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The Value in Note Investing

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Agenda

- ① Background Info
- ① 1-4 Family Real Estate Investing
- ① What a Hard Money Loan and Why is It Used?
- ① The Lifecycle of a Hard Money Loan
- ① Real Estate Note Investing: Definition, Benefits, Risks
- ① How You Can Offer Value to Your Clients
- ① 506(c) Debt Funds: Investor Process and Due Diligence
- ① Who Are the Right Types of Clients?
- ① Q&A



My Background

- ① 20th Year in Private Lending
- ① Over 2,500 Loans, \$300MM+, < 1% Default
- ① Single Family and Multi-Family Investor
- ① 3-Time Award Winning Lender
- ① Certified Private Lender
- ① AAPL Ethics Advisory Committee
- ① 2023 Excellence Awards Nominee
- ① Author of *"Easier Than You Think, an Experts Guide to Single Family Real Estate Investing"*



1-4 Family Real Estate Investing

- ① Fix and Flip
 - ① Find Distressed Property
 - ① Buy at a Discount to the Market Value
 - ① Rehab/Repair Property
 - ① Sell for a Profit
- ① Rental Property
 - ① Same as First Three Above
 - ① Refinance Long-term
 - ① Capture Equity and Generate Cash Flow



What is a Hard Money Loan?

- ① *A short-term, higher interest, asset-based loan, with funds for purchase and repairs.*
- ① 19th Century Terminology (e.g., gold, silver, etc.)
- ① Tangible or Readily Available Funds
- ① Used for Business Purpose Real Estate
- ① Even Wall Street is Involved....



Why is It Used?

- ① The Need to Close Quickly
- ① Subject Property is Distressed
- ① Leverage Buying Power
 - ① Borrow Up to 75% Loan-to-Value
 - ① Loans for Purchase and Repairs
 - ① Ability to Buy Multiple Deals



The Lifecycle of a Hard Money Loan

- ① Approved Borrower Purchases Property
 - ① Lender Provides Initial Funding Draw at Closing
 - ① Repair Funds Held in Escrow
 - ① Lender is in 1st Lien Position
 - ① Borrower Rehabs/Repairs Property
 - ① Takes Draws at Intervals of Completed Work
 - ① Sells Property (for a Fix and Flip)
 - ① Refinances Property (for a Rental)
 - ① Typical Term is for 6-12 Months
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What is Real Estate Note Investing?

- ① Real estate note investing involves purchasing or investing in promissory notes secured by real estate properties, where the note amount is no more than 75% of the after repair value (ARV).
 - ① Most common forms are Mortgage Notes and Deeds of Trust.
 - ① Can be note by note or done through a debt fund.
 - ① Investors receive payments from the lender that are collected from the borrower.
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Benefits of Real Estate Note Investing

- ① Passive Income: Consistent cash flow from interest payments
- ① Diversification: Portfolio diversification beyond traditional real estate.
- ① Reduced Maintenance: No property management or maintenance responsibilities.
- ① Potential for Higher Returns: Attractive interest rates compared to other investments.
- ① Security: Notes are backed by real estate assets.



Benefits (Continued)

- ① Flexibility: Various note types and investment strategies.
- ① Collateral: The ability to take ownership of the property in case of default.



Risks in Real Estate Note Investing

- ① Default Risk: Borrowers may fail to make payments.
- ① Market Risk: Property values can fluctuate.
- ① Legal Risk: Foreclosure process varies by state
- ① Interest Rate Risk: Changes in interest rates can affect returns.
- ① Due Diligence: Inadequate research can lead to poor investments.



Risks (Continued)

- ① Illiquidity: Notes may be difficult to sell quickly.
- ① Borrower Creditworthiness: Risk associated with the borrower's financial stability.
- ① No Control: Limited control over property management and decisions.



Strategies to Mitigate Risks

- ① Lender Experience (Most Important Consideration)
 - ① Years in Business, Loan Volume, Default Rate?
- ① Comprehensive Borrower/Property Due Diligence
 - ① Credit Report, Background Check, Debt-To-Income, Reserves
 - ① Deal Analysis, Appraisal, Rehab Assessment, Draw Inspections
- ① Portfolio Diversification
 - ① Loans in Multiple Geographies
 - ① Portfolio Mix of Fix & Flip and Rental Properties
 - ① Limited Loan Concentration with a Given Client



Strategies to Mitigate Risks (Continued)

① Backoffice Systems

- ① Homegrown Spreadsheets?
- ① Full Custom Database and/or Industry Software

① Loan Servicing

- ① Contract to 3rd Party
- ① Service Internally

① Legal Considerations

- ① Experienced Legal Team
 - ① Guarantees, Cross-collateralization, Affidavits, etc.
 - ① Defined Default Process from Notification to REO
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How You Can Offer Value to Your Clients

- ① Find a Fund With the Following:
 - ① Managed by an Experienced Team
 - ① Real Estate Investor Experience
 - ① Hard Money Lending Experience
 - ① Pays a Market Rate of Return
 - ① ~10% Targeted Return (higher returns => higher risk)
 - ① Manager Has Money Invested in the Fund
 - ① Provides Monthly/Quarterly Distributions and Reporting
 - ① Has Little to No Downtime on the Investment
 - ① Manager is Accessible



506 (C) Debt Funds - Investor Process

- ① Accredited Investors Review PPM and Operating Agreement
 - ① Understand the Opportunity, Returns, and Risks
 - ① Execute the Subscription Agreement and Send Money to Manager
 - ① Subscription Account and Operating Account
 - ① Clock Starts and Interest is Earned
 - ① Quarterly Fund Activity
 - ① Cash Distributions or Reinvestment
 - ① Investor Call With Members
 - ① Investor Statements and Fund Report
 - ① Withdrawal Upon 90 Day Notice
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Due Diligence on Funds and Managers

- ① Meet with the Fund Manager in Person
 - ① See the Office
 - ① Meet the Team
 - ① Look for Automation/Systems
 - ① Online Reviews Can be Valuable
- ① Check the Public Records
 - ① When Did They Incorporate?
 - ① How Many Notices/Foreclosures are Listed
 - ① Number of Loans in a Market



Who Are the Right Types of Clients?

- ① Client Wants Exposure to Real Estate
- ① Diversification from the Stock Market
- ① Looking for Monthly/Quarterly Cash Flow
- ① Ability to Invest Using Self-Directed IRA
- ① Doesn't Need Access to Money for One Year
- ① Accredited Investors



Q&A



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