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Mike Stohler

What if you could be doing something smarter with your money that creates income. Now, if you're wanting to get ahead financially, and enjoy greater freedom of choice, if you want a comfortable retirement, and you know you'll have more choices, if you can do more with your money. Now, if you've wondered who else is creating ways to make their money work for them, and you want actionable ideas, honest pros and cons, and welcome to the Richard geek podcast work here helping people find creative ways to build wealth and financial freedom. I'm Mike Stoller, and in this podcast, you'll hear from others already doing these things, and how you can too

Welcome back to the richer geek podcast. We are continuing our series on diversifying your portfolio through passive investing. In today's episode, we're going to talk about a win win investing. Martin sense of CO founded bequest funds with the dual purpose of helping investors grow their wealth, and helping mortgage borrowers stay in their homes through mortgage note investing, who wouldn't like to make passive income while helping people stay in their own homes? Welcome back to the Richer geek podcast. I'm pleased to have Martin signs with me. How you doing, Martin?

Martin Saenz

Good, Mike. Thanks for having me on.

Mike Stohler

Absolutely. It's very fascinating. We have not had any note investor on so it's a lot of people kind of know about it, you know, they've heard about it. They're they're not sure what it exactly means, you know, they're thinking, you know, whether you do you just go to the courthouse and get a note, you know, so tell me a little bit what is note investing?

Martin Saenz

Well, you know, it's interesting how you describe it, because actually, we term it a shadow industry. So we're, we intentionally are kind of in the dark with what we do. It's, it's kind of an obscure asset class to invest in. So I think he kind of hit the nail on the head. But in terms of the auction, we're actually the ones that create the opportunity at the auction.

So So what it is, is, what our play is to become the bank. So what that means is that we look to buy distressed mortgage note debt across the country. So these this these are mortgages, they were originated at financial institutions, such as Wells Fargo, and Citibank and PNC. And at some point, the borrower went into default. And though those those notes were bundled up into tranches, and sold off into the secondary mortgage market, and players like myself, who have hedge funds that are operating in the secondary space, we buy those, we buy those mortgages in large pools.

Mike Stohler

I see. So it's you're working, you're not working with the owner of the house, you're you're waiting until is I know some investors out there, they try to as soon as a house goes in foreclosure, then they tried to talk to the person about taking over the note taking over the mortgage, you know, but it's not quite like that you're buying them in tranches working with the institutions.

Martin Saenz

So So we actually are the mission of our company is to help homeowners stay in their homes with payments they can afford, while making a profit for ourselves. So our mission very much is working with the homeowners. So we'll take those mortgages that are in default, and we'll make we'll make reach will make outreach to the bars and work with payment plans. Considering that we purchase those mortgages at discounts, we're able to extend some of those discounts over to the bar in the form of forgiveness. So we're, you know, we figure out what the borrowers can afford, and we create loan modifications and other creative solutions so that we can prevent foreclosure from happening.

Mike Stohler

Okay, so it is to me keeping Is there a risk involved with you know, here's someone that could not afford their house and you're keeping them in? How do you you know, I'm sure that you have the houses as collateral, but how, how risky is this note investing in what you're doing as far as keeping the person in there and Not going ahead and selling the asset?

Martin Saenz

Sure, sure. So so like, like anything else, right, there's always a risk with every asset class, if you don't know what you're doing. So, you know, the more that you're sophisticated and,

and you have systems in place by which to vet these loans before purchasing, the better off you're going to be. So what we do is for, you know, as a company, is we actually put heavy emphasis not only on vetting the property, which is the collateral, we also put a lot of emphasis on betting the bar and their ability to pay prior to purchasing that asset. So the you know, that's the time to do it is, you know, the money's made before the purchase, as they say. And that's kind of the practice that we have in place. Now, with that said, you there's always a risk, where you try to make, you know, connection with the bar, and they just don't have the money. Well, there's other other solutions, sometimes bars actually sign over the house to us in the form of a deed in lieu, because they recognize that they can't afford to be there. So we actually forgive their debt in exchange for them signing over the property. So it's like a clean exchange. Other times, we do have to go down the legal road. And we do have to force a borrower's hand with foreclosure. However, that's, that's more the exception than the norm.

Mike Stohler

Yeah, that's fascinating. So you're saying to me earlier that you've really only done this note stuff? I mean, how did you get started with this? You know, that's kind of most people will say, Hey, I started with a couple rental properties. I did this and then got into notice, how did you get involved in this note investing?

Martin Saenz

Sure, sure. So in 2004, I was I was blessed by the good Lord, to get fired from my corporate job. So I realized that at an early age, that, you know, corporate America was not not for me. So my wife and I decided, we need to be self employed, for better, for better or worse. So we started our government contracting company, and we, we worked at that company and built it up over a seven year time period. And, and so what I realized with small business and was self employment is you're really working yourself to death. And, and, you know, you're, you're, you know, everyone else seems to be getting paid. But you, however, we managed to do well with it. And we bought a number of various real estate properties as a buy and hold. And we became landlords over the years picking up commercial properties as well as residential properties. But what what we learned through buying hold real estate is that it didn't, it didn't provide the amount of cash flow that was to meet our aspirations that we had in life, you know, what we were looking to get back in terms of, you know, in terms of freedom of time, and, and financial freedom, and so forth. So we sold the company in 2013. And I really set off in a mission to look for an asset class, that I could control the process control, ie the outcome, as well as have it been cash flowing assets. So that's when I stumbled upon note investing, as you know, as as just what I would do for, you know, what I've been doing for the past seven years.

Mike Stohler

Hmm. Yeah, that's, it's fascinating. So take me through the process a little bit of so that our listeners can understand. Once an institution says, This person is in foreclosure, and you're buying the note, is there any ramifications that you've put this money out, and then the buyer can actually get the house back?

Martin Saenz

Well, when the buyer owns the house, you're not taking over title, deed of the property when you buy the note. So what you're buying is the promissory note, which the bar when they when they took out money, you know, they they made the promise through the note given a certain set of terms, and the promissory note is tied to the property in the form of a deed of trust or mortgage. So So really, that's kind of what you're seeing with, within investing. And in, so So really, the bar owns the property at every point of the process unless you take it through foreclosure. And take it back to auction or deed in lieu of some kind.

Mike Stohler

Okay, yeah, that's, that's where I was curious about because you always hear people that probably don't know that much, but know to say, Oh, you know, you're putting all this money, you're buying these notes, and then the person can somehow magically come across some money and pay it off, you know, the, all the funds that were behind, and then you're out the money.

Martin Saenz

Well, that's, that's the beautiful part of our industry, it actually works the opposite. So when, if a borrower hasn't made a payment in, let's say, five years, then there's going to be a past due interest arrears amount plus late fees, as well as the unpaid principal balance. So if they go and refinance the property, if they go and sell the property, then you're going to get paid in full. And actually, the past few years, we've seen a massive uptick in payoffs for and within our industry, given the equity spikes across the country.

Mike Stohler

Wow. Okay. That's, that's fascinating, because yeah, I did not know about that.

Martin Saenz

Yeah, so so you'll go and buy the mortgage. So let's say that that someone owes, you know, $30,000 plus $10,000, on the back end in terms of interest arrears. So they owe $40,000, all in. And, and I'll just kind of throw out an arbitrary number, let's say you buy that, that opportunity that that note for $15,000. Well, then, then, you know, it may be at like a 7% interest rate, because that was what the interest rate was at the time of origination. But that same borrower has had an equity spike in their home, and they can go now and refinance both both the first and second, and get within the threes. And so they'll go and do that, and then you'll get a request for full payoff, and then you'll get paid accordingly.

Mike Stohler

And it sounds like, it's a lot less work going through you. Instead of like getting a list of all these homes in a city. And what areas what neighborhoods, it seems like you've already got all that taken care of, and then you have to try to figure out when the court date, and there seems like a lot of steps that takes it from getting a list, you know, to actually buying the note for an individual. And it seems like you kind of take all that work away from it, and they can just invest with you.

Martin Saenz

Well, you know, yeah, and that's, and that's really where, where we're at as a company we have, in the past 12 months, you know, our company has purchased $23 million of mortgage debt across the country. So we're pretty active player in right now how we have things set up is we have an Income Fund called be quest funds, whereby investors can invest passively into the Income Fund, and receive monthly payments as a result. Because again, you know, the whole the whole idea, the whole premise behind our operation is to provide cash flow, but not just cash flow for ourselves as business owners, but, you know, cash flow for investors that come on with us.

Mike Stohler

And how's that fun structured? As far as, you know, limited partnerships, or is it just a fund where you're, how's that structured?

Martin Saenz

It's an SEC registered 506 c fund. So it's set up for accredited investors with a minimum buy in of 25. k. So we have investors that, you know, they'll put in, say, 100,000, and they'll receive monthly payments for $667. You know, for as long as they want their money in the in the fund. It's set up as an evergreen fund, so there's no expiration to it.

Mike Stohler

Perfect. And give me an example. Past performance, let's say I give you $100,000 you take care of it's completely passive income, I qualify as an accredited investor. What am I looking at what kind of returns and you said it can go on? forever?

Martin Saenz

Yes, so it's an 8% return? It's an 8%. press return. And and if you leave it in, if you leave all the money in, you know forego the monthly distribution, then it'll be set to compound at an 8.299% interest rate.

Mike Stohler

Yeah, okay. Very nice. So tell the in our listeners what it means to be have a preferred return.

Martin Saenz

Sure. So essentially, what that means is when This fund, there is no leverage. So in other words, we don't have any bank loans out against any of our portfolio, we own it outright, it's an equity fund where you come in as an equity investor into our fund. And you are you are first in line to receive payment. And what that compensation is, is it is a is an 8% interest rate paid on the money you place into the fund, and you receive monthly distributions that pay out payout that preferred rate of return. For Sale, if you put in $100,000, then it would pay $8,000. And you would divide that $8,000 by 12 months, and that would be your monthly payment.

Mike Stohler

And then if it was if you wanted to get out of the fund was sold, and there's you said eight point something on the back end, or is it just kind of in it's just always

Martin Saenz

so there's just a straight 8% pref on it, there's no waterfall to it, there's nothing in addition to that, and there's no expiration for the funds. So there is a one year lock in period. So after that, then we just need a 90 day notice period to go in and replace your capital and bring a new investor in. However, you know, anytime you want to, you know, take your capital out after the one year period, you're you know, everyone's free to do so, we do have a best effort clause as well, if you did needed needed to get out prior to the 12 month period, we could see if we could you know work something out and and to make that work for you. Yeah, every node in that fund is is Inc. So just to clarify, every note in that fund is a performing note. So, so that's not the distress side of things. That's that's a whole separate operation, converting a note from a distress slash defaulted state into a profitable one, whereby it's pain as a 30 year loan modification, that's a different side of the business, the Income Fund only houses performing notes.

Mike Stohler

Gotcha. And, you know, that's, you know, with the instability of the stock market, and I mean, my gosh, you know, another country sneezes, and boom, there goes, the stock market, your IRA, the 401k. And, you know, it seems like this is a just a really nice way to get that passive income to diversify your portfolio, everyone, you know, I always say that you should have at least not not at but at least six different branches of diversified income streams, and especially in passive. And it looks like the note beautiful, yeah. You can't just rely on your Corporation's 401k your IRA, and then the stock market, you know, you can't definitely can't rely on your social security and, and things like that. So it's really, really cool that we're being introduced to another type of diversified income stream, not the individual homes. Do you have a property management side of your business?

Martin Saenz

So so the the beauty of it is that we have an asset management team. So I have a whole staff on payroll, that does all the all the bar outreach in the bar workouts, and we use a licensed servicer to service our notes. So that's almost the equivalent to a property manager on the real estate side. But you don't really need a property manager because we're not we don't own the property. So we're not managing the property. We're really managing bars.

Mike Stohler

Yeah, yeah. And just making sure that because they own the house, you're not fixing anything you're not. You know, that's the great part about not you don't talk to your bank about your water heater going out, right.

Martin Saenz

Yes, exactly. What's interesting is, when I when my wife and I started a business in 2005, we had just purchased a home right before the right before the market crash in started our small business to boot. And, you know, I fell behind on my mortgage for you know, six, seven months. And I just remembered, you know, tre was a big bank. I just remember you know, trying to call them trying to trying to work out a payment plan. I tried to send them a you know, some monthly you know, mortgage fees, more You know, obligations owed the monthly mortgage payments, and they would send them back to me. And they would just send demand and they'd say, well, we need $20,000 to reinstate or we're not going to do anything for you. And I remember kind of that, that harshness that coldness in how the large banks operate. And in. And so what's interesting is now that I have a business, whereby I'm able to help people stay in their homes, and have it be profitable for me. Because if I'm able to go and create, if I'm able to look at someone, and I'm able to say, hey, look, they should be paying 600 a month, but they can pay 400 a month, and I'm still going to do extremely well, from a return on investment perspective, then I'm going to take the 400 in the borrower is going to be appreciative, and make their monthly payments, because I'm working within their budget, then it's a win win. And there's a real like, human element to it. And, and we find that we've built a lot of relationships with our bars. And that's really kind of, you know, it's really, you know, it's kind of, like heartwarming to have that, you know, be part of our business model, knowing, you know, what I saw is the harshness on the other side of the fence when I was just starting out.

Mike Stohler

Yeah, yeah, that's, that's a wonderful this. I think everyone can appreciate in specially in today's world where I, I think it's fantastic that you're helping them, you're also making money, you're doing what you love. And it's just kind of when I've done not with the notes, but some some of the other things around that type of thing, giving people second chances in homes, it just warms my soul, you know, it's just kind of that I feel good about the whole situation, and it makes you it's just kind of hard to to explain, it's just a wonderful feeling, being able to give somebody a second chance.

Martin Saenz

Absolutely. And we do that with hundreds of bars, with with our operation. And it's very rewarding. But to the point you said about six streams of income, I actually just wrote and published my fifth book in June called cashflow dojo. And the tagline for the book is build your home on multiple streams of income. So my whole book was was a how to guide for someone to go out and be motivated and build a strategy around building multiple streams of income. There is and I'm positive, you would agree with this, there is a upcoming economic crash at some point in the near future. And those that have multiple streams of income, that is those that are not solely reliant on an employer, or one stream of income, are going to be the ones that are going to survive. And right now building multiple streams of income for yourself is about survival.

Mike Stohler

Yeah, absolutely. And, you know, everybody that's listening, you know, please take that to heart. It's, it's not as hard as you think. As far as diversifying, you know, I know that your 401k, your IRA is just taken out of your paycheck. But what happens if you lose that job? What happens if we have another downfall, you know, downturn, another crash, you have to put it into other different types of investments. And if you're not savvy, what you do is you have to take people like myself, like Martin, like these other people that are diversifying in these different things and let us do the work so that you have a different income stream that even if it just keeps the lights on even if just pays your mortgage, you know, at least you're staying in your own house. And I think it's just it's so important and you know, some of the books I've read throughout the years it just after goes it beats that in your head at time and time again, you have to rely and work on all these different type of income streams.

Martin Saenz

In dual income is not enough, right? It used to be a single income, then it went to dual and many many people are finding out dual incomes not enough.

Mike Stohler

No, it's not because you know, for one thing, you have dual income, hey, now I get to spend more. You know, and you get so many people that say you know well now you have you know an $80,000 car or more now I can have a nice fancy house. And, and it's people are not saving, and people, people are just thinking, Well, I'm always going to have a job. And speaking about, you know, the 2007 2008. And then this last, you know, with with

COVID? How are you seeing? Are you seeing an uptick in business, you know, with with this pandemic, and how does it compare to 2008 2009 2012 or so?

Martin Saenz

Well, it's interesting, because I'm in right now, you know, there's a housing shortage. So, you know, that's kind of a different scenario from 2000, to 2006, to 2008. And however, you know, as there's going to be a day of reckoning, because, you know, if disposable income is not there, it's just, it doesn't matter, you know, how how low the interest rates are, you know, how, you know, how good the house looks, you know, if you can't afford it, you can't afford it. And there's not, there's not as much of the creative financing with these arms, and this other, you know, funny business where we're, you know, things would just adjust on people two years after they, they purchased the property and took the mortgage out. So we have a few differences. However, however, with COVID, you know, there are companies from large corporations down to small businesses that are over leveraged, and they're on borrowed time. And, and, you know, once the music stops, you know, it's the musical chairs, right, like, Where's everyone going to be, I think there's going to be a rash of BK chapter 11 filings next year, I think you'll see large businesses too small, you know, restaurants, and certain retail are just, you know, they're just barely hanging on, and they're going to get hammered. And that's just going to, you know, be one of the dominoes that fall. And not to mention, you know, you know, having an election coming up, where, you know, half the country is going to be ticked off after, you know, after it occurs. And there's just an a number of factors, but the only thing that you can do is look at what you can control. And like you alluded to, I mean, building streams of income is something everyone can do, you know, everyone kind of everyone knows some skill set, or has some special quality, that they can go and hone into an additional stream of income into in some way. And I just think like the ones that the people that that focus on education, the people that focus on taking action are going to benefit from it.

Mike Stohler

I agree. And you know, that's the premise of our podcast, Richer geek is, we bring people like you and other people that have done these types of things. And we just talk to them and say, Look, you have to diversify you. You can't just say, well, I'll be okay. You know, it's, it's just, you know, can't stress it enough. So, Martin, it's been a pleasure. So tell me, how can people find you?

Martin Saenz

Sure. If they like to learn more information on purchasing distressed mortgage notes, they can go to note investing made easier.com. If they like to learn about passive investment opportunity, they can go to be que funds.com. That's bqfnds.com.

Mike Stohler

Okay, and everybody I will have in our show notes. When this goes live, I will have all of his information, and links to the books and all that good stuff available to you so that you can learn about note investing. Martin, it has been absolutely wonderful. You've enlightened me. And now it's like, Okay, do I need to diversify in the notes now? And so we will. We will, we'll see. But thank you so much money.

Martin Saenz

My quote, will love to treat you like family.

Mike Stohler

It sounds great. All right. Thank you, sir. I appreciate it.

Thanks for tuning in to the Richer geek Podcast, where we're helping others find creative ways to build wealth and financial freedom. For today's show notes, including all the links and resources from our show, and more information about our guests, visit us at www.theRichergeek.com slash podcast. And don't forget to jump over to Apple podcasts, Google Play Stitcher, or wherever you get your podcasts and hit the subscribe button. share with others. benefit from listening and leave a rating and review to get the podcast in front of more eyes. I appreciate you Thanks for listening