Mortgage Note Investing: Passive Income

Using this strategy to investing is still fairly unknown to most investors. Note investing is a great way to actively.

A mortgage is a document that says that the lender can take possession of the home if the borrower stops paying, a mortgage outline:

- the roles and responsibilities of the lender and the borrower,
- what would qualify as a breach in the agreement, and
- what property the mortgage is tied to

What does it mean to invest in mortgage notes?

When someone buys a property, whether it's a personal residence or an investment property, the buyer is put on the title. They're on the deed and are responsible for maintaining the property, having adequate insurance, and paying taxes.

The lender vested interest in the property does not exceed simply collecting a principal and interest.

Investing in a mortgage note means that you're buying the DEBT not the property that remains to be paid on the note, secured by the asset outlined in the mortgage. In short, as a note buyer you become the bank. This entitles you to now

collect all principal and interest payments. If property owner fails to pay all owed in a timely manner, THEN you may take legal action to take ownership of the property (foreclosure).

Most notes are bought and sold at full price a good number are bought on discount; usually when the note is non-performing, or the holder is seeking to part with it.

Note Investing Process:

Lending institution loans money to buyer to purchase property.

Buyer signs note and mortgage which states how much is owed, what property secures debt, roles & responsibilities, and terms of repayment

Buyer owns property and begins to pay principal and interest to lender

Lending institution needs cash, so they sell notes to an investor (often discounted)

Lender assigns mortgage and note to investor. Investor now acts as the bank. Buyer continues to make payments but now payments go to the investor.

As long as the note is performing (buyer making payments) the investor has a steady flow of passive income. These tend to be more expensive,

If buyer defaults and note becomes non-performing the investor can take hold of the property and either have the homeowner sign deed over and forgo the debt or initiate the foreclosure process.

- After foreclosure, the home goes to the public auction. If another investor buys the property at the auction, you get paid. If it doesn’t sell, you're put on the title and own the property.

-fix and flip for a profit

-keep as a rental

-sale as is

-create a new mortgage on the property (seller financing)

As the “bank” you have the power to alter the note like lowering the interest rate or assisting the borrower.

Due diligence on a mortgage note often includes finding out:

- the value of the property in its as-is condition.

- if there are any liens or encumbrances on the property that might affect or jeopardize your position.
- if there are any unpaid taxes, potential tax liens or tax deed sales.
- the annual tax rates.
- if all required paperwork (the original note, mortgage, and other documents) is in possession of the current lender.
- the payment history on the note; and
- the borrower’s credit score.