Profit:	\$3,964
Hold Time:	6 months

The 3 Steps to Making Money with Discounted Bank Notes

There are three simple steps to making money in the discounted bank note business:

Step 1 is to **Learn the Lingo**. A little language goes a long way.

Step 2 is to **Find a Seller** of notes. From the last chapter, that may be all of a 15-minute exercise for you.

Step 3 is to **Find a Buyer** for those notes (if you don't want to – or don't have the money to – buy the notes yourself).

Let's review each of those steps in detail.

Step 1: Learn the Lingo (the Billion Dollar Bathroom Break)

As with anything you learn – it's sometimes more important to know what to say than who to say it to.

Imagine a guy who spent weeks or months preparing a perfect plan for meeting some woman that he was wildly in love with ... and never practicing his seduction line!

The same is true for talking to banks and getting non-performing notes. Learning what to say to someone who works at a bank is very helpful – crucial, in fact – to becoming truly successful in this business.

A student of mine whom I'll call Jefferson (I've masked his real name, but he certainly exists – you'll see – this story is much too juicy to actually make up!), recently wrote to me about his experience meeting with people at the Mortgage Bankers Association in Chicago for one of their annual meetings.

He wasn't getting anywhere in terms of making small talk at the conference itself, until he went to the bathroom.

And then, his luck changed.

“All of a sudden this guy starts a conversation and I ask him if he’s here for the conference,” Jefferson told me about his restroom experience.

“After quick introductions I find out that he’s the head representative for [a New England Bank].”

Nothing like your average set of introductions by the hotel urinal.

“He asked what kind of paper we buy and (yes I had my script prepared) I told him non-performing 1st and secured 2nd notes. I threw out terms I learned from the videos and calls with Dean and managed to have a serious conversation with this guy. After a while, he asked if I would be interested in buying performing notes because he’d be willing to let go of a billion for about 75-80%!”

So just to put this into perspective for you: Jefferson walks into the bathroom at a Chicago hotel as a student of mine who wants to buy non-performing notes.

He walks out of that bathroom in the Chicago hotel with the business card of a senior executive at a New England Bank who has just asked him if he would like to buy \$1 Billion of discounted bank notes! (Jefferson joked to me afterwards that he thought the pricing was a little high, but that “After that conversation, my confidence level went up by about a million!”)

If these scripts and videos can get Jefferson a lead on a \$1 Billion worth of discounted bank notes – do you think they might help you to find 1 or 2 or even 3 notes from a bank in your local area that you could started with? No doubt!

Step 2: Find a Seller

Once you’ve learned what to say, and you’re familiar with the lingo (see the Resources section at the back of this book for a list of the most common terms you need to know in the Note Business), then you want to be able to find sources for your discounted bank notes.

You may be lucky and attend a conference and happen to meet a \$1 Billion seller in the restroom. But there are other, more traditional ways to meet sellers of discounted bank notes.

Almost every bank in the country has discounted bank notes – not all are available for purchase (no mortgages or notes that are in securities, for example, are available for purchase, which affects approximately 50% of the mortgages in circulation today).

One of the simplest ways to get bank information is to subscribe to a service called the Lane Guide (available at www.laneguide.com) and to then search for the banks in your home state, and to call the corporate headquarters number at the bank. What you are looking for is one of three different departments: either the loss mitigation department (you want to talk to the head of the department, rather than some low-level gatekeeper); the secondary marketing department (refers to the “secondary” market for loans – which is the market after a loan has been originated), or; the capital markets “desk” which refers to a trading “desk” within the company’s trading area – where they would buy and sell assets of all types. Loans or notes are considered an asset that can be traded.

Once you get through to the right department, then you put your lingo to use – explain what it is that you and your company does and are looking for.

This is your "elevator pitch." It's the most important part of building a new bank relationship, so it's what you need to get right!

And then you ask what type of "product" the bank has available for sale. By product, I mean what types and what quantities of notes it has. If you want examples of a real-life example call on how to create your own "elevator pitch" – then go to the Resources section in this book – and go to the "Example Bank Call" section that William S., a student of mine, put together, and that I've edited, to make it easier for you to "crack the code" with a bank.

For even MORE tips on how to find a Note Seller, read through the "Strategies to Get Started Buying Discounted Bank Notes ... RIGHT NOW!" chapter in this book. You'll find at least two additional strategies to get going right away in finding your first discounted bank note!

Step 3: Find a Note Buyer

Finally, once you've found someone who Sells Notes, you want to then find a Buyer for those Notes (assuming that you don't have the money or the desire to buy the Note yourself – which many of my students do – so by no means do you just have to become a Note Finder).

Here are the steps you want to follow in order to secure a buyer.

One of the best ways to find a prospective note buyer is to make use of the NoteBuyingProfits.com forum – see (www.notebuyingprofits.com/forum). There, you will find hundreds of registered buyers, finders and investors all invested in – and interested in investing in – discounted bank notes.

Another good source for discounted note buyers is the foreclosure auctions and sales in your county. Almost every county in the United States holds foreclosure auctions or sales – usually at the County Courthouse steps. The investors who buy properties at auction can make excellent prospective buyers for notes you're looking to buy.

Why? There are 3 reasons why foreclosure auction buyers can make good buyers for discounted bank notes:

- a) they have money – usually hundreds of thousands of dollars, often millions of dollars (in CA, for example) in their pockets in cashier's checks at a time;
- b) they know exactly what a property is worth – and can usually tell you what they would pay for a property within a few hours;
- c) they often understand the foreclosure process – and aren't usually afraid of buying a discounted bank note.

One of the reasons why I recommend working with a foreclosure auction buyer, however, is more strategic.

What if I were to hand you your first Note and tell you that it would cost you \$10,000 or \$20,000 or \$100,000, because you DO need to pay cash for notes – you can't get them financed? What would the likelihood be that you might need – or want – to borrow money in order to buy that discounted bank note?

If you answered “probably,” then you have an extra reason to meet your county’s foreclosure auction buyers. They could be your money source!

My very first source of money to buy notes was a foreclosure auction buyer by the name of Mike. He’s a 65-year old real estate pro – a crusty-been-around-the-block-what’s-the-address kind of guy who knows exactly what properties are worth anywhere within 20 miles of his home because he’s been in the foreclosure property business for over 40 years.

Well, Mike got tired of doing all the rehab work himself on his properties, so he started lending money. He’s been lending to auction buyers for over 10 years now – and he knows exactly what notes are because ... guess what ... he secures his loans with a Note and a Mortgage (or Deed of Trust here in California).

Does he know about foreclosure? Heck yes! He’s had to foreclose on a few borrowers himself.

So was he open to lending money to me at 12% and 3 points in order for me to go out and buy one of my early notes? Absolutely. He lends up to 75% of the purchase price of the Note itself.

So, enough said. Get out there and take this golden little tip I just gave you and go find yourself your first source of funds ... he or she is probably less than 10 miles from your home right now!

What's really neat about this strategy of finding, meeting, and getting to know foreclosure auction buyers, is that you may end up killing two birds with one stone: finding people who will buy discounted bank notes **from you**, as well as people who can lend you money to buy discounted bank notes **yourself**.

What are the Biggest Challenges I'll Face?

Being able to buy notes is dependent upon having access to money. You don't have to have the money yourself, you just need to have access to a reliable source of cash to close deals fast. Some key factors in getting cash include:

1. **Play it simple:** Notes are not always that easy for people to understand, even sophisticated investors. I suggest you first get comfortable with the process of raising money from investors by listening in on this interview I did with a guy I call "Mr. Finance: <http://www.notebuyingprofits.com/members/?p=1719>.
2. **Don't be greedy:** you probably have read about how cheap money can be when you have a good deal. 99% of the time that's dead wrong. Money is always more expensive than you want it to be, so don't be greedy. Find out what your "Money Partner" or your Lender wants, and then negotiate them down as much as you can. Remember, they're holding the key to your getting your deal done, so expect to start with a higher cost of funds than you end up negotiating later, down the road.

3. **Start small:** Take what comes to you and just get started. Once you have a track record on even a single loan, you'll see that things get easier as you go along. Don't believe the hype, though, that it's easier to raise \$10Million than it is to raise \$500,000. It's hard **both ways!** (By the way, I do have a "How-to-Raise-Money" toolkit that many note buyers have found useful. It's included when you purchase the Note Profits System training. Call the office for details: 415-252-7254.)

4. **Over-communicate.** Investors always want to know how their money is doing. And as you start out in a new financial relationship with a partner or group of partners, you'll want to communicate regularly with them – give them updates on what exit strategies your servicer is pursuing on each note, what your progress is with each borrower, and updates on property values. Even if you have nothing to report to your investors on a given day, give them market information and insight to demonstrate your knowledge and experience, and continue to build their trust in you. Every bit of knowledge you gain, every bid you lose and every banker you speak to, can provide you with potential insight to be shared with your partners and investors.

(Note: You can always choose to be a Note Finder – someone who puts Note Buyer in touch with Note Seller and makes a fee on every trade.)

Let me leave you with a story about Rick, a student of mine who, after closing his first discounted bank note deal, is now sitting with an offer of \$1 Million from an investor he recently met.

Here's Rick's story in his own words. He used the How-to-Raise-Money Toolkit (the basic version) that I've created for students, and he changed the photograph of the property in it, and put in the numbers from his first note deal. Then he went out and met with a few people he'd heard had some money to invest in real estate, through a friend of his.

Here's what happened. He had his first meeting with a couple of investors. One of them, it turns out, had "a little" money to invest.

"I kind of gave this whole dissertation on what I was doing," says Rick. "And a couple months later he comes back and says, 'Well, I think I got some

money for you for some pools, but I don't know if you're going to like the amount.'

Rick was excited. Maybe he could borrow \$100,000 – which is what he was looking for at the time.

“I'm like, OK, well, how much?”

There was a pause.

“Well,” the man answered slowly, almost feeling ashamed. “It would just be a million dollars to start off.”

Rick was floored. To start off, he thought?! Wow – he just had received an offer to invest \$1 Million in him and his note buying business.

The lesson learned here is not to underestimate the importance of your first discounted bank note deal. It can open many, many doors for you, including the door to money.

How much money can I make buying Discounted Bank Notes?

We've covered 5 case studies in this book about the money that I – and students of mine – have made buying discounted bank notes (my students have dozens and dozens of examples of profitable note purchases they've done). They're covered in the chapter called: "So, What's In It for Me?" so please reference that chapter for all the details on these case studies.

I've summarized those case studies up here for easy reference.

Rick B., Georgia

Case Study #1: Rick purchased a 2nd position Note with a balance of \$20,000, for \$2,000 – a discount of 90%. It was a non-performing note – meaning that the borrower wasn't making payments on it. Rick ended up turning no cash flow into a cash flow of \$297 every month. His yield is over 180% a year on his first note purchase.

Case Study #2: Rick purchased a 2nd position Note with a balance of \$59,000, for \$3,500 – that's a discount of 94%. It was also a non-performing note –

meaning that the borrower wasn't making payments on it. Rick ended up hiring an attorney to carry out a foreclosure against the borrower (spending another \$1,279) and then cashed out of the deal at the foreclosure sale when an investor paid \$37,000 for the property. His profit on the deal was \$32,208 – and he held the Note for just over 3 months.

Case Study #3: My first note was also a 2nd note (the returns on 2nds can be much higher in terms of percent, than on 1sts, and they require less money to purchase, but – fair warning here – they typically take more work for you to work out if you're working these with your own servicer). So my first note I paid \$23,500 for – and it had a balance of \$150,000, so a discount of only 84%! It was a 2nd position note in Oakland California that I ended up selling to a bank that actually held another note against the same property, for \$120,000. We ended up making just under \$100,000 in under 60 days on that note. It remains one of the best deals we've done on a discounted bank note.

Case Study #4: Kevin, an investor out of New Jersey, and a student of mine, purchased a 2nd position note for \$14,500 – it had a balance of \$20,665. He ended up cashing out of his Note by having his servicer convince the borrower to refinance the property – at which point Kevin would accept a discounted

payoff on his note. Kevin cashed out just over \$24,000 from his Note, and ended up profiting just over \$9,500 from this, in just over 9 months.

Case Study #5: Kevin's next note, after the one above, was a very small purchase for him – it only cost him \$2,162 to buy a note with a balance of \$7,000. The big thing about this note, however, was that the borrower was so far behind on their note that they owed another \$3,400 in “arrears” – that's how much they needed to pay in order to bring the note “current.” Kevin spent roughly \$360 doing research on the note, then another \$1,500 on his foreclosure attorney, and ended up cashing out just over \$8,000 as the borrowers on the note ended up paying off their more than \$10,000 note for the discounted \$8,000 that Kevin had his servicer offer them. Kevin made \$3,964 in just under 6 months on the note.

Let me give you a series of other case studies related to other notes too, that include both 1st position notes, as well as to note “finding” as we call it, where you put buyer in touch with seller rather than buy the note yourself.

Case Study #6: Tom F, Texas, bought a 1st position note in Kansas City, Missouri. He paid just over \$16,000 for the note – which had a balance of over \$67,000. It was a non-performing note, and the property was worth \$23,000 according to the seller. Tom happened to have a brother in Kansas City, and Tom’s servicer was able to set up a meeting between Tom’s brother and the borrower. The borrower wanted to refinance her home – with a friend of hers who was also an executive at a local bank. Tom’s brother met with the banker and the borrower, and was able to work out a discounted payoff on the note that allowed the borrower to keep her house, and that allowed Tom and his brother to make a profit. The local banker assessed the property’s value at over \$35,000 – and was able to get the borrower a refinance at over \$25,000 – netting Tom a profit of approximately \$9,000 on his \$16,000 purchase. All this in less than 6 months’ time!

Case Study #7: Owen E., in Laurel, Maryland, works both as a Note Finder, putting a note buyer together with a note seller, as well as a Note Buyer when he buys in his own account. I could describe what he did on one of his first note deals here, or instead, I could let him tell his story in his own words. Hear more about Owen’s deal (and many other case studies) at: <http://www.notebuyingprofits.com/members/?p=1080>.

Can I lose money?

The quick answer is: yes, you can lose money buying discounted bank notes. One investor I know – I'll call him Charlie – spent over \$600,000 to buy \$2.2 Million worth of 1st position notes that he thought were worth over \$2 Million. Unfortunately, he spent 2 years sitting on the notes, not sending them to a collections company, and more than half of them were foreclosed out due to unpaid property taxes. He lost over 50% of his investment.

Could this happen to you? If you learn what CAN go wrong, and how NOT to be suckered into buying anything that comes your way, then you will be much better prepared to face whatever a Bank or other seller throws at you – and you'll do much better than Charlie!

But you need to learn what can and can't go wrong when you're buying or finding discounted bank notes. You'll save both time **and** money, both of which seem to be in incredibly short supply nowadays!

As W. Somerset Maugham wrote in his 1943 novel *The Razor's Edge* – a story about a war veteran who spends time discovering happiness by studying eastern philosophy in India – “You waste a lot of time going down blind alleys if you have no one to lead you.”¹⁰

When I was learning how to buy discounted bank notes, I spent a weekend studying how with someone I learned a lot from in Utah back in 2005. He was a genius when it came to negotiating with banks – and taught me a lot that I still use in my investment practice today.

But he failed miserably at teaching me the process of note buying – he didn't coach me on how to buy a note, what documents we would need, how we might go out and look for money when we were raising funds to buy, or how to exit out of a note once we bought one. I could have saved a lot of time developing my own business had I been able to see the entire process from start to finish, and learn from someone who clearly laid out that process, and showed me exactly how to take each step along the way, in order to successfully make money by exiting out of my notes.

¹⁰ W. Somerset Maugham

That's why I put together a simple, easy-to-follow system to help other investors learn how to buy their own notes, or to be a finder for notes. (The other reasons I've created this system are that the best and most capable investors coming through my training can actually become investment partners for me – or can end up buying notes from me – which is a win-win in that it gets them (could be you!) notes that they can profit from, and allows me to have a good exit strategy for notes that we buy.)

What do I do if I get stuck?

This is a question that I get all the time. As a result, we've put together a coaching program that gives a select group of students access to a select group of coaches specially selected to provide the best training and education and hand-holding we can for you, a budding Note Buyer or Note Finder.

We have different levels of coaching available, so call the office for more details: 415-252-7254.

Come see how we can help you avoid making mistakes, and how to jump start your investing to beat the FAT CATS at their own game in this incredible mortgage meltdown.

Strategies to Get Started

Here are some advanced strategies to get launched into buying or finding Discounted Bank Notes. Following even one of these can give you a leg up on your competition:

- **Can You Usher Me In, Please?** One of the most overlooked strategies to get through to a bank is the lobbyist or consultant's approach to succeeding in business. In Rome, Senators were courted by businessmen and nationals who paid the Senator and developed a patron/client relationship in order to have their interests represented back in Rome.

My very first note was bought from National City Bank. I had no idea what I was doing, but found a friend of a friend who had worked at National City. She told me exactly what to do and who to contact in order to buy a note. I followed her instructions and made \$96,500 in 34 days. Think how you can find someone to help **you** break through to a bank. Craigslist, Monster, job sites. Be creative here and find your own modern-day "Senator" to usher

you in through the back door of a bank! The FAT CATS use this strategy all the time – so can you!

- **Cheap, Good Help is Here Now:** you can spend a lot of time contacting sellers and looking for notes. You **should** spend a lot of time doing that. But you may find that you don't have the time to if you've got a full-time job, like many students of mine. Take Owen, as an example. He works for a satellite installation and servicing company, and he works full-time. He has a virtual assistant working for him out of the Philippines, doing all his bank calls for him. She's on Instant Messenger and on Skype, speaks perfect English, and he follows up on all her activity at the end of each day. It works like a charm: he's drummed up more leads than a dozen other students I know – all courtesy of his virtual assistant. They're better than you think – and getting better!

- **Don't Forget the Weather:** I recently did a bank call with two students on the phone. It was a call to Indymac (now called OneWest). And it was to find out the contact information for the person in charge of non-performing notes. It was a cold call and ...

sure enough ... we talked about the weather before we got into any details about bank notes or discounted paper, or pricing or bid strips or any of that. Always remember to use conversational “ice breakers” when you’re developing a relationship. And whenever you can, name some other person who gave you a referral to the person you’re talking to. It always helps.

- **Get a Hook and Some Chintz:** anyone can pick up the phone and say “I’m looking for non-performing notes – what do you have for me” and the banker they just talked to will remember them as well as they’ll remember the turkey sandwich they ate a week ago. Think of something that a banker can remember you by. One of the best tips my students have done is to send Post-Its with their company name and phone number so that the person at the bank doesn’t forget them. Stand out. A little pad of paper that a banker never throws away and that has a catchy little phrase like: “Buying your Discounted Notes Today and Tomorrow” is all you need in order to stand out from the crowd. It may sound chintzy, but it might be the little reminder that’s there on the right day at the right time – just when that banker is looking for a buyer for their Notes!

- **Follow Up the Hook with Reminders:** Follow-up is the name of the game and the key to success. You remember the story about Andrew who had one of his reps fax one banker the same offer over and over again for six straight months? Andrew was the king of follow-up. He got it. Don't forget the old maxim: "If at first you don't succeed, try, try again." And **never take anything personally.**

- **Lead with a Name:** Cold-calling a Note Seller is tough because you always face the "who are you?" syndrome. Instead of trying to come up with creative ways to introduce yourself, get rid of that syndrome entirely. Having a reference, or better yet a recommendation, from someone else in the bank to talk to your Note Seller, gives you an immediate edge. I'll sometimes call the risk management or the finance department and ask for the head of the division, when I'm really just looking for the person who sells notes. What I'll usually get out of the person who's obviously behind the wrong door for me, is the name and extension of the person I SHOULD be talking to. Then, when I call the person I should be talking to, I say "John in credit risk gave me your name

and number,” or “Jason, your CFO said I should give you a call – do you have a minute?” Think about it: when was the last time someone hung up on you when you told them their boss asked you to call them?

- **Start at the Top:** One of my top students does the following: he Googles investor relations for the bank he’s trying to buy from. When he finds an investor presentation, he usually sees that there’s a name and phone number and email address attached to it. He emails that person asking them for the CFO’s phone number. He then calls the CFO and asks who he should talk to for a specific loan that’s in Loss Mitigation. Usually the CFO ends up passing him directly to the Head of Loss Mitigation since he doesn’t know anyone below that level! Once, this student contacted all 8 people whose names were on an investor presentation – and ALL 8 RESPONDED TO HIS EMAIL WITHIN 24 HOURS! A couple of them overlapped a lot in their functions, and ended up talking about this student, so he took some flak for mass emailing. But hey ... he got what he needed!

Resource Tool#1 – Note Buyer’s Glossary

Here’s a glossary of terms that you can study and make use of when you’re dealing with Note buyers and Note sellers of all kinds. This is enough to get you started.

ALLONGE: An allonge is attached to the original note and states that the note should be paid “to the order of” the buyer of that note. It does not get recorded, unlike an Assignment of Mortgage/Deed-of-Trust.

ASSIGNMENT: When a lender sells its note and mortgage or deed of trust to another investor, the transfer of ownership of the mortgage or deed of trust is confirmed by the signing (and the recording at the county recorder’s office) of an Assignment of Mortgage/Deed-of-Trust.

BANKRUPTCY: Can be either a Chapter 7, 11 or 13. 7 and 13 are personal bankruptcies. 11 is a corporate bankruptcy. In all cases, a bankruptcy filing is when a debtor (borrower) seeks protection from creditors (banks/lenders) and has a Trustee appointed to help him/her pay those creditors off. For a lender, a bankruptcy involves extra fees and extra time in order to work through the Bankruptcy court and to convince the Trustee to allow the lender to continue in a foreclosure proceeding, for example.

COLLATERAL: This refers to the security that a lender requires from a borrower against a Note. The collateral for a Mortgage or Deed of Trust is a borrower’s home.

DEED-IN-LIEU: When a borrower is in foreclosure, the foreclosing lender can offer the borrower to deed title to their home over to the Lender IN LIEU of foreclosing on the borrower.

DEED OF TRUST:	Similar to a Mortgage except it is a 3-party rather than 2-party agreement, wherein a Trustee holds a power of sale on the property.
DEFAULT:	When a borrower breaches or breaks any covenant or agreement in a Deed of Trust or Mortgage, which includes prompt payments, they are considered in default of their Mortgage or Deed of Trust.
EQUITY:	The part of the value of a home that is not encumbered, or secured by a Mortgage or Deed-of-Trust. In the above example of the home worth \$500,000, the Equity in the home is \$500,000 minus \$300,000 for the Mortgage, or \$200,000 (let's assume there are no other mortgages on this home).
FORECLOSURE:	The process a bank or lender undertakes to take title to a property, upon a borrower's default on their Mortgage or Deed of Trust.
INTERNAL RATE OF RETURN:	The IRR for an investment is the discount rate for which the total present value of future cash flows equals the cost of the investment.
JUDICIAL STATE:	A state in which the majority, if not all, foreclosures are processed through the courts.
LIEN PRIORITY:	In most states, there is a simple rule to the order of liens or Mortgages/Deeds-of-Trust: whichever one is recorded at the County Recorder's office first is the senior lien; the 2nd one recorded is then 2nd in line, etc.
LOAN-TO- VALUE (LTV)	The value of a specific loan relative to the equity (or value) of a home. For example, a property worth \$500,000 has a 1st Mortgage of \$300,000. The LTV of that loan is 60%.

MORTGAGE:	A document that gets recorded at the recorder's office, and which stipulates the terms that govern what a lender can and can't do in order to ensure repayment on their Note to a borrower. A Mortgage is a two-party agreement signed by a borrower and a lender, and it attaches the borrower's home as the "security" that the lender can recover in case the borrower defaults.
NON-JUDICIAL:	A state in which the majority, if not all, foreclosures are processed outside
STATE:	the courts, by a Trustee.
NON-PERFORMING:	A loan that does not see payment in full of principal and interest as are called
LOAN	for in the terms of the loan.
NOTE:	A promissory note signed by a borrower that includes the terms of the repayment of that debt, including the loan term and the number and timing of payments, the interest rate and (if the loan is an adjustable rate loan) the index and margin for that rate, prepayment penalties, etc.
REDEMPTION:	In certain states, a borrower has the right to redeem their property by reinstating their Note (usually before and after a foreclosure sale).
TRUSTEE:	A Trustee is a 3 rd party entity that holds what's called "bare or legal title" to a residential property in a Non-Judicial State.
USURY:	Defined as charging interest that is beyond the legal limit set by a State. Every lender needs to be aware of federal, state and municipal or county level regulations when it comes to servicing and modifying existing loans.

Resource Tool #2 – How to Talk to a Bank

Here is an example script that you can use with a bank if you are calling for the first time – remember – in order to get the phone number for the bank – use the Lane Guide to get the corporate headquarters number. And remember – smile when you're talking –an upbeat phone voice can open doors that a downbeat and tired one can't!

You: Hello, how are you? (Emphasize "how are you", it will get the operator's attention and they'll feel the need to ask you the same)

Operator: I'm good, how are you doing today?

You: I'm fine! I'm here in sunny [say where you're calling from!] enjoying the weather! (This may seem a little corny, but believe me – talking about the weather is an easy way to break the ice and gets the operator out of that robot mode of operating. You'd be amazed how something so small can make a world of difference in a person's attitude.)

(Usually laughter at this point and some idle talk... let it go where it goes...it's a nice break from there robotic reactions. It breaks their grind sort of speak. I have even gone into deeper unrelated conversation, just nice friendly talk before continuing with the original purpose of the call. Remember to just have fun with it!)

You: Well, I was wondering if you could help me. Before I just ask you for a particular dept, let me just tell you what it is that I do and then maybe, with your experience, you can better direct me to the right person or department. Is that ok?

Operator: Sure, of course

You: I have an investment company and we buy defaulted or non-performing notes from banks. Can you tell me which person or department I should talk to if I'm looking to buy from your bank?

(Sometimes the operator will repeat your question in the form of a statement for his or her own clarity.)

Operator: ...so, you need to get in contact with the dept which deals with defaulted or non-performing mortgage notes, is that right?

You: Yes. I need to speak with the person or dept which focuses on the selling of their discounted or non performing notes.

(At this point, the operator will either know who you need to talk to (rarely) and connect you directly or they will sometimes (8 times out of 10!) put you on hold to ask someone higher up who may be better familiarized with who or what you are looking for. This is OK – you want them to go that extra mile for you!)

Now then, once you're connected to the appropriate person, here's the way an example call might go:

*****WHAT TO SAY TO THE PRINCIPLE CONTACT*****

(Usually a risk manager, portfolio manger, asset manager or manager of some sort)

Principal: Hello, this is Agent Smith, how may I help you?

You: Hi, my name is [your name]. My company is [your company name], and we're looking to buy non-performing 1st notes and mortgages – residential rather than commercial. Am I in the right place?

(If they say: "We no longer sell," or "We don't sell defaulted or non-performing notes", then congratulate them for successfully getting those non-performers off their books and ask, "Would you happen to know any other lenders or institutions that are currently selling their non-performing paper?")

(If they indicate you're in the right place, then read on below...)

Principal: Yes you are (in the right place)

You: Ok, great. Well, can you tell me what you currently have available?

Principal: Well, we're putting out a tape in the next couple of weeks [a "tape is a collection of notes and mortgages, usually assembled in an Excel spreadsheet].

You: Got it. How many Notes are in it – and what is the UPB of the package? [UPB stands for Unpaid Principal Balance – and means the total amount outstanding on the Notes]

Principal: (May mention at this point - "Well, if you're interested in seeing the tape, you'll have to sign a Confidentiality Agreement.")

You: That would be fine – I'd be happy to complete a Confidentiality Agreement. What is your email address and I'll send you all my contact info so that you can just hit reply and send me what you need me to sign in order to bid on your Notes? [You always want to get the other person's contact info rather than put yourself at their mercy to get back in touch with you!]

(Then, you want to take the opportunity, BEFORE they hang up with you, to let them understand that you know what you're doing!)

You: Do you mind if I ask you a few questions?

1. Do you offer "single" or pools of notes....or both??
2. How often do you sell? When does a tape go out, so I know when to get back to you?
3. When you take bids, do you prefer fades or do you want an all-in, no-fade bid? [Fade refers to the percent that a property has declined in value since the time that the bank assessed its value – usually indicated in the "tape" they send you]
4. Is there anything you are having trouble selling right now – or that you weren't able to sell in the last trade you did? (Excellent question, by-the-way – my advice is to provide as much of a "vacuum cleaner / garbage disposal" type of function as you can

for a bank, by solving a Banker's most pressing problems for him or her – that can really build a strong relationship between you and provide you with years of on-going deal flow!)

*** At this point they will ask you to send them some info about yourself/ your company. Have an answer prepared!

A Call-to-Action

If you're like me, you sometimes skip to the end of a book before reading the beginning!

Well, here's what I recommend that you do.

Take a look at a little bit of the news in the markets today, this week, this month. Ask yourself "Is money chasing banks' 'toxic' mortgages right now? Is this really an opportunity that big institutions and investors are taking advantage of?"

It absolutely is. There is rarely a week that goes by – let alone a day! – where you don't read some news of the latest bank that went under, the "assets" that are being bought by other banks or investors, government bailout programs and funds buying mortgages.

But just remember two things (let these be the most important thing you take from this book).

1. Whoever is a buyer of discounted bank notes is almost always a seller,
and
2. Deals flow from Big to Small.

So as you read about what's going on in the markets, remember that investors are throwing big money at banks to buy their discounted bank notes. Don't view those investors as your competition. They're actually good sources for YOU to buy from. Deals flow from Big to Small: in other words, an investor buys notes in a big "package" from a bank, and you can pick up an individual note from that investor.

Not always, but certainly often.

So think of the news differently now. Every little piece of bank news is actually a clue into "where do those discounted bank notes go?"

It's not rocket science. But you need to know what you're doing. So get out there and learn the basics, and then start bidding on Notes!

There are plenty – I mean MORE than plenty – to go around.

Remember those numbers that the Fat Cats are throwing around: this is a \$600 Billion opportunity.

How big is that? It's as big as the State of Connecticut: if everyone had a mortgage (that's roughly 3.5million people, according to Wikipedia's 2008 estimate¹¹) and every one of those mortgages were delinquent or defaulted, then that would be the bucket that you and I and every other big and small investor, can be feeding from.

It's a pretty big bucket.

You just need to know how to find what's in that bucket, and then what to do

¹¹ Assumes that the average mortgage size is \$175,000 – as calculated across 34million mortgages profiled in the OCC's Mortgage Metrics Report for First Quarter 2009, available here: <http://www.occ.gov/ftp/release/2009-77.htm>

with what's in it. It will make some people extremely wealthy. Don't let this opportunity pass you up! Go to www.notebuyingprofits.com/special-offer/ and sign up now for THE SINGLE BEST NOTE BUYING resource available anywhere. We'll take you by the hand, coach you through the learning process, and help you get started as a new investor to take advantage of discounted bank notes.

Yours,

A handwritten signature in black ink that reads "Dean". The letter "D" is large and circular, with the rest of the name written in a cursive style.

Dean Engle

San Francisco, CA

Contact Information

Notepublishing.com
d/b/a “Notebuyingprofits.com”

Corporate Offices:
425 Divisadero St, Suite 207
San Francisco, CA 94117
Phone: (415) 252-7997