

How to Get Started in the Note Business

Brecht Palombo with Troy Fullwood of Pinnacle Investments

Brecht Palombo: Hey, this is Brecht Palombo with DistressedPro.com and I wanted to just introduce this podcast, Troy Fullwood and I had a little bit of trouble with our audio but we got it sorted out a few minutes in so I'd encourage you to go ahead and listen all the way through because if you do towards the end you're going to find that Troy's going to reveal one of the ways that he uses to find notes to buy from private sellers so please bear with us.

I hope you enjoy this podcast and leave a comment below, we'd love to hear from you.

All right, good morning, this is Brecht Palombo from DistressedPro.com for another episode of our professional podcast series and today I'm really pleased to have somebody who is going to speak about probably the most popular topic in certainly the DistressedPro community today and that's investing in notes.

Troy Fullwood is the owner of Pinnacle Investments in Chandler, Arizona and has operated Pinnacle Investments on a fulltime basis since 1997. He's written over 75 articles on

real estate investing, spoken at 50 industry conventions as well as participated in ten radio talk shows about real estate note investing.

Pinnacle Investments is a nation-wide principle buyer, first lien performing in non-performing real estate notes. He's assembled a team of professionals whose main focus is to quickly assemble and close transactions and it's a good thing because he's done over 11,000 real estate note deals since 1997 through a combination of both single and bulk transactions.

He previously ran a multi-million dollar private equity fund that produced a 92.6 IRR firm self in the investors that were involved before he sold in 2008.

His core focus, and the core focus of the fund is purchasing first lien non-performing notes and modifying loans so that people could stay in their homes and had a huge success doing it.

He's also established many referral business relationships with diverse types of real estate investors and he attributes his success to creativity and persistence and problem solving.

Troy's active in his local community church as well as well as community issues in the cash flow industry and he is a respected teacher and speaker in the industry. Again, he lives in Chandler, Arizona and he's got two boys, a dog, two turtles and two tortoises.

So, good morning Troy, how you doing?

Troy Fullwood: I'm doing great, thank you so much for having me this morning Brecht, I really appreciate it.

Brecht Palombo: No, it's our pleasure and I'm really happy to have you on here because I scour the Web and the industry looking for people who know something about notes because it's this mysterious other side of real estate that people are just now discovering so I was very happy to come upon you and I'm very happy to have you hear to talk to us about it.

Troy Fullwood: Well, I'm pleased to be here as well. I'm very excited to share with everybody this morning about this industry and the power of notes and looking forward to getting started.

Brecht Palombo: So, why don't we just dive right in? I know you've got a lot of experience in the full gamete of the last 14 years or so, so

why don't you just kick us right off and most of the people who are going to be listening to this, they already know what a note is. In case someone is catching us on iTunes or somewhere else and this is their first time listening to a podcast, why don't you just start by introducing sort of what a note is, maybe briefly and then lead us into why you invest in them and if you have time to talk about some of your strategies that would be great.

Troy Fullwood: Wonderful, wonderful. So, the way I represent notes or the way I explain notes is that they're really just a glorified IOU and one of the things that – everybody knows what an IOU is. I remember in elementary school a buddy would buy you a candy bar so you would basically have an IOU to buy him a candy bar somewhere down the road and that's the kind of best way to describe it because if you really get into the nuances of it and the legal mumbo jumbo and all that other stuff it could become very confusing and it usually does become very confusing and overwhelming to most people out there.

And that doesn't mean that people aren't intelligent and smart, what it means is that when you start looking at the legal aspect of it, it really is just saying between like you and me Brecht, if I sell you something that you're going to pay me

back and then of course you get all these attorneys that do all of their fancy stuff as well but at the end of the day it's really just a glorified IOU.

Notes have been around since the inception of our country. When my great, great grandfather sold land to a neighboring farmer they would create an IOU, they would create a note and that note was designed around whatever they agreed upon, if it was a monthly payment, a quarterly payment, an annual payment, whether it was interest only, and a lot of times back in the day they didn't charge interest on notes and things like that it was just – if I bought a piece of land for \$1000 from you then I would pay you that \$1000 in payments over time.

And it was just that simple. Now, because it started off that simple – since starting off in such a simple manner what's happened over the years is it's become, I'd say, more regulated. And the banks realized very early on that, hey, if we lend money to people to buy homes and stuff that we could actually make a lot more money than actually owning the real estate.

And a lot of people think that banks are in the real estate business and they really are not in the real estate business. What they're in the business of doing is lending money.

Now, investors they're in the real estate business. Investors like to go out and – I'd say investors/homeowners but they like to go out and buy something, a piece of property, and they go about the process of improving that property and buying it below market value, adding value to it through improvements and upgrades and then selling the property off in the near future.

That's the cycle of real estate. The cycle of a note is very simple. I'm going to lend you money and in doing so you're going to pay me back per month or on a quarterly or annual basis.

In doing so I'm simply just in the money business and a lot of people think well, in order to create a note you've got to have money to create a note and that's just not true, you just have to have something of value.

Now, money can obviously be something of value but so can a piece of real estate and if I go out and I purchase a property, let's say I purchase that property with money from

my IRA and in doing so I buy this property and I put carpet and paint and all of those wonderful cosmetic things that really bring beauty to the home and upgrade the value.

If I have a buyer that's interesting in buying that property that buyer can't qualify for traditional financing for a number of different reasons, maybe they have a bankruptcy on their credit or maybe they have a foreclosure on their credit, maybe they just started a new job. Maybe they just transferred from across the country, maybe their income level won't support traditional financing, maybe they don't have enough money down in a traditional environment. Maybe – oh my goodness, there's so many different things but those are probably some of the most popular things that keep people from getting traditional financing.

Some people don't want to do traditional financing because maybe they're self-employed and they don't want to give over all of their financial records to a bank or an institution because maybe they haven't been in business for three plus years or four plus years, whatever the bank is requiring.

So there's a lot of things that keep people from falling into that traditional financing lien note. That doesn't make them a good person or a bad person, I don't look at things that

way, what do I have to work with in conjunction with where is (it I want to go)?

And if I find a house that my family would love to live in then I can go over there and I can work with that seller to ask that they would owner/finance that property back to me or carry back the note. Some people call it owner will carry, owner financing, seller carry back, there's a lot of different clichés, industry clichés, that are used but they all point back directly to one common task and/or action and that is whoever owns that property is going to extend basically a hand of credit or an extension of credit to another individual to purchase that property with the intention of that person's going to make payments over a period of time.

Now, the beauty of that is that when two people are sitting there discussing something and, Brecht, you can probably attest to this being in the business that you've been in for years and years, when a property owner or a property buyer are sitting there talking to each other, they can navigate through whatever challenges may exist.

Brecht Palombo: Sure.

Troy Fullwood: Whether it's a credit challenge – yeah...

Brecht Palombo: I'm just agreeing with you, yeah.

Troy Fullwood: Oh, okay. Whether it's a credit challenge, maybe it's a down payment challenge, maybe it's a years on the job challenge, maybe it's self-employment challenge, and the funny thing is, what's a challenge to an institution may not be a challenge to you or me as a property seller.

If a buyers go say 10% to put down that may be acceptable to me as a property seller but through an institution they may require 20% to be put down.

Brecht Palombo: Okay, if you – we were having some technical difficulties there. I think we're all set now you sound much better to me Troy, do I sound okay over there?

Troy Fullwood: Yeah, you sound awesome.

Brecht Palombo: Okay, great, great. So let's roll from there.

Troy Fullwood: All right thank you so much.

Brecht Palombo: Sure. You were talking about seller financing when we took a pause to correct that.

Troy Fullwood: Yeah, thank you very much. So, as I was mentioning in the art of seller financing, in selling a property when two people are sitting down across the table from each other they're going to be able to navigate through putting and assembling that transaction very quickly unlike if you were to go into a bank or an institution, you know, you would speak to a loan officer or an individual in that institution and they would request all kinds of stuff from you.

Hey Troy, go get this (request), fill out this application, we'll run your credit, give us \$350 for an appraisal and then you need to bring us back a whole bunch of paperwork and when you get that paperwork back then we'll send it to a processor who will then take it possibly to a loan committee and at that point in time we will give you a yes or no answer.

Well, that ultimately could take two, maybe three, sometimes four weeks depending upon how quickly you can get, one, information back to them, and then two, how accurate the information is and three, if the information even fits what they're looking for.

So you're left with a lot of question marks as to what in the world's going on here which is, and I'm going to kind of go off

on a tangent here which was one of the issues with the collapse of the subprime market is that they've made it very, very simple for everybody to get loans. As I like to say it, if you could (unintelligible) 13.03 and sign a document you can get a loan back then.

Brecht Palombo: Called them pulse loans.

Troy Fullwood: Pulse loans, absolutely. You know, there's nothing like getting a cup of coffee at Starbucks and a mortgage loan at the same time. All that was accomplished by 8 AM everywhere so it was great. I mean, don't get me wrong it was an amazing time in American history and the financial world and a lot of things were happening, the excitement was there and the buzz was on and people were making money and they were building houses and building net worth and all of these things that were happening, one of the things that people don't realize is behind the scenes owner financing was still taking place.

Back then the day, when I say in the day I'm talking like from about 2002 to about 2006, there was over 11%, I'm sorry 14%, of all real estate transactions were done with some form of owner financing or owner will carry.

Brecht Palombo: Really?

Troy Fullwood: Yeah, even back in the day – so contrary to popular believe people thought, well, everybody can get a loan so everybody just went and got a loan and in getting a loan they were happy and they would go to the bank to do these things and that just wasn't the truth because as long as there has been real estate lending there has always been challenges.

And when I say challenges I mean there's always been foreclosures even in the greatest economies there's been foreclosures. Even in the worst economies like what we went into, obviously foreclosures spiked which got everybody's attention. But even in the greatest economies there were still foreclosures.

So, with foreclosure became credit challenges, with credit challenges came other additional buying challenges because when a person goes through that cycle of losing a house or going through bankruptcy, of getting a divorce, whatever it may be, it doesn't make them a bad person, good things happen to bad people all the time. But the other side of it is, how do they restart their life? How do they re-jumpstart their life?

And one of the ways that people figure out when you're going through that cycle, that season in life what they call a season in life, is that you can go out and buy a home with owner financing. Now, I'm not saying that owner financing is an area that attracts nothing but poor credit buyers or people down on their luck, that's not my point there but that is a portion of what happens in the owner financing business.

So, what does that mean for you and me? How do we capitalize or how do we work within the current condition? Well, right now the 26% of the real estate transactions being done in America are being done through owner financing. Now, this information comes from Fidelity Title who tracks all of these real estate transactions nationwide and in doing so what we're starting to see because of the capital markets being what they are, in other words, the banks are much more tight-fisted with the money, they're not handing it out like they used to, people have additional credit challenges because of loss of jobs and other personal challenges that they've gone through or personal seasons that they've gone through and with that between that and the fact that the banks are not just easily handing out money, people are starting to figure out other ways to jump into either

homeownership or getting involved in the real estate business as an investor.

Now, homeownership, it's a great time to buy a house in today's economy. I live here in Arizona and house prices are down 80%. When you can buy a piece of property below what the replacement cost is of that property, that's a good buy no matter what the market is, that's a good buy.

It may – you're not going to see 30% increase the first year of ownership or the first week of ownership which is what people are so excited about back in '05 and '06 but the simplicity of it is that it's still a great time to buy and it's a good time to start the rebuilding process. I know a lot of people have lost money in the 401K's and all that kind of stuff and one of the best investments they can do is homeownership; buying at the low, selling at the high kind of thing and maybe we'll learn some of those things but I'm not here to really talk about that aspect of it today but the beauty of notes is that you can buy real estate through owner financing and you can sell real estate through owner financing all it is, is just a glorified IOU and you don't have to go through all of the procedures and hurdles and challenges that you would have to go through under traditional means. It's very simple.

Brecht and I are selling – I'm selling a house to Brecht, Brecht and I sit down over a cup of coffee or an iced tea and we discuss, okay, here's what my sales price is, here's what my down payment is, here's what the payment per month is that I'm going to offer you. It's a very vanilla deal. I very seldom ever see pre-payment penalties or anything like that in a transaction and I do see a lot of balloon payment styles but in doing so even the balloon payment notes are typically five to seven years out, it's not a tomorrow thing so there's plenty of time for an individual who would be buying that home to resuscitate or re-build their credit to deal with any credit challenges that they may have.

And then turn to two or three years down the road or maybe a year down the road go out and do what's called a rate and term refinance in the traditional market which obviously rates would be substantially lower than traditional financing but you're going to have to jump through some hoops. But in a rate and term arena you don't have to go out and shell out all of the paperwork because you've already proven that you can afford to make that payment on the house.

It's such a great way to go out and acquire real estate.

Brecht Palombo: A question for you there then. Are you – so are you sourcing, or I should say, are most of your notes coming from origination? Or are you buying them where somebody's already originated? Tell me a little bit about that.

Troy Fullwood: No, that's a great question. I would say about 45% of our note deals that we buy are less than three months old and they used to be noted back in the day as simultaneous closings and we used to do a ton of simultaneous closings.

We don't do simultaneous closings at the rate that we used to primarily because it's – we're looking for people to have a couple of months worth of payments under their belt and with that what we then do is we go in and we purchase it probably at least two months worth of payments between the second and third month.

In doing that what we've been able to do is to help investors go out. As they've gone out, they purchased the property, they're rehabbed it, they put it up on the market, they found a buyer but that buyer can't get traditional financing so in the spirit of not losing a deal they'll go in and they'll owner finance that particular buyer, they'll carry back the paper on

it and they'll turn around and they'll sell that paper directly to myself.

They – we do buy some traditional financing type products but that's usually stuff that's typically a year or two older and the banks don't have the exit strategies that they used to so ultimately they'll bring that paper to the marketplace, give us an opportunity to look at it and price it out and then possibly purchase it.

Brecht Palombo: So how are – and I don't want to get you too far off track but I'm interested to know stuff, how are investors who are holding paper finding you or how are you finding them?

Troy Fullwood: Well, a lot of what I do is what I call grass roots marketing where I'm out talking to investors and through real estate clubs I also find a lot of opportunities on the Internet. As an example, if you were to go to Craigslist today and just type in – go into real estate, just say it's Phoenix Marketplace, go to Phoenix Marketplace and type in owner financings under real estate and it would pull up over 300 homes that are just on Craigslist that are available with owner financing.

Now, 300 homes may sound like a...

Brecht Palombo: I haven't – I've never thought to look there, that's pretty – I like it.

Troy Fullwood: Yeah. I don't know what every marketplace is like but I know that if you were to go from marketplace to marketplace you'd probably have some pretty substantial numbers and some pretty substantial opportunities.

And when I look at that and I see, okay, there's 300 plus homes that are available for sale in the Phoenix marketplace with owner financing as an option for purchase, then I can in turn contact 300 different people.

Now, let's just say that there's really only 150 because they're duplicate ads and these are ads just from today back to about December 15. So you're talking about 45 days, approximately, worth of ads but in that 45 day time period let's just say everybody put up two ads so we cut it down to 150.

As an investor or as a note buyer or somebody that was looking to make money just flipping notes they could, in turn, contact those individuals and see if there was an opportunity to purchase the note once it was created.

Now, the beauty of this is, and the underlying golden nuggets, is when you contact these individuals if they're putting this up as an option chances are they know a little bit about owner financing or they've done it several times before.

So they already have this owner financing tool in their real estate tool chest as a means of how to liquidate and how to go about liquidating their pieces of property.

No matter which real estate investor you talk to it doesn't matter if they've got a million dollars to play with or ten million dollars to play with, once they deploy that million dollars into buying real estate they're essentially out of business until they can sell that real estate.

So, it's their motivation to turn those properties as quickly as possible. If they were to deploy a million dollars on, say, ten houses, and then sit there on these ten houses for 12 months they'd ultimately be out of business for 12 months because they wouldn't have any more money to go buy any more opportunities for themselves.

So, one of the things that they do is they keep that option available especially seasoned rehabbers and investors.

The beauty of that is that for somebody like myself or somebody that was interested in learning about notes and how to make money either buying or flipping notes, when I got started in the business I didn't have any money to buy notes. I didn't know really what a note was and so I spent about a years worth of time just going out and sending a person with a note. I'd find a person that was selling a note, or I'm sorry, buying notes, and I would connect the two and they would pay me a nice little fee off of that and the fees would range anywhere from 2 to 6% depending upon each transaction.

So, I didn't have to – because my grass roots marketing strategies I didn't have to go and spend a lot of money on marketing and I didn't have to put out any capital to buy it so the reality of everything that I got was literally pure profit.

And I was doing, I don't know, four to eight of these a month back when I first got started. So, very quickly I figured out, well, wait a minute, I don't have to take any capital risk all I have to do is talk to some people that are already telling me that this is what they have.

When I go to Craigslist and I type in Phoenix and I say, okay, wait a minute, this guys got a three bedroom, two bath, two car garage house for sale with owner financing, he's selling it for \$100,000, he's requesting a 10% down payment, all it takes is one buyer to come along that likes the house and has the money to do that and in doing so he now has created a note that ultimately he's going to want to sell.

Now, a lot of people don't understand that in the note business there's over 28 different mathematical equations that go into pricing out a note. Now, I'm not saying that to frighten anybody but most people look at it, well, if I have a note I have to sell the whole thing and that's really not the truth.

If you have a note you can sell off – you can sell the whole thing which is probably the most popular but you can also sell partial which would mean maybe its 360 months in term and maybe sell 180 months. You could sell just the balloon which means if it was a 380 month note and it was a seven-year balloon maybe just sell seven years worth of payments.

There's what they call a split partial and all kinds of other things. I wont spend a lot of time on today's call about that but the point is, is that it can be used as a – you can literally –

if you create a note you can get your money back out of it and still create an annuity style format that brings you residual income for years to come and that really falls under the true category of working smarter, not harder in the real estate business.

The beauty of it for people listening of today's call, if you're one of those individuals that's creating notes I hope that hopefully you'll see some of those opportunities coming down the road. But if you're an individual that wants to just learn to broker notes or to flip notes there's a lot of opportunity in that marketplace especially with the new economy and the banks being tight fisted with their money, you have to meet a very high level of lending criteria to get a traditional loan anymore so the opportunities are now turning more towards owner financing for these investors to liquidate their real estate. And that falls both in the residential side of real estate as well as the commercial side of real estate.

Now, something that people don't realize is that in the commercial arena notes are very popular, the amount of financing in the commercial side of things is close to 50 plus percent and it has been for years. You get into mobile homes and that numbers pretty high up there, I don't know

the exact figure, you get into land, buying and selling of land and owner financing is extremely popular in that arena as well.

The amazing thing about this, and one of the reasons I wanted to do this call with you today Brecht, was to really just kind of, how do you say, for lack of a better word stir the pot up a little bit and to get people to start understanding to think outside the box in the world of real estate these days and to continue to do so moving forward because we're going – those are the people who are thinking outside the box that are going to be able to capitalize on today's marketplace.

I see a lot of really, really smart hardworking people who are trying to figure it out and they're like, well, how can I go out and buy real estate? Well, go out and buy real estate with owner financing, you'll see if you go on Craigslist Phoenix you'll see houses in there that are in need of repair. These are investors who own these houses, they're willing to owner finance it to somebody, let them do the cleanup work, the fix-up work and then they can either keep it as a rental, which creates cash flow or they can turn around and sell it at an improved price.

So you can go out and buy real estate this way and guess what, when you're buying real estate in that environment you can go out and you can buy it under your corporation, under a family trust, you don't have to go through all the credit checks, you don't have to go through, give me copies of bank statements, give me copies of tax returns and things like that. All they're really looking for in a buyer, and this is the mindset of most investors, if you have money to put down and can you afford the payment?

And their mindset is if you don't make the payment (they're taking) property back which is not necessarily the best spirit of putting a deal together but I understand why they think that way and I can appreciate why they think that way.

In a banks environment they don't want the property back. You know, contrary to popular belief, with all of the activity that the banks have been doing in the foreclosure arena it's not their, like I say, their mantra on a daily basis to get up and go through and start foreclosing on properties especially now that so many of the bail-out programs have exhausted themselves so now they really don't have anything to fall back on.

Brecht Palombo: Well, having bankers or banks as my primary clients and source of transactions I can promise you they do not want to own the – they would rather not own it if it can be avoided at any cost for sure.

Troy Fullwood: Absolutely. As I mentioned at the beginning of the call, they're not in the real estate business, they're in the lending business.

Albert Einstein said the greatest invention of all time was compound interest. Banks understand that and they understand, hey, if I lend you \$100,000 to go buy this house they're going to make X amount of money per month for the next 30 years which is a stabilized business model under economy activity.

An investor understands, hey, if I go borrow this \$100,000 and I put \$10,000 into this house but I can sell it for \$140,000 I can make myself \$30,000 profit minus some closing costs and stuff like this I'm in and out of this deal for \$25,000 in three months, that's a motivator for an investor. So together they make a great marriage as long as everybody does what they, gets what they want, out the relationship.

Banks are not foolish to this. I mean, they've seen hundreds of thousands if not millions of closing statements, they know what the property owners making on the deal. They know that, hey, if I go out and I lend \$300,000 on this house and I see the closing statement and the seller just walked away with \$250,000 profit because they own the house for ten years and it went up in value and all of this other stuff, that doesn't hurt the feelings of a banker. That just doesn't hurt their feelings. They understand that's the business.

Brecht Palombo: Sure.

Troy Fullwood: And if they wanted to be in real estate they'd go out and buy the house themselves, they'd go out and buy the building themselves but that would require a whole other business model. Instead they focus on what can they make in interest returns on their money, how can they borrow it from the feds at this price, put it out to the marketplace at that price and make the spreads and then how do we ramp this up into the millions of loans which is ultimately why we have the banking system that we do.

Now, I kind of got off on a tinge there on the traditional side of things but that same thing is very true with me buying notes from investors. I understand, hey, if I want to go out

and buy real estate, my goodness, I live in Arizona, it's the greatest market to go out and buy real estate and rehab real estate in because we've had just a plethora of foreclosures, we've had a huge decline in property values over the last several years.

So I'm sitting right in the middle of a great opportunity yet I still don't go out and buy houses, I still don't rehab houses, and it's not because I'm anti-rehab and I'm anti-buying houses, what I'm looking for in my business model is I'm okay with them going out and buying a house for \$50,000 putting \$10,000 into it and selling it for \$100,000 because, in turn, the compound interest factor of my rate of return on my money is much greater than what theirs would be and they're getting theirs in a lump sum, I'm getting mine overtime. I look at it as a methodology of working smarter, not harder, and that doesn't make it good or bad. My father is the one that loves to go out and buy houses and fix them up. He enjoys that immensely.

I'm not afraid of hard work it just doesn't excite me like it excites him, that's what (he says) so...

Brecht Palombo: Yeah, I'm with you. I'm much more interested in transacting than I am in managing or owning, something in that way, so I'm definitely in your school of thought on that.

Troy Fullwood: Yeah. And if you drive around you can look at the different business models and they're both lucrative business models but when you drive around the country and you see downtown Phoenix or downtown Atlanta or downtown LA, the largest, tallest buildings in those cities have a tendency to have a banking institutions name on it. And you look at it and you go, okay, their model makes them a ton of money yet you don't see Joe and Bob's rehab business in a high rise building in downtown LA or downtown Phoenix and that doesn't make that a bad business, it just means that they can only do so much because if you look at most investors their core area of influence is a city.

Like when I'm dealing with Phoenix investors nine out of ten of them only do business in the Phoenix metro-plex area. They don't go to California, they don't go to Las Vegas, they don't go to Colorado, they focus on the Phoenix area. Now, if they have a tendency to go to Las Vegas that's because they went there and they're going there or they typically find that their brother-in-law or brother or something like that took

the business up there and he's working it there kind of a thing.

So the art of duplication is limited because you can only be in so many places at so many times whereas the art of duplication in buying mortgages is nationwide. I buy notes in all 50 states from different investors and different sellers in all 50 states.

Brecht Palombo: Wow.

Troy Fullwood: So I'm not limited as far as my business model is concerned yet a rehabber/investor is. Now, that doesn't make it right or wrong, don't get me wrong, I've lived next door to some very wealthy real estate investors who did extremely well in buying onesie, twosie properties and turning them over and my friend at my church does that everyday and he's simply go 12 to 18 properties in inventory that he buys, rehabs and sells and he loves it, absolutely loves it and does very well at it.

And so hopefully that gives everybody a nice areal view of what the business is really all about but the simplicity of it is, I'll sum this up real quick, notes are just a glorified IOU, they're sellable both from – they're both created from both

investors and private parties and institutions, all of those parties that are creating these things are selling them, they sell them primarily to either Wall Street firms or private individuals with ROTHS and things of that nature and the fifth thing is if you're interested in either learning about notes it's easy to do and if you're interested in just making money off of brokering notes or flipping notes and getting a piece of the pie, that's also easy to do and it doesn't cost any money, it doesn't cost any money and that's how I got started in the note business to begin with.

I didn't have money to go out and buy notes, I had to start at the bottom for lack of better words and learn the business and get my feet wet. Once I was able to do that I was able to scale the business, go out and get credit lines and things of that nature.

Brecht Palombo: But I like what you're talking about because it really opens it up to folks who are – it's another way to skin the cat and it's sort of another way to get going without having to have all that you need to get going with larger institutional size transactions.

So that is really cool and I appreciate you bringing that up. I'm going to – I know that I don't have too much time, do we

have a few more minutes for me to just pepper you with a couple of quick questions?

Troy Fullwood: Absolutely.

Brecht Palombo: Okay. So, just a couple of things that I wanted to ask, one – and these are very mechanical kind of things but I'm fairly analytical myself and I know some of the folks who are into the data and whatnot are like me and so what I'd want to ask you is a couple of things. One is, how long do you typically hold a note? Like what's a full engagement for you from the time that you acquire until the time that you're out? What kind of rates are you seeing and are you still seeing that kind of IRR that you talked about before?

Troy Fullwood: Our typical hold time on performing loans is running right around just over six years. I still have some notes from back when I got started, when I actually started buying loans which is back in 2000 – I'm sorry 1999 I think was the year that I bought my first note. So I still have notes from that time period as well.

Amazingly enough the beauty of the note business is because there's no – very seldom is there ever a prepayment penalty on a deal, what I see time and time again is people

kind of slide into a comfort position, comfort level, and even if their interest rate – I mean, I've got notes in my portfolio that have interest rates on them that are over 14%.

Brecht Palombo: Wow.

Troy Fullwood: From back in 1999, as a matter of fact, I was buying some deals from a guy who I learned a lot from and everyone of his notes were at 16% or higher interest rates. And I still have some of those and they're rather small notes, \$30, \$40,000 balances is what they were when they started out and people get into that comfort level, okay, my payments \$400 a month and I'm just going to keep making my \$400 a month payment and occasionally you get somebody who figures out, hey, I can make a \$500 a month payment and cut down the timeframe and then occasionally you'll get people that will just go out and refinance it or sell it altogether.

So, my standard holding time is in that six-year range. As far as getting rates of return what we're seeing I'm actually in the process – after we're finished up here I've got to reach out to a gentlemen who sent me over a note that's out of Dallas Texas. He's an investor and he sold this house, carried back the financing and he carried it back at 9.5% interest rate, 30-year term, the person's credit was 787.

Brecht Palombo: Wow.

Troy Fullwood: The maximum credit is 850. So to say that, hey, you know, you only buy notes on people that have bad credit is just not true and this – to give you great insight into this, this gentleman's credit score is extremely high but he only has one open account and it's a little \$3 or \$400 credit card which, to me, is hallelujah, I love it! You know, give me those people all day long because they're not riddled with all kinds of credit card debt and school loan debt and medical bill debt and he can manage that payment every month for what he's doing and the income and he also put money down.

So, that kind of gives you some insight on the level that people are still buying real estate at. Even back in the day, back in '04, '05 timeframe when interest rates were 4 or 5% and they're even lower or still around that in this market, people are still doing owner financing that 8.5 to 10.5% interest rate range on 30-year terms with no pre-payment penalty.

So, and a lot of that insight just comes from me being in that business. You know, a great example is right now I'm coaching my sons soccer team and, yeah, I know what soccer

is, yeah, I've seen it on TV, you know, they play it over in Europe and stuff like that, I've actually even played it when I was in elementary school and junior high when I was really young, but to go out – and I understood it, I knew it was there but to go and coach it is a whole other level of soccer.

And so I'm having to kind of relearn all about soccer so I can better assist these young boys and girls on getting to be the best that they can be at that age.

And so that same thing is true – I find that's very similar with notes and stuff. People – yeah, we know about notes and mortgages, they're out there and stuff like that, but they don't really deeply understand it and the value of that and so I see those kind of life lessons all of the time.

As far as rates of returns that we're seeing, typically on performing loans we're buying those with yield spreads typically around the 13% range right now. There's an abundance of performing loans in the marketplace both from institutions and investors. One of the reasons that institutions are not selling them off to Wall Street like they used to is because Wall Street doesn't have the exit strategies that they used to.

So, that also leads to, as an institution, let's say they got \$50 billion to play with in lending capital, well, if they can't put together good quality loans all the time and be able to sell those off then ultimately once they spend that kind of money they're going to be out of business.

And to give you an idea how quickly that kind of money can go, back in the day, back in September of 2007 the last statistics that I have from Countrywide, back in September 2007 this is after things started to fall off, the wheels started to fall off this train, Countrywide, on a monthly basis, was doing \$65 billion a month in residential lending nationwide.

Brecht Palombo: Wow.

Troy Fullwood: \$65 billion. That's just one company, one entity. Now, granted, they're kind of – they were at that point kind of the king of subprime lending but that's just one company. You've still got Wells Fargo, B of A, all the other companies out there and that number just grows exponentially which is probably why it got all of the attention that it did when the wheels came off because the numbers were staggering percentage wise when you look at it. I'm kind of going off on a tangent here.

When you look at the amount of foreclosures, the percentage of foreclosures nationwide is less than 9% and I think it's actually even down to about 7% right now. That means whatever way you look at it, 91 to 93% of the people in their homes are still making their mortgage payments.

Brecht Palombo: Sure.

Troy Fullwood: That's a pretty good statistic. The media kind of turned towards the smaller portions and embellished that and all that but we'll save that for another topic but...

Brecht Palombo: So, I know you've got to get on to other business and, again, I really appreciate you coming on and do you – should we make some notes in the show notes and on the blog about how people can find you or do you want to tell them where you're at?

Troy Fullwood: We'll just make some notes on the blog but I'll also leave it here as well. They can reach me at www.pinnacleinvestments.com or better yet I'd love to get back with you and maybe we can talk about some other opportunities with you and your students and how they can actually go out and get involved in the note business and not have to use any money.

But if they've got some time and some desire I can show them how to get involved like I did and I ended up turning – going from literally nothing in the note business to turning it into a private equity fund that was worth almost \$50 million when I sold it.

And so the opportunity is still there, the opportunity is greater today than it used to be because the banks are helping us out. They've actually become our allies in banks so that's a good thing.

Brecht Palombo: Well, that is great and we'd love to have you back and it's been a really interesting call and a lot of times I time on the phone sort of chatting about things that I know a lot about but today opened my eyes to some alternatives that have never even really occurred to me.

So it's great, I appreciate it and it's time definitely well spent for me and I hope for all of our listeners too.

Troy Fullwood: Wonderful, well, it's been my honor to be here with everybody. I hope I've left you guys with at least something to think about, another alternative to real estate investing, another way of selling the properties if you've got properties

to sell or another way of buying properties if you're one of those investors that likes buying properties as well.

There's so many things that you can do. If I leave you guys with anything when you drive down the road, and this is how I view real estate, when I drive through a neighborhood or through a city or major thoroughfare, all I see – most people see buildings and houses, all I see are notes on every single building.

Brecht Palombo: That's great, I love that.

Troy Fullwood: Yeah, so it's financed by somebody, even the fancy hotels and everything else are financed by somebody and I'll leave you guys with that. If anything, it'll give you something to think about today.

With that being said, I hope everybody has a great day, a wonderful week, be blessed, take care everybody.

Brecht Palombo: Well, awesome Troy, thanks a lot.

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