# Trust Deed Investments

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## Powerful Partials

### Who the Players Are:

The first thing to remember when considering selling all or part of your note is to understand "who the players are". There are usually three individuals involved.

- ✓ The note seller, this is usually the seller of the property as well.
- ✓ The payor, obviously the property buyer.
- ✓ The investor, who agrees to buy the income stream from the note seller,

It's helpful to remember that unlike the seller and the property buyer, the investor has no "Emotional Involvement" in the property. That's only the collateral to secure repayment of the debt in the event of a default. But it's often expensive and time consuming to convert the collateral back into cash that is all any lender wants we don't want the property… *we want the PAYMENTS*.

### The Biggest Secret: "THE TIME VALUE OF MONEY"

What we and all note buyers do when we look at the value of a series of payments (also called an income stream); is to calculate the present value of the receipt of money in the future. We do this because dollars today will buy more than dollars in the future.

To simplify the Time Value of Money; imagine someone owes you $10 - They offer to give you $5.00 today or $25.00 one year from today… Which one do you prefer?

Many would choose the $5.00 now vs. $25.00 in a year… that's the time value of money; (If your answer is $25 one year from today; congratulations you don't need to sell or assign your note).

Some of us can remember when gasoline was 31 cents a gallon? People were horrified when it shot above $1.00? Now, if we can get a gallon of gas for less than $3.00 we feel fortunate. Put another way, twenty years ago the value of a dollar was a good three gallons of gas. Today it is less than one. If someone had been buying the future value of gasoline then, he or she would have had to take into account changing values over time.

**Selling a Portion of the Remaining Payments (Known as selling "A Partial")**

***Sellers, such as you who appreciate and understand the miracle of compound interest and time value of money can see the big advantage in selling a part of the note.***

This transaction is commonly referred to as a "Partial Purchase." Assuming you don't need a total cash out at the moment; this arrangement gives you the very best of both worlds.

The powerful advantage to this type of arrangement is that due to the minimal effects of the time value of money, the customary discount is negligible and given enough time there is no discount! You want 100% for your note? Keep reading. ..

The value of a 30-year note diminishes rapidly as you move further out in time. However, if you only sell 5-10 years worth of payments, you've sold the valuable part, the part that an investor will pay most dearly for.

To illustrate this principle (look at the attached amortization schedule) this is an actual partial purchase that we've funded in February 2010; the example is a $200,000 note with a 30-year term at 8% interest, with monthly payments of $1,467.53. The first payment due February 2010; an investor might offer $154,099 for this note. This is approximately an 11% investor yield. As the seller, you end up with $154,099 cash today.

However, if you don't need that entire amount, you can strike a much more favorable deal. Let's say that you only need $100,000.00 because you have a business opportunity. You can sell only the next ten years of your note for $105,000.00 then you have the money you need, plus $5,000 to spare.

Because you sold the payments that are most valuable to an investor, we paid a premium for them. At the end of the ten years, the payments revert back to you. Get this! You still have a note with a principal balance of $175,449.23!! If the buyer paid you off that very day you would receive $175,449.23!

What happened is that you received the $105,000.00 that allowed you to take advantage of the business opportunity (possibly earning you even more money), plus you still receive the remaining value of your note. You received $105,000.00 profit from the partial sale; given enough time you still have a $175,449.23 remaining balance, for a total value of $275,449.23 for a $200,000 note.

## But wait a Minute; 7 months later the "Balance to Seller" is $100,297.69!

Looking at the amortization schedule; the original partial was done in February and seven months later in September of the same year the balance to the seller is over $100,000. If the homeowners sold or refinanced the property the seller would receive 100% of his original note.

ADDITIONALLY if you came back and sold the balance of the payments you could receive approximately the same $100,297.69. Receive $105,000 in February and $100,000 in September or a $46,000 discount with a full sale; which would you rather have?

The secret of the time value of money offers you the note owner many ways to satisfy his or her particular needs. Presented with these choices, note holders seldom have too many difficulties deciding which way to go. Every situation is unique.

If your note had one; you could also sell off or retain a balloon payment. PLUS you have the opportunity to sell more payments or the balance of the note usually after 6-12 on-time payments.

If there was ever a way to have your cake and eat it too, this has got to be it. You don't have to be victimized by what you don't know any longer. You can put the time value of money to work on your side. When selling your note, be sure to ask for a full purchase quote, and also a quote on a "Partial Purchase."

**Potential problems:**

You sold your property and agreed to finance your buyer (carry back paper) for some or most of the purchase price, you've done your "due diligence" your buyer appears to be a good credit risk and promises to make all the payments on time. Life is full of changes, the old proverb "the only consistent thing is change" is as true today as ever. Some changes we control, others are beyond our control; changes in health, job transfers, loss of employment, divorce etc. there are three common outcomes:

- ✓ The buyer/payor makes all payments; the note goes "full-term".
- ✓ The buyer/payor sells or refinances property early.
- ✓ The buyer/payor defaults; the seller or investor must foreclose.

The first scenario is easy, no further explanation is needed the seller receives all of their payments as agreed.

The other two scenarios however require some explanation.  The biggest factor is the amount of time that has passed since the sale of the "partial".

Let's discuss an early payoff first; as the payor makes their regular monthly payments their principal balance reduces according to the original amortization schedule, the investors principal balance reduces likewise however at a different rate because the note was purchased at a discount (please refer to amortization schedule).

We'll assume the payor sells or refinances the property 24 months later, the payoff balance according to their original amortization schedule is $196,519.89, the payoff balance on the investors amortization schedule (for the partial purchase) is $90,852.74 that means the investor is paid off and the original note seller receives the difference = $105,823.48. It's that simple!

The buyer has the same payoff balance they originally agreed to, the investor earned a good rate of return; the note seller received the cash he needed now plus the balance when the note was paid off.

In the event of a default or foreclosure, the scenario is identical with one caveat. We will make "best effort" to service and collect the account. In the event we are unable to collect the payments the note seller will be contacted and given numerous opportunities to "step in" to assist in collecting the payments.

Remember: This is still your note, you are in 1st place, and we have an "assignment" but like any other lender (mortgage, auto or otherwise) we never want the collateral. The real estate is merely the security to assure repayment. We don't want the real estate; we want the payments that we purchased.

So what are your options?

- Payoff the outstanding balance on the partial purchase and the note will be re-conveyed to you; allowing you to renegotiate the loan or handle the foreclosure in the normal fashion as though you had not done the partial purchase (it's your note; they quit paying you're going to take action).

- Assist us in working with the defaulted payor; "cash for keys" or any other easy method of getting the homeowner out of the property so it can be cleaned up and resold.

- Make the payments on behalf of the payor and YOU handle the foreclosure; cleanup, repair and resell the property possibly at a profit. We receive the small payoff on the partial, you keep everything above that.

The possibilities are too numerous to consider, but again; remember we never want the real estate.

In the event the note seller does not wish to exercise any options to mitigate the situation we will foreclose; the property will be sold at a foreclosure auction for the current balance on the original note (in our example $105,823.48) the note seller will receive all proceeds over the investor's outstanding balance.

In all fairness; it must be said in the unlikely event the note seller refuses to participate or pay off the partial, we must foreclose on YOUR note to recoup our investment. If the property does not sell and becomes an REO; proceeds from any future sale or purchase money mortgage will not benefit the note seller.

And that's how a "Partial Purchase" works. You truly can have your cake and eat it too.

> *PS: let's talk about the "discount"; contrary to popular belief and unlimited misinformation on the Internet a discount on a payment stream of any type (seller financed note, lottery annuity payout, disability annuity payout) is NOT a result of gouging or someone taking advantage of the seller! The DISCOUNT is a result of the difference in the interest-rate and the required "yield" or rate of return for the buyer. In this economy the cost of money is high so minimize the discount and sell only what you need to.*

Sincerely,

*Randy Wilkins*

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## ORIGINAL LOAN AMORTIZATION SCHEDULE

**Data Input:**

| | | | |
|---|---|---|---|
| Beginning Balance: | $200,000.00 | Ann. Int. Rate: | 8.000 % |
| Term, Months: | 360 | First Pmt Month: | 2 |
| Calculated Pmt: | $1,467.53 | First Pmt Year: | 2010 |
| Payors Name: | Unknown | | |
| Property Address: | Unknown | | |

| | INTEREST | PRINCIPAL | BALANCE |
|---|---|---|---|
| February | $1,333.33 | $134.20 | $199,865.80 |
| March | $1,332.44 | $135.09 | $199,730.71 |
| April | $1,331.54 | $135.99 | $199,594.72 |
| May | $1,330.63 | $136.90 | $199,457.82 |
| June | $1,329.72 | $137.81 | $199,320.01 |
| July | $1,328.80 | $138.73 | $199,181.28 |
| August | $1,327.88 | $139.65 | $199,041.63 |
| September | $1,326.94 | $140.59 | $198,901.04 |
| October | $1,326.01 | $141.52 | $198,759.52 |
| November | $1,325.06 | $142.47 | $198,617.05 |
| December | $1,324.11 | $143.42 | $198,473.63 |
| **Total 2010** | $14,616.46 | $1,526.37 | |

| | INTEREST | PRINCIPAL | BALANCE |
|---|---|---|---|
| January | $1,323.16 | $144.37 | $198,329.26 |
| February | $1,322.20 | $145.33 | $198,183.93 |
| March | $1,321.23 | $146.30 | $198,037.63 |
| April | $1,320.25 | $147.28 | $197,890.35 |
| May | $1,319.27 | $148.26 | $197,742.09 |
| June | $1,318.28 | $149.25 | $197,592.84 |
| July | $1,317.29 | $150.24 | $197,442.60 |
| August | $1,316.28 | $151.25 | $197,291.35 |
| September | $1,315.28 | $152.25 | $197,139.10 |
| October | $1,314.26 | $153.27 | $196,985.83 |
| November | $1,313.24 | $154.29 | $196,831.54 |
| December | $1,312.21 | $155.32 | $196,676.22 |
| **Total 2011** | $15,812.95 | $1,797.41 | |

## PARTIAL PURCHASE AMORTIZATION SCHEDULE

**Data Input:**

| | | | |
|---|---|---|---|
| Partial Purchase | $100,000.00 | | |
| # Payments | 120 | First Pmt Month: | 2 |
| | | First Pmt Year: | 2010 |
| Payors Name: | Unknown | | |
| Property Address: | Unknown | | |

| | BALANCE TO SELLER |
|---|---|
| February | $98,022.84 |
| March | $98,336.85 |
| April | $98,654.45 |
| May | $98,975.68 |
| June | $99,300.58 |
| July | $99,629.19 |
| August | $99,961.55 |
| September | $100,297.69 |
| October | $100,637.67 |
| November | $100,981.51 |
| December | $101,329.26 |
| Total 2010 | |
| January | $101,680.98 |
| February | $102,036.70 |
| March | $102,396.46 |
| April | $102,760.30 |
| May | $103,128.27 |
| June | $103,500.41 |
| July | $103,876.78 |
| August | $104,257.40 |
| September | $104,642.34 |
| October | $105,031.63 |
| November | $105,425.33 |
| December | $105,823.48 |
| Total 2011 | |

**Sell a 120 month partial in February 2010 and receive $100,000 cash at closing.**

**If the payors refinanced the property in December 2011 the seller would receive the balance of $105,823.48 for a total of $205,823.48**