



Create Consistent Income *Through* Real Estate **Notes**

ASPEN FUNDS



BOB'S FAMILY





MY BACKGROUND

- Graduate of UC Berkeley, Magna Cum Laude
- Career in computer engineering
- Started tech company, won Ernst & Young Entrepreneur of the Year Award
- Transitioned to finance & economics, CFO of several organizations, ran hedge fund
- Met Jim and started Aspen Funds in 2012
- Have grown team to 15, purchasing over 1,000+ notes in 30+ states





THE SEARCH FOR CASH FLOW

FINDING A BULLETPROOF INVESTMENT

- Experienced several down cycles
 - ... Tech bubble bursting
 - ... 2008 real estate crash
- Experienced the volatility of the stock market
- **How do we get on the other side of equation?**





YOUR JOURNEY TO CASH FLOW

1st Stop:

Bonds!





STORY OF SANDY D.

- A recent, retired client of ours was trying to find a cash flow investment to generate income
- He created a combination of CD's and a bond ladder
 - Overall his return was ~3%
- By investing in our note fund, we was able to **3x his income** and **reduce his risk to market volatility**



YOUR JOURNEY TO CASH FLOW

2nd stop:

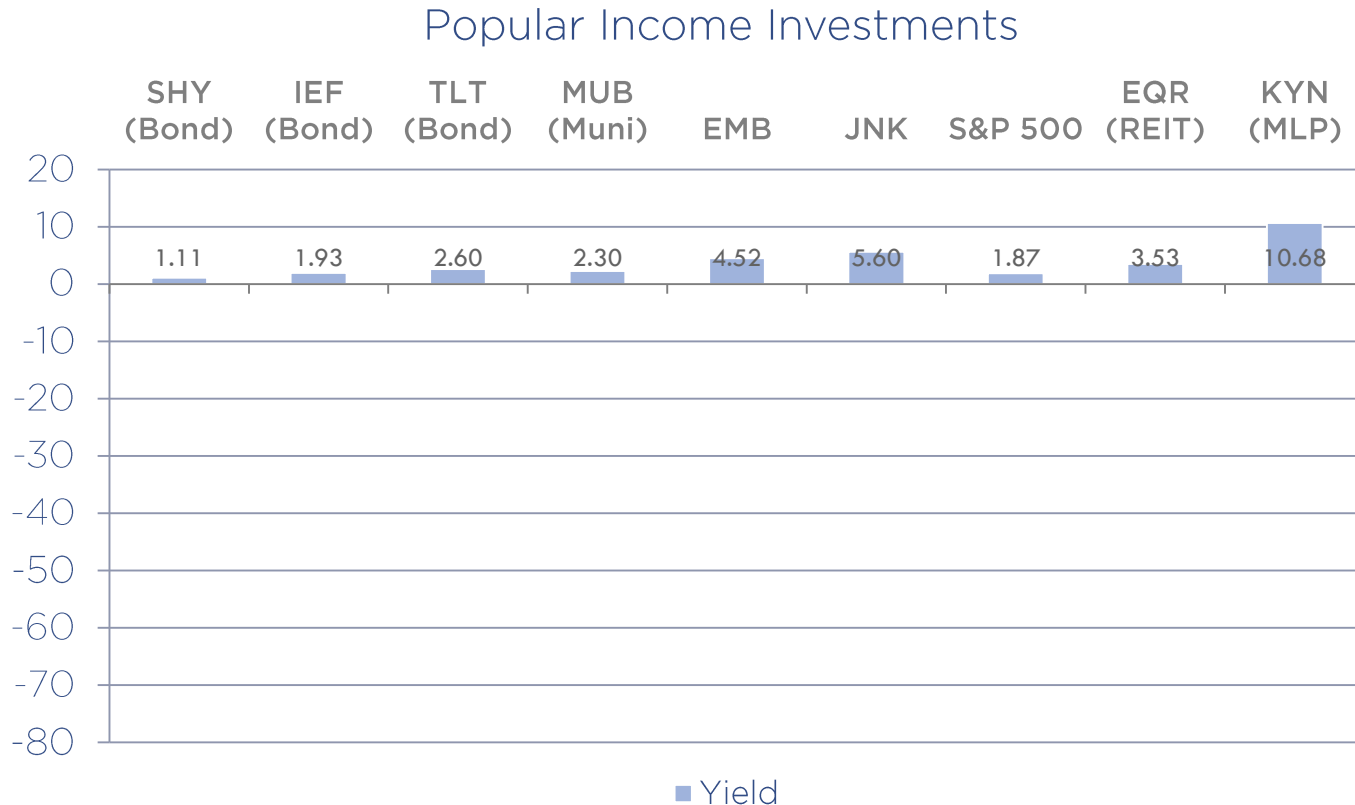
The Stock Market!



(What goes up and never goes down the Nasdaq in 1990's?)



PUBLICLY TRADED INCOME INVESTMENTS (RISK VS. REWARD)

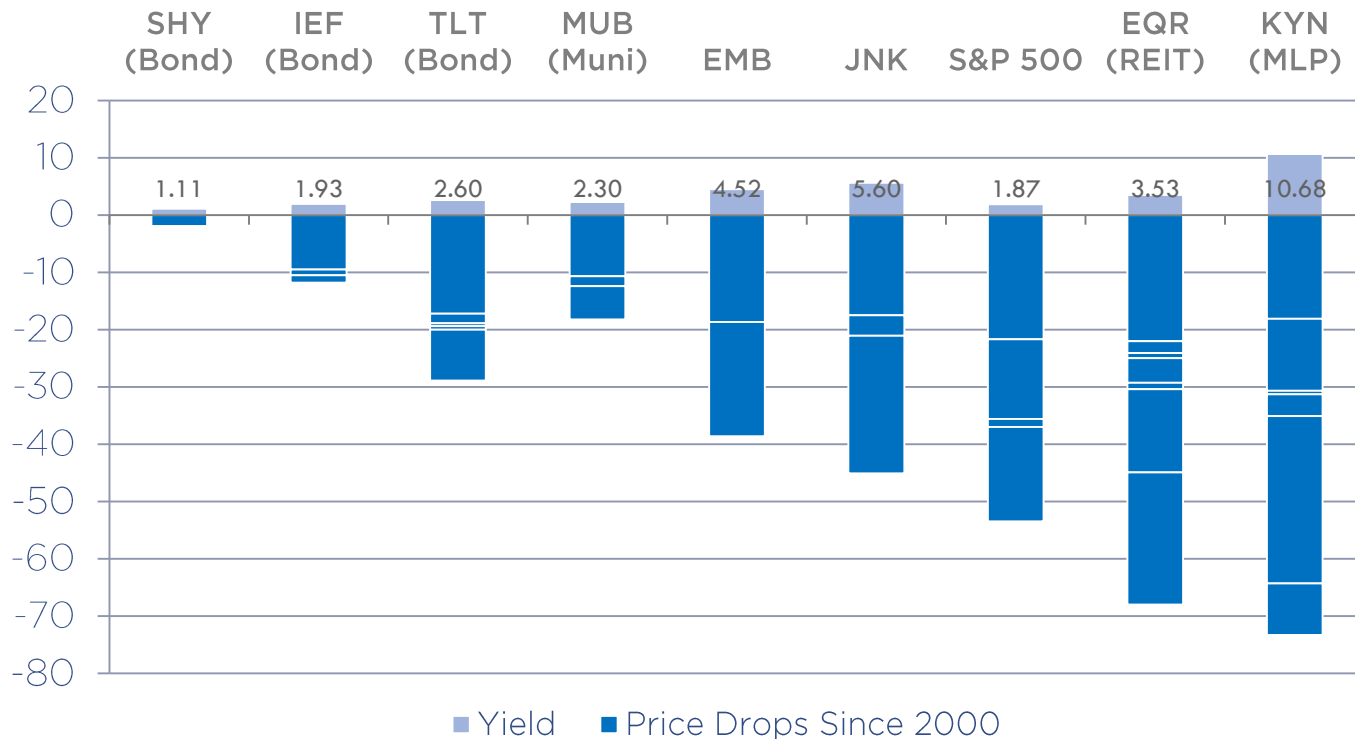


Key: **SHY:** SHY 1-3 Yr Us Govt Bonds; **IEF:** IEF 7-10 Yr US Bonds; **TLT:** TLT 20+ Yr US Bonds; **MUB:** MUB Munis; **EMB:** EMB Emerging Markets; Bonds; **JNK:** JNK High Yield Bonds; S&P 500; **EQR:** EQR Office REIT; **KYN:** KYN Energy MLP



PUBLICLY TRADED INCOME INVESTMENTS (RISK VS. REWARD)

Yield and Max Price Drops Since 2000



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THE PROBLEM WITH VOLATILITY

Invest \$100,000 over 30 years

Scenario 1: Average Yield: 9%

Scenario 2: Average Yield: 10%

Yr		Yr		Yr		
1	9%	11	9%	21	9%	
2	9%	12	9%	22	9%	
3	9%	13	9%	23	9%	
4	9%	14	9%	24	9%	
5	9%	15	9%	25	9%	
6	9%	16	9%	26	9%	
7	9%	17	9%	27	9%	
8	9%	18	9%	28	9%	
9	9%	19	9%	29	9%	
10	9%	20	9%	30	9%	
					Average Yield	9%

Yr		Yr		Yr		
1	50%	11	50%	21	50%	
2	-30%	12	-30%	22	-30%	
3	50%	13	50%	23	50%	
4	-30%	14	-30%	24	-30%	
5	50%	15	50%	25	50%	
6	-30%	16	-30%	26	-30%	
7	50%	17	50%	27	50%	
8	-30%	18	-30%	28	-30%	
9	50%	19	50%	29	50%	
10	-30%	20	-30%	30	-30%	
					Average Yield	10%

“Compound interest is the eighth wonder of the world.”
Albert Einstein



THE PROBLEM WITH VOLATILITY

Invest \$100,000 over 30 years

Scenario 1: Average Yield: 9%

Scenario 2: Average Yield: 10%

Yr			Yr			Yr			
1	9%	109,000	11	9%	258,043	21	9%	610,881	
2	9%	118,810	12	9%	281,266	22	9%	665,860	
3	9%	129,503	13	9%	306,580	23	9%	725,787	
4	9%	141,158	14	9%	334,173	24	9%	791,108	
5	9%	153,862	15	9%	364,248	25	9%	862,308	
6	9%	167,710	16	9%	397,031	26	9%	939,916	
7	9%	182,804	17	9%	432,763	27	9%	1,024,508	
8	9%	199,256	18	9%	471,712	28	9%	1,116,714	
9	9%	217,189	19	9%	514,166	29	9%	1,217,218	
10	9%	236,736	20	9%	560,441	30	9%	1,326,768	
			Average Yield			9%	1,326,768		

Yr			Yr			Yr			
1	50%	150,000	11	50%	191,442	21	50%	244,334	
2	-30%	105,000	12	-30%	134,010	22	-30%	171,034	
3	50%	157,500	13	50%	201,014	23	50%	256,551	
4	-30%	110,250	14	-30%	140,710	24	-30%	179,586	
5	50%	165,375	15	50%	211,065	25	50%	269,378	
6	-30%	115,763	16	-30%	147,746	26	-30%	188,565	
7	50%	173,644	17	50%	221,618	27	50%	282,847	
8	-30%	121,551	18	-30%	155,133	28	-30%	197,993	
9	50%	182,326	19	50%	232,699	29	50%	296,990	
10	-30%	127,628	20	-30%	162,889	30	-30%	207,893	
			Average Yield			10%	207,893		

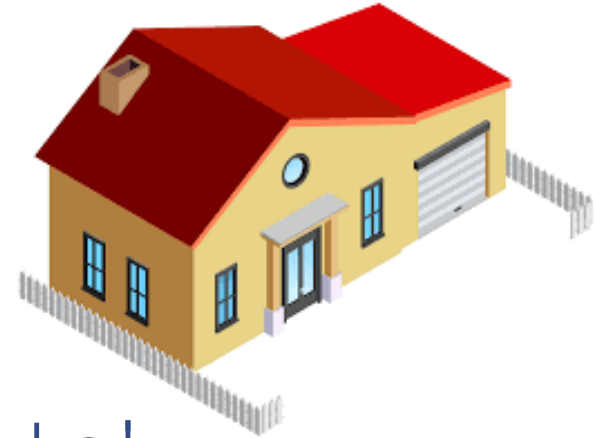
Consistent compounding increased value by a factor of 6x



YOUR JOURNEY TO CASH FLOW

3rd Stop:

Cash flowing Real Estate!





GETTING CLOSER

Cash flowing real estate has some benefits

- Potentially good yields
- Less volatile

BUT... As a Landlord, this could be you on Labor Day Weekend

The Terrible T's!

Toilets



Tenants



Termites





YOUR JOURNEY TO CASH FLOW

4th Stop:

Real Estate Notes!





BE THE BANK

- What is better than owning real estate? Becoming the Bank!
- You can buy these notes at discounted prices and receive monthly mortgage payments
- Mailbox money





LIEN-LORD VS. LANDLORD

When you purchase mortgage notes, **you become the bank**

ADVANTAGES OF BUYING NOTES VERSUS RENTALS

- × No property management
- × No maintenance responsibilities
- × No managing tenant issues
- ✓ Lien secured by real estate
- ✓ Collect mortgage payments – mailbox money
- ✓ Liquid secondary market versus selling costs of exiting assets





WHY I LOVE REAL ESTATE NOTES

Discounts!

Discounts give me:

- Higher yields
- Profits on exit
- Protection



HERE'S HOW IT WORKS

Purchase a performing note at a discount

Note Principal Balance:	\$115,000	
<u>Your Purchase Price:</u>	\$50,000	
Discount to Payoff:	\$65,000	(66% discount)

Payoff:	\$115,000
Fair Market Value:	\$105,000
Interest Rate:	6.5%
Monthly Payment:	\$566.69

Cash on Cash Yield:	13.6%	$(\\$567 \times 12) / \\$50,000$
Cost to Value:	48%	$(\\$50,000 / \\$105,000)$



REAL LIFE EXAMPLE – 2ND MORTGAGE

The Story of Simon W.

Financial Info

1 st Mortgage:	\$143,000
2 nd Mortgage:	\$52,000
Home Value:	\$220,000
Equity	\$25,000

Second Mortgage Info

▪ Payoff:	\$52,000
▪ Aspen purchase price:	\$35,000
▪ Interest rate:	11.25%
▪ Payment:	\$500/mo.



Timeline

- Prior to Aspen's purchase, Simon had lost his job, and stopped paying his mortgage.
- After a time, he found another job, got a loan modification, and resumed paying
- **Aspen I Purchased this loan in March 2014 for \$35,000 (33% discount, 17% Effective Yield)**
- Simon paid faithfully for 4 years.
- In December 2017 he refinanced. He had rebuilt his credit.
- Aspen I received \$24,220 in monthly payments and \$50,338 in payoff funds from his new lender



FAQS



ARE THESE RISKY ASSETS?

There is risk in every investment and you definitely need to know what you are doing.

But, the risk/reward ratio is extremely favorable!

A few tips:

1. Underwrite the real estate
2. Underwrite the borrower
3. Understand everything about the first mortgage (if purchasing a 2nd lien)
4. Use third-party mortgage servicers

The work is up front, not on labor day weekend!



HOW DO YOU BUY THESE AT A DISCOUNT?

There is a very active secondary market for real estate notes. It is still a fairly inefficient market.

Most of the cash flowing notes are what's called a re-performing loan modification.

- Borrower usually has temporary crisis that causes them to need to adjust payments

Banks want to get rid of them because of regulators and not a core competency



HOW DO I SOURCE NOTES?

- **Direct from Banks**

Generally smaller or regional banks asset managers are looking to sell

- **Hedge Funds**

Hedge Funds buy these in large quantities from larger banks and then need to sell due to tax consequences

- **Private Mortgage Lenders**

Another great source for real estate notes are from private lenders that have seller-financed a property and now looking to sell



WHAT HAPPENS IF THEY STOP PAYING?

- Most of the time borrowers continue to pay as agreed and you receive mailbox money.
- But, this does happen in rare circumstances. Aspen Funds has historically experienced between a 5-10% redefault rate.
- But, you have a **secured lien**
 - There are many strategies to deal with a situation like this.
- Aspen Funds has historically recovered 125%+ of our cost basis in redefault scenarios – advantage of a managed fund



REAL LIFE EXAMPLE – BORROWER STOPS PAYING

The Story of Nancy S.

Financial Info

1 st Mortgage:	\$75,000
<u>Home Value:</u>	<u>\$65,000</u>
Homeowner Equity:	\$-10,000
LTV:	115%

First Mortgage Info

▪ Payoff:	\$75,000
▪ Aspen Purchase Price:	\$37,000
▪ Interest Rate:	7.5%
▪ Monthly Payment:	\$442



Strategy: Cash Flow

- Purchase Price: \$37,000
- Effective Yield: 14.3%

Actual Results

Borrower defaulted, Aspen foreclosed, and sold property

Sales Price:	\$90,100
Selling, repair, legal costs:	\$24,797
Note Cost:	<u>\$37,000</u>
Profit (76% ROI):	\$28,303

**Results not guaranteed. Past performance not indicative of future results. These are examples ONLY!*



QUESTIONS?

- What other questions do you have?
- We'd love to start a conversation over at our [virtual booth](#)
- Head over to the virtual booth and you can download:
 - ❑ Our free Note Investing Resources Guide
 - ❑ A copy of this slide presentation
 - ❑ Or, schedule a [free consultation](#) with us



THANK YOU!