

Confessions of a Novice Note Broker

by Sydney Freeman

One year ago, armed with what I thought was at least adequate knowledge of the note business, I stepped into the arena to conquer the note world. Surprise! It hasn't turned out to be at all like I expected!

The results have been beyond my wildest dreams: I received about \$80,000 in commissions, I have agents working for me, a central office that handles paperwork and we are now moving into other states. I have a priceless support group and my business now comes from referrals. The knowledge I have gained has made me much more competent and resourceful in the business world. If I lost everything today, I could rebuild in an even shorter time.

And this is because of all my mistakes. Piles and piles of mistakes. Little mistakes and big mistakes. Business mistakes, personal mistakes and financial mistakes.

Mistakes are our single biggest asset. It is not that anyone is trying to go wrong, but that errors are our greatest teachers - if we allow them to be. A correct attitude toward mistakes is the single biggest requirement for success. If we study our mistakes with interest and curiosity, rather than judgment, we cannot possibly fail.

The crucial time in our business comes when everything has seemingly gone wrong (my very first deal fell apart on closing day!) Most people then move on to the next get-rich-quick plan. No one will succeed immediately in this business. No one.

My first deal was a disaster! The group I worked with presented themselves as buyers, although they were actually brokers. My poor clients were promised 95 cents on the dollar, with \$800 closing costs. When the dust settled, they received 79 cents, with \$2600 closing costs, while my commission was cut from \$3,000 to \$1,000 without any consultation with me.

I went looking for genuine buyers to work with and was lied to and had commissions and deals stolen from me by unscrupulous people.

Further, in my naivete, I thought that all I had to do was create a transaction and collect my check. Wrong! Getting a deal put together was actually the easiest part for me. Following through on all the steps involved in getting one closed was much harder. The paperwork must be done correctly for the protection of everyone involved. This is not easy. Many novices get loaded up with heavy expenses for credit reports, appraisals, title and legal fees and end up with a deal that never closes.

Wising up, I realized that finding honorable and competent people to work with was a necessity before I proceeded any further in my new career. It took some time to find the people I was looking for, but once I did everything began to change for the better.

Many note brokers think that they should create the deal, and then find a buyer. I suggest the exact opposite. Find some people you think you can work with before you go looking for clients. Be reasonably certain that you are not talking to other brokers, because this adds another link to the payment chain, reducing the price you can offer your client. How do you know you can work with someone before you actually do your first deal? Obviously, you can't. You must simply talk to enough people that you get a feel for this. If you have a client, and the deal never closes, or it is a disaster like mine, all you have accomplished is to create ill will for your program.

Secondly, make sure you have at least a general understanding of the paperwork involved before you get into a deal. The more inept we appear to be, the more it harms our brand new business.

A problem that I had was finding a lawyer I could successfully work with — a title company in some states. Note closings have some differences from mortgage closings, and many attorneys refuse to learn new ways.

It is best to create your support system before looking for business. I did it backwards, and caused all kinds of difficulties for myself. The result was angry clients and unreasonable delays while I floundered around trying to get things finished.

Once you have your support structure, it is time to look for note deals.

There are two categories of notes for us to broker. One is the seasoned note and the other is the brand new one. There is less competition from other note brokers in the new note business, but our real competition comes from the mortgage industry. Today, money is cheap and readily available. Yet, most of my deals are in the new note area.

Most of my business has come from three sources: investors, Realtors and FSBOs, in that order. Each group has particular problems and rewards.

Investors are a wonderful source of business. I strongly recommend that all note brokers become acquainted with the investors in their area. They are already knowledgeable about real estate and require less education. If an investor doesn't buy a property at a bargain, they will quickly be out of the investment game. If they buy at a large enough discount, they can make very large profits with very little risk.

Here is an actual investor deal as an illustration. My investor bought a house for \$250,000 which he immediately put on the market with owner financing. The appraisal was \$335,000 and he sold it for \$330,000. How did he do?

Sale price: \$330,000

Buyer qualified for

90% financing: 297,000

We paid: 279,180

Profit to my investor

Received from company: \$279,180

Paid to original seller: \$250,000

Profit: \$29,180

10% down payment

From new owner: \$33,000

TOTAL: \$62,180

Total risk: the cost of the appraisal and an ad in the paper!

Then there is the client who bought three duplexes for \$68 each, and the quad-plex for \$862, and ... well, you get the idea.

With other advantages, such as the fact that closing costs average around \$1,500, rather than the usual 3-4%, this is an easy group to sell.

When I began my note business, I thought long and hard about exactly whom I should approach to build the business as quickly as possible.

We can either seek the people who have notes or the professionals who can direct these people to us. I prefer the professionals for two reasons.

First, they are a source of repeat business. Once you carry out a successful transaction, they will not only come back again but will be a great source of referrals.

Secondly, they are (at least theoretically) easier to educate. The average FSBO owner does not understand what we are doing and doesn't care to learn. This incomprehension results in suspicion of us and what we are about.

Real estate agents present a peculiar challenge. On the one hand, they are a great source of business. In addition, they associate with other agents and are in a position to spread the word about our program. And it would seem that the education problem is simplified. As a group, however, real estate agents are trained to see transactions in a certain way and have a very difficult time seeing the potential of our business. Obviously, there are many bright and creative agents that are exceptions. Unfortunately, there are many like one lady who coldly stared at me and said, "I have been in real estate for 24 years and understand everything there is to know about this business." As I am sure you have guessed, my program was not a part of her business plan. Fortunately, it doesn't take massive numbers of real estate agents to create quite a profitable note business.

Another plus for the real estate agent market is that they are as concerned about the deal as we are and will do a great deal of the work.

My most dramatic deal concerned a seller who was in the Witness Protection program. The gentleman had to be paid in small, untraceable denominations. The real estate agent spent a couple of hair-raising hours carrying \$100,000+ in cash to meet a couple of government agents.

FSBOs seem like a huge market, and they are. After all, there are many houses in the United States that remain unsold for long periods of time. And there are owners who are in trouble and simply must get out of their house.

We note brokers can offer these folks great benefits:

1. Their house will sell much more quickly. Even in today's easy-credit market, there are large numbers of folks who need help getting money for a house. Properties that are owner-financed are very desirable.
2. There is no need to negotiate on price. Most houses sell for 92-93% of asking price. Owner financing is so valuable that it is not necessary to quibble over price.
3. Closing costs are much lower.
4. There is no need to pay an agent.

Hazards of FSBOs

There are hazards to dealing with FSBOs, though. The educational process is the biggest problem. It is VERY difficult to explain this program. I have discovered that the simpler we keep it, the better. We have developed a brochure showing the owner the options with an agent, a regular FSBO and an owner-financed FSBO.

Many owners confuse us with agents: *Will you show my house this weekend? Will you put a sign in the yard for me? Can I put your phone number in the ad so that you can answer the calls?* If we don't clearly set the boundaries at the beginning, we can waste huge amounts of time this way — ask me how, I know!

And, after all our effort, someone with a traditional bank loan may come along and buy the house!

Nevertheless, these people are a great source of business for any note broker. I now work with a jumbo note program. This has definitely increased my interest in the FSBO market, because there is enormous profit potential. For example, one deal I am working on now will result in a commission of approximately \$25,000.

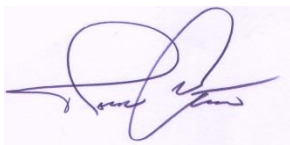
My single biggest marketing mistake has been lack of follow-up. It is best to think of marketing as a campaign. One contact is simply not enough. We must go back to our potential clients again and again if we want their business. Once we develop a system, it takes very little effort to keep this important part of our business running on automatic pilot. For example, always make a habit of getting either the fax number or email address of every potential client. Then following up on a regular basis with new programs or special deals is quite easy.

A new note broker recently commented how hard it is to begin, and I just smiled to myself. He is beginning with agent manuals explaining the programs and how they work; a complete support system already in place, with money, forms and even someone to do the office work; and a marketing plan that only requires his effort. When I began I was totally alone, with no support system at all — only determination.

The greatest blessing of the note business is that it is literally unlimited. There is no ceiling on our earning potential or the size of our business. The only limits are those we place upon ourselves. This is truly an exciting and dynamic field.

Our Note Brokers Program has been a very popular offering on our website, www.realhomebusinesses.com/NoteBkr.htm and I hope that this article help you get more of a running start on the business.

Thanks for your time,



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