TRG014.mp3

Mon, 07/29 07:35AM 23:54

SUMMARY KEYWORDS

note, buy, investor, asset, notes, mortgages, funds, people, sell, invest, performing, dave, ppr, investing, property, collateral, podcast, equity, paying, market

SPEAKERS

Nichole Stohler, Dave Van Horn

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Nichole Stohler 00:01

What if you could be doing something smarter with your money that creates income right now? If you're an IT professional who is wanting to get ahead financially and enjoy greater freedom of choice, and if you wonder who else in tech is creating ways to make their money work for them? You want actionable ideas with honest pros and cons and no fluff. Welcome to The Richer Geek podcast for helping IT professionals find creative ways to build wealth and financial freedom. I'm your host, Nicole Stohler and in this podcast, you'll hear from others who are already doing these things and learn how you can too. Welcome back to The Richer Geek podcast. On the show we talk a lot about physical property investing, single family, multifamily storage units, etc. But have you ever thought about investing in notes? Or maybe that's all a new concept and you are thinking: What exactly are notes? How do they work? Why might I want to learn more about that? Well, today's guest is Dave Van Horn. Dave is president and CEO of PPR Note Company, which is a holding company that manages several funds that buy, sell and hold residential mortgages nationwide. Dave has over 30 years of residential and commercial real estate experience as a licensed Realtor, investor and fundraiser. Dave also owns a considerable portfolio of residential investment properties as well as various commercial holdings. In addition to all of these investments in his spare time, as CEO, Dave's biggest passion is teaching others how to build and preserve wealth, which is very much in alignment with this podcast. Dave is co founder and a board member of strategic investor Alliance, which is a purposeful planning and networking group for accredited investors. And Dave is also a national speaker and investment blogger on bigger pockets dot com. Dave, welcome to the show.

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Dave Van Horn 02:03
How you doing?

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Nichole Stohler 02:05
That was? That was a great

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Dave Van Horn 02:08
guys really great Who is he?

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Nichole Stohler 02:11
Exactly? I wanted people to know you. This is your area, you are an expert. So let's start with that what our notes walk us through what a note is, and different types.

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Dave Van Horn 02:22
Sure, a note is a musical symbol. No, it's as simple as a promise to pay. You know, that's what a note really is. And I often tell people, we're all in the note business, we all have credit cards, we all have student loans, we have auto debt, medical debt, you know, mortgages, and now I'm in the mortgage space one, the poor family residential is primarily where we reside, we do a little bit of commercial notes. We'll do some hard money sometimes. But you know, we're all in the note business, we just don't realize it's going on around us. Everything that you can see your touch is pretty much been financed somewhere through you everything in the room that you're sitting in, at some point was financed by some company somewhere. So I think the note business is everywhere, and we just don't realize it, we just go about our business day to day, and we write a lot of checks to banks, but we don't necessarily think about receiving checks. That's one of the things I like about the note business, I'm in distressed debt business. So what appealed to me was if you could buy something at a discount with a high yield, that had collateral, collateral being the big piece, it was something that attracted me, you know, compared to I used to trade options in the market, right? Well, I never had collateral really, even if I did a creative trade, putting a call or a butterfly trade or whatever. So I like the idea that I have collateral and you get a high yield, and by the discount, that kind of thing. And it's very passive. Well, it can be being in a note business can be very passive, unless you're actively, you know, involved in collections or something, it can be a very passive way to

invest, without having to deal with contractors and 10 insurance and things like that. So I probably became a lazy, old landlord over time and, you know, morphed into the finance end of the world.

Nichole Stohler 03:05
So the lazy landlord who make sure that you have collateral what, what are some of the I mean, you kind of mentioned a little bit, but maybe expand on a little bit? What are the actual benefits of investing in notes?

Dave Van Horn 04:24
Well, depends on what type of note but in residential mortgages, I think there's a lot of advantages. One is everyone needs a place to live, right. And there's also what I call emotional equity, where people are vested with where they live, right, it's where they raised their children, it's where they you know, they fix the house up, they put an addition on, they finished her basement, they have memories there. So it's different than, you know, an investment property maybe. So I think there's a an emotional component to where we live and own and raise our kids and things like that. So it's pretty the most serious debt people have. Usually, I would think, you know, they want a place to live and provide shelter. So it's a human need. And I do think that's a unique part about mortgages. And then there's also collateral. So if for some reason, you know, someone wasn't paying you, there's recourse. Right?

Nichole Stohler 05:20
And what are what are you see, and all your years of experience? What are some of the cons? What are some of the kind of gotchas?

Dave Van Horn 05:28
Well, it could be anything from a regulatory perspective, it could be, you know, property values could fall on the underlying asset. It could be foreclosure or eviction, or eject, timelines or costs. You know, we just had an asset on Long Island that we just sold the property, and it was a 10 year foreclosure 10 years, 10 years

Nichole Stohler 05:54
is that the court process?

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Dave Van Horn 05:56

It's not normal. That's not it's very abnormal. But that's probably the longest we've ever had. And we've had thousands of mortgages, but that was probably the longest so it can that you know, hopefully hidden. But, but it can happen, right? So it, but most or the average foreclosure in the US is probably anywhere from six to 18 months,

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Nichole Stohler 06:20

six to 18 months. Okay. So we kind of got we got into a little bit of, you know, the benefits, but how does it actually work? And what is what does your company PPR do? How do you structure all of this?

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Dave Van Horn 06:33

Well, one, we're fund managers. So one of the things we do is we work with high net worth investors who passively invest in one of our note funds. And what's nice about that is, you know, you have limited liability, and you have anonymity, and you're getting the advantage of our access the product and our expertise and doing the business, you know, we're entering our 13th year, so you're able to tap into that. And it's very passive for those high net worth, folks. And they're well diversified amongst a pool of assets that we buy in the name of that fund. So that's one way to invest. The other thing is, we also you know, we go out and we buy pools of non performing mortgages, primarily not performing. And then once we get those Reaper forming, or they season or we exit through the, you know, we sometimes take a property pack, and then we exit through that property, whether we, you know, sell it as is or whether we renovate it, and then sell it. So there's a whole series of exit strategies, whether we're exiting through the property or whether we're exiting through the actual note itself, because we do sell notes. Some notes we sell through trade desk, some we sell on a retail level, to, typically to real estate investors, a lot of times they'll buy, especially our re performing mortgage, there is some advantages to investing in that because you can get your getting cash flow without tenants, right, and it's a unique way to invest, then we do warranty or Reaper forming loans, and a lot of investors enjoy investing that way with us. And anyone can buy a note right? You don't have to be a high net worth individual to buy a note.

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Nichole Stohler 08:11

Let's define re-performing a little bit and and the warranty just what do you classify that as what does that mean?

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Dave Van Horn 08:18

Well, re-performing means for us - our definition is that the borrower started making payments again. Now in banking world, they might require a seizing you know, they like to see a note re performing for 12 months before they consider it a true re performing asset. For us though, we can get several months re performing it because we have a warranty. A lot of times we can recapitalize and sell that note sooner, because we offer a warranty and and our warranty is investment principal minus payments received. So some note investors who have a small portfolio of notes, they like the fact that we warranty the asset in case there was a redefault and they can have the option of selling it back to us or showing the property they can do either will assist them with counsel, if we have counsel in our area.

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Nichole Stohler 09:05

That's exactly what I was going to ask. So if the resident defaults again, you can help them with Hey, either you've got boots on the ground, if it's you know, obviously, people are not maybe in that specific location, it's not easy for them to remarket the house and repossess it, you handle those pieces, they can give it back to you.

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Dave Van Horn 09:26

Well, especially in this market, we're in a little bit of an up market, and note values are in direct correlation to real estate values. So real estate values are up, sometimes people don't want to exercise the warranty, they rather pursue the property because there could be a lot of equity there now.

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Nichole Stohler 09:40

Yeah, that's a great point. I didn't realize this kind of two sides to the businesses you've described, you've described the Fund, which is very, it's very passive. And it's a pool of different mortgages across the country. And then you've described going and maybe on your portal people, people can look at individual notes and read the details, and then select that and purchase that note.

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Dave Van Horn 10:05

Well, we we don't really sell as many as we used to Well, let me catch that a little bit. In a down market, we tend to sell a lot more assets than we sell in an up market. So it's a function of the marketplace. Most of the assets we sell are probably weekly, we push out an asset every week. But the majority of our assets are actually sold through trade desk. So we typically package up a pool mortgages and sell them out in quantity, because it's much easier for us to do that. So you can see there's variations. The other advantage, I think, to the our fund investing is that we have the ability to compound investors can compound in there. And then we also have liquidity. So we offer liquidity funds these days, where people can invest with us short term from a 60 day period, six month one year or three year option. And I think people like having those options and choices. Now, there's a lot of other competition in the marketplace for fund investing, for example, but that's kind of the space we fit in. So some funds have tax advantages, we typically don't have that many unless you invest through a qualified plan with us or something, you know. So there's short term, there's liquidity, there's, you know, a couple different options there. And the ability to compound. And that's what I think investors like about us. And the reason I say that is I'm an investor. And I invest in a variety of things as well, everything from multifamily to tax liens to you name it, I've, you know, insurance funds, I invest in a lot of different things. And the components that I like, are just that, you know,

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Nichole Stohler 11:42

I would agree I mean, so you've got a deep expertise around this. I don't know, if I were to go and look at individual notes. I mean, maybe if I really wanted to learn that, but I personally like that you've got all of those different options, like you said, the funds and the short term, different types of options people can choose. The other thing I think is interesting is that if you left a company and you had a health savings account, or an IRA or something along those lines, that's just kind of sitting there you can you can put that money through this vehicle unsatisfied. There's some requirements there about how involved you are, and you have to be fairly passive for some of those types of investments. So I think that also is very appealing.

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Dave Van Horn 12:29

Well, we kind of fit those needs in both areas. Because if you invest in, say, a Reaper forming mortgage, ours replaced with a servicer, so that's like, I use the analogy of like property management for a note. So they do all the accounting, they do all the reporting, they send all the notices. And even if our company went out of business, and you had bought a note from us, the servicer would typically handle foreclosure for you or anything like that. And, you know, it's one of the reasons you know, my wife likes my notes, she, she likes him more than my property. Sometimes she'll say to me, you know, you're not going to die and leave me your junk properties are you. But she never says that about my note portfolio, she just sees the payments coming into the bank, and she sees that they handle everything, and she sees how easy it is. And when I meet a new investor, a lot of times, the first question I asked them is not so much about the note is this, it's really what kind of investor are you? You know, what are you looking for? Are you passive? Are you active? Do you have a lot of time? What's your area of expertise? Do you have any knowledge? Do you network with other people doing this? And, you know, there's ways to get into the space without jeopardizing your money. Whether you're a note buyer or a fundamental.

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Nichole Stohler 13:39

You brought up something just when you were talking about knowledge and the questions that you asked that new investor, there are a lot of different resources. And I think you wrote a book. So can you share, share with us a little bit about, you know, resource if someone did if maybe they wanted to learn and understand how they could do it on their own?

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Dave Van Horn 13:58

Yeah, you're right, I am did write a book, real estate note investing through bigger pockets publishing. And we, you know, even had some bonus materials. If you bought the book through their site where me and another, my manager of my asset managers actually got on with Brandon Turner. And we go out to different platforms to look at different notes, and what we looked for in a note that we were going to buy. So if it was a performing note, or a non performing note, whether it was a first mortgage, whether it was a junior lien, and the various things we looked at when we were going to buy them, and would we buy that asset, or we wouldn't buy that asset. And we kind of went through that with him. And it was kind of just a way to educate people on some of the things we look at when we're buying a note and what we look out for, and how our due diligence varies based on the asset class we're looking at. So but you're right, I think it's a, you know, a lot of times, you know, it's got to be the right fit for people. We also limit to like, we have limitations that are fun, where we kept people to a million dollars VIN number. Some people might say, Well, why do you do that? Well, combination of things could be to protect the investor from themselves, it could also be to, you know, limit family offices from dominating our company, for example. So there's various reasons that you have these monoliths a rules in place, we also follow in rev guidelines, which is a form of corporate governance, that we kind of run our companies on and run our funds on to manage them properly. We have a lot of weird rules, like, I'll give you an example. None of our employees or partners can buy a note from PPR we don't ever want to be looked at as stripping good assets from the fund, for example. And also, since I'm a principal, I can invest my own retirement, you know, self directed funds into my company, so I have to look for other vehicles as well. So but I can relate, you know, what do people really look for in an investment, and especially with liquidity and compounding and things like that?

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Nichole Stohler 15:57

You also, even as you're talking about different ways that you're looking at the different risk profile, then you also described kind of the change in the marketplace, right? When the markets up, you're tending to buy less assets or find less assets? What are the current trends that you're seeing in today's market and note investing?

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Dave Van Horn 16:18

Well, you know, obviously, we, we went through a downturn, and we were in a downturn for a long time. And when you're in a downturn, assets are cheaper, and they're abundant, some of your exit strategy shift. So for example, you know, the market came back up, and a lot of real estate values have come back up to where they were before the crash, back in oh seven or eight. And now you're seeing, you know, we're a direct correlation is value. So there's a lot of equity in the marketplace, a lot of the notes we buy today are fully covered with equity. And I'll give you an example of an exit strategy difference in an up market will do no deed in lieu is common is a common exit in a down market, a deed in lieu is not as common as, because there might not be enough equity to do the deed in lieu right. So you can see how the market could change an exit strategy. Or sometimes today, you're you know, if you're buying first mortgages, the prices are high, for example, and the margins are thinner. And you'll see, you know, the yields they're paying are lower, you'll see hard money, funds are paying lower yields today, first mortgage funds are paying lower yields today, because the margins are thinner, and the prices are higher, they kind of have to go away. So it's not a case of, Oh, we don't want to pay the investors as much money, it's that you kind of have to adjust to the market. Your biggest fear today when buying first mortgages is that, especially if the bacon is that they would start paying again, because your your best return could be, you know, what's the after repaired value, compared to what the PPO value, current asset value is in the eyes of the bank that you're buying the asset from? So you're looking for those gaps, right?

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Nichole Stohler 17:58

It's almost like a form of wholesaling. Only you're it may be you and I guess an investor could be actively going out and getting the notes. But if they're, if they're buying them from the trade desk, it's a little bit of, you know, like you said, it's kind of the hope that you you do get the asset so that you can, you know, sell it for so much more, which is in the whole flipping and wholesaling industry, right?

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Dave Van Horn 18:24

Well, we don't really have like, obviously, we don't have depreciation, you know, we just don't, that's not a tax advantage for notes. But we have an appreciation, we don't have it in the true sense of the word like real estate does, you know, you bought a $300,000 house and 10 years from now it's worth 500,000, you don't have that in the note business. But we have what's called Phantom appreciation and Phantom appreciation is where, you know, I might have bought a note that was partially covered with equity, and then the marketplace came back. And the asset behind the note became worth more wall of a sudden, my notes worth more, and I didn't really do anything, it's just that real estate values went up, the other side is pay history can make my asset go up to so I might have had an asset that was re performing for a short period of time. And now it's free performing for a long period of time, well, now it's worth more, or if it was a non performing note, and now it's performing again, the longer is performing, the more valuable it is. So I didn't really do anything, the pay history, increase the value. So, you know, I've had notes in my portfolio where I collected on for a few years, and then could actually sell them for the same price that I could sell them today for you know, so.

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Nichole Stohler 19:33

Very interesting. Those are nice little benefits, just like appreciation is a nice benefit. Whenever we're looking at a physical property, it's generally as a buy and hold investor, that's just, that's just a nice to have, we're always looking for that cash flow first,

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Dave Van Horn 19:49

that plus their liquid. So I could sell a piece of a note. And I can also like a partial, which I could sell the next five years of payments to someone at a different rate that is fully covered with that, or I could you know, my notes are very liquid, I can, you know, a PPR especially we could sell a note 15 minutes, we can't really sell property in 15 minutes. So there's definitely a big difference in liquidity. If I needed cash, for example,

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Nichole Stohler 20:14

What is required for someone to invest with PPR?

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Dave Van Horn 20:19

Um, well, if you're looking to invest in a note fund, we actually use a company called verify investor calm and they verify your accreditation. So they would, there's a short application, it only takes a couple minutes, it's very simple. You can securely upload your information and it's an attorney owned company, you're approved very quickly. They work with hundreds of different funds throughout the country. That's all they do. They're great. What I like about them is that, you know, they can protect us for not just sec compliance, but for international investors, as they follow anti terrorism and, and things like that money laundering, you know, they protect you. So they're a third party validation company that we utilize, and they have a very quick turnaround. Their approvals are on literally on Monday, Wednesdays and Fridays. So it's very quick turnaround for us to validate someone's being an accredited investor. And then on the other side, if you're buying a note, we do have an application, you have to be a registered note buyer, and you do have to have an entity to buy a note from us. It's more professional, it's the right protocol for compliance for us

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Nichole Stohler 21:30

You need to have an LLC, basically.

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Dave Van Horn 21:33

Yeah, I mean, you don't want I mean, think about it. Do you want to go from Hey, I was paying Wells Fargo, and now I'm paying Nicole. It's a little strange. I mean, but if you have a servicer in place, and you're a true entity or true note investor, then you know you you kind of need to play the role.

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Nichole Stohler 21:49

Got it? how can listeners get in touch with you or find more information out about notes and PPR and the things we've talked about that today,

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Dave Van Horn 22:00

That's pretty easy. I mean, you could definitely check out our website at www.PPRnoteco.com. And if you want to learn more about notes you could go to Bigger Pockets and check me out on there, there's actually a note group on Bigger Pockets, not as big as the real estate group. It's a little niche here. But there is a big group there. We also have a LinkedIn group. And there's many new groups on Facebook as well. So perfect. I think if you are looking to get into notes, I look at it as three areas, you know, you want to get educated in this space somewhat network with folks that are doing it, or connect somehow. And then if you can find a mentor or coach necessarily, but even a JV partner, or someone you can shadow their deal and learn what they're doing, you know, without taking a ton of risk. You know, I hate to see anybody lose their money because they were new, that type of thing.

N Nichole Stohler 22:55
That's great advice. Thank you. And thanks for sharing all of this information with us today. And we really appreciate you joining us on the show.

D Dave Van Horn 23:04
My pleasure. I love doing this. So good luck to everybody out there. And I think there's a place for notes for all of us.

N Nichole Stohler 23:14
Thanks for tuning in to The Richer Geek podcast. For today's show notes including links and resources, visit us at therichergeek.com. Don't forget to head over to iTunes, Google Play, Stitcher or wherever you get your podcasts and hit the subscribe button. Help us spread the word by sharing with others who could benefit from listening and leave a rating and review; that'll help us get the podcast in front of more people. I appreciate you. Thanks so much for listening.