

## How to go about Buying Real Estate Notes

We get questions all the time from our potential investors about how to safeguard themselves when buying business notes or real estate notes or other commercial notes and it is not a one size fits all answer. Typically the safest notes to buy are real estate secured notes mainly because nobody can put this collateral in the back of a truck and drive off with it, never to be seen or heard from again. There is a good deal of safety afforded these real estate note holders because of this lack of mobility.

Another safety factor in real estate notes is that the note holder's position is made a permanent public record by recording these instruments in the county recorder's office. Any lender, even a hard money lender, will see your recorded position on this note when doing title work associated with any loan, so your position is more secure with this recording function.

In addition to the above, a real estate note buyer should look at the closing statement creating the note and use the sales price indicated as the value of the collateral. I like to contact local real estate people and get their opinion as to the value of this real estate securing the note. I often get brokers bringing me a note for sale secured by a piece of real estate where the closing statement says the property sold for \$100,000 last month but the property is really worth \$150,000... yea, right. If it was worth \$150,000 it would have sold for \$150,000 and since it sold for \$100,000, you should use \$100,000 as the value of the real estate securing the note. Also, you want to buy a note in first position. Often some creative finance is used whereby the buyer takes over the first and the seller carries back a new 2<sup>nd</sup> mortgage to complete the sale. This often leads to a no cash down deal and one to stay away from. Your deal should be in first position and the loan to value (LTV) or loan to sales price should be 80% or less for a single family owner occupied house. If the house is non-owner occupied this should be 70% or less. If this is raw land, this LTV should be 50% or less. If you live in the collateral it is far less likely that you would walk away from it or stop making payments rather than an investment property you hold; so owner occupied is king.

Any note you buy should be seasoned for at least three months and not have any late payments or missed payments during this time. The last thing most investors want to do is buy a note on an out of state property and within 30 days have to start a foreclosure proceeding. Also, try to get some information on this new buyer or payor on the note. What do they do for a living, what do they make a month, how is their credit etc. You know you are in for some trouble if your \$200,000 note is secured by a \$200,000 piece of property and the buyer does not live there and in fact the buyer works at a fast food restaurant part-time and has poor credit.

Some private notes are created because the lending community has put too many restrictions on their loans driving even good quality buyers to seek private funding. Such things as restricting the number of loans one buyer can have in their name; FNMA limits this to four irrespective of your income or your credit. So lenders put ridiculous limits on income ratios or credit scores or LTV amounts just to NOT make loans. These lenders typically want to find an A caliber buyer and charge them B or C quality rates. The other type of buyer who seeks private financing is the ones who have limited income, poor credit and would have little to lose if they just walked away from the property if times got a little tough. I'm sure

you can see that the former buyer would be a good risk where the later buyer would not. If you are interested in buying some private notes we would be interested in talking with you and helping you analyze all the factors necessary in making your transaction as safe as possible. Whether you are interested in buying real estate notes, hard money loans, mortgage notes, bulk notes, business notes, commercial notes or other promissory notes, we can help you. Visit [National-Note-Buyer.com](http://National-Note-Buyer.com) for more information on buying or selling your paper. T J Stewart, Founder & CEO