

137 TRG Transcript

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, with honest pros and cons, and no fluff.

Welcome to the richer geek podcast. Where you here helping people find creative ways to build wealth and financial freedom. I'm Mike Stohler, and in this podcast, you'll hear from others who are already doing these things, and learn how you can too.

Hello, this is Mike Stohler, your host of the Richard geek podcast. As many of you know, I have owned or managed over 1500 doors from single family homes, multifamily and hotels. I've received so many questions about how I transitioned from multifamily to hotels. I've been featured on some of the our nation's largest podcasts. I've spoken at national conferences about hotel investing. How do you do it? What are the differences between multifamily and hotel investing? What about franchises? What did I learn during COVID? Well, ladies and gentlemen, I am excited to announce that we'll be having a hotel investor workshop on May 5 and sixth of 2023. If you're interested in hotel investing, please come join us. You can sign up on our website, the richer geek.com. Go to the bottom of the page and click on training. I'm hoping to see you all there.

Everybody, welcome back to another episode of the richer geek podcast today we have Fred Moskowitz. Fred is he's got a little book, it's called The Little Green Book of note investing, we're gonna talk a little bit about some note investing some other ways that you can perhaps get into passive income streams. And so we're just gonna talk about some fun management and all sorts of things. So you don't Fred.

Fred Moskowitz

Doing great. Thank you. Thank you for having me on today.

Mike Stohler

So tell our listeners a little bit about yourself.

Fred Moskowitz

Yeah, absolutely. Thank you. A little background about me. I started out with a long successful career working as a computer engineer. And I worked at a lot of different technology, startup companies spend a lot of time in startup companies. And totally, I loved that it was the beginning of my career. Was that such an exciting time? Because it was like I was watching the birth of the Internet happened. And so during that time, right, I was working at different startup companies. And what happened was, I watched literally watch this unfold in front of me, basically, the whole industry, it got turned upside down, because of the bursting of the.com bubble. You know, back in the early 2000s, we had the bursting of the.com bubble. And then we had the September 11, terrorist attacks, and all this turmoil happening in the world. And the one thing that it made me realize was that I was way too dependent on the income for my engineering job, right, I love I loved the work I was doing. But there were so many circumstances that were completely outside of my control.

And what I learned was that no matter how talented of an engineer I was, or how valuable an employee I was, no matter what if things were not going well financially, at the company, or in the industry at large, that I could quickly lose my job through no fault of my own. And so I came to this realization that I was taking a huge risk, because the only source of income that I had was my paycheck. And so that started me down the path of seeking out other sources of income. And my goal was to have multiple streams of income so that I would no longer be dependent on the paycheck for my job. And so I got involved in a lot of real estate investing, doing doing law in Philadelphia, where I'm based out of and that's my local market. I've had a lot of success with real estate. And after a number of years, I got involved in note investing, which is basically investing in the debt side of real estate transactions.

And I found that that was really something that I could scale easily and grow into something big. And so I went and pursued that business almost exclusively. And so over time, what was happening was that I was starting to get invited to speak and present at industry conferences, and it was talking about note investing and what I was doing, and a lot of people were coming up to me saying, hey, Fred, I love what you're doing with with note investing seems like a great business. But it also seems complicated. There's a lot of moving parts there. And so could I maybe invest money with you or give you money to invest? And you go out and buy notes. And for the longest time, I've resisted against, I said, No, I'm not really not allowed to do that. There's a lot of regulation, a lot of restrictions and SEC guidelines around some accepting investor money. And so for years, I was turning that down. But this, this just kept showing up over and over again. And so finally, I decided, well, if I'm going to do this, I'm going to go about it the right way. And so I hired a securities attorney, and went about the path to set up a fund, a proper Investment Fund, doing it the right way, with the proper offering, and disclosures and all of that. And, and so

that that was was a big part of the growth in my business. So it's been an exciting journey for me. But I'm really passionate about about note investing, I think that it's a great asset class. And the interesting thing is that, especially with real estate investors, who spend a lot of time looking at the debt, looking at your your capital stack and financing in a transaction, right, whether it's for a single family, residence or multifamily deal, it doesn't matter, there's usually debt component involved. But with note investing, you are investing in that financing side of the transaction. And it's something that a lot of investors they don't know anything about. Because when they think about a note and a mortgage, they think about being the bar on that note, and not being the investor. But when you buy a note and step into the shoes of the lender, you're able to step across the aisle from being the one that's making the monthly payments to being the one receiving those monthly payments. And that's what note investing is all about.

Mike Stohler

So take us through the process, at what point in the mortgage note residential or commercial? Can you start looking at buying it? Or taking it over?

Fred Moskowitz

Yeah, there's, there's so many, so many ways to do that, right? Certainly, from on the origination side, you can originate a note. And this is very common in commercial transactions where the seller of a property will do owner financing as part of the deal, they'll carry a note or some or all of the purchase, and then be collecting payments and receiving cash flow. After they don't even own the property anymore. They've sold it to to a new owner, the new owner becomes the borrower on that note, and they're paying the prior owner of the property. So that's one way or you can originate loans as a hard money lender very common as well. The area I like to focus on is I buy notes on the secondary market they've been originated by someone else maybe they've been bought and sold a few times in their history. But they've they're established to have a good track record on them and so I found that that that works for me is buying notes that were originated in the past and in their setup already that they have a track record. There's no right or wrong way about it. There's so many so many business models that you can approach and it's a matter of finding what what works for you what is appealing and and what your goals and objectives are

Mike Stohler

Do you need a any type of banking license in in one on stuff in order to buy notes on a secondary market? Because you're now acting as a bank?

Fred Moskowitz

You are you're acting as a lender, you are assuming all of the rights and remedies are in those loan documents, and it's essentially a financial contract. So the answer your question is, some is a state specific some states, you do need to have a license. Other states you do not. And it's something that as an investor, you need to evaluate on an ongoing basis. Many states, what's very common is that the lender does not need to be licensed. However, they need to use the licensed loan servicer to handle the management of those notes. And and that's required. So it really is state specific. And you should know that as an investor. And it has to do with which state the loan that you're buying is located in that where that property is located.

Mike Stohler

Yeah, I'd be interested to see how the Obama era Dodd Frank Act would fall into that. And because I know a lot of people can't do the rent to owns anymore, they can't do a lot of the different things because of the Dodd Frank and how that.

Fred Moskowitz

Yeah, that really made a big impact on owner find. Me and cinch are several efforts underway to make some changes that are more favorable towards investors, mostly around allowing how many transactions an investor is able to originate per year, which really will open up that that market, it will offer more opportunities for homeownership, for there's a certain segment of the population that they are well suited and well served by buying property with owner financing, they don't want to go to a traditional bank, traditional lender, maybe they're their business owner, and they just don't qualify on paper. However, they do have the financial wherewithal, and would be a good borrower, for the note, and so they are seeking out owner financing transactions. So yeah, there's definitely a lot of a lot of factors. at play there, and legislation, and regulation. That's one of the risks in this industry of note investing, because it's something you can't control. However, you do need to be mindful and cognizant of what changes are coming from the government, because it impacts all of us as investors.

Mike Stohler

Yes, it does. Now, your book, *The Little Green Book of note investing*, tell us a little bit about it. What's in it?

Fred Moskowitz

Yeah, absolutely. Thank you. The book, I wrote that book. With the objective of providing a high level overview and outline of note investing for someone that might be just getting started just learning about what note investing is all about. And so through each of the chapters, we cover the mortgage, secondary market, how that works, why, why is it that loans are bought and sold, right? Because undoubtedly, every single one of us has been impacted by the fact where we go we take out a mortgage to buy a property, then within a couple of months, we get that letter from the lender saying your loan has been sold. Here's the contact information. Starting next month, you send your payments to the new lender. And so that's the secondary market at work. We also cover chapters on to diligence, how to analyze and note how to look for problems and conduct to due diligence before you buy, how to manage notes, how to manage a portfolio, selecting loan servicer which loan servicers are one of the most important vendors in our industry. And as a note investor, I always recommend using a licensed loan servicer as a service, whether it's required or not. by state law, it's still a good idea to do it, because loan servicers what they do. They manage all the day to day aspects of the note.

They collect the payments. They take phone calls for the borrower the answer questions. They send out the tax statements at the end of the year. They keep track of the amortization schedule All all of that there's so much so much that goes on. And for very nominal fee, they will handle that for on behalf of the investor, it's almost like here's the analogy I love. Having a note servicing company manage your note is very similar to the way a property manager will manage a rental property on behalf of the owner. I mean, that's, that's the one of the best analogies I can talk about. And so that's certainly something we cover in the book. In addition to that, working with retirement accounts, because using retirement, self directed retirement accounts, self directed IRAs, 401, K's, it's a great source of capital to be able to use for note investing. And when you combine those tax benefits, from using those accounts, with the profit in income from note investing, where by the way, there's no tax deductions, no tax benefits there. So it's all taxable income. When you put those two together, it becomes a very powerful combination. And so those are some of the different topics that we cover. But really at heart, I'm giving a high level overview of the business, how to get started and how to decide whether is it better for you, as an investor to invest buying a bunch of individual notes? Or are you better off investing in a note fund, where it's similar to a syndication where investors invest passively the fund manager and their team go out the analyze the

notes and buy them, and then generate cash flow and income from that. So it really covers a wide spectrum of topics. But after reading the book, you come away with a really great base understanding. And from there, you can start to branch out and look at other aspects of the industry.

Mike Stohler

Where can people find the book?

Fred Moskowitz

Well, the book is available on Amazon, you can search for it by title, which is the little green book of note investing.

Mike Stohler

Sounds good? And what kind of if someone was interested in what kind of return are you seeing

Fred Moskowitz

on notes in general, on the

Mike Stohler

notes or on your fund? Or, you know, what are you? Yeah,

Fred Moskowitz

yeah. So in, in general, this really comes down to how much risk an investor is willing to take, right? There's notes that are low risk notes, there's notes that have higher, higher risk and more problematic, and it's like anything else. If you, if you want low risk, then you're gonna get a lower rate of return. If you want higher, higher return, you do have to take on more risk. And as far as a range, I would say, on the low side, five and 6% return. If you want to get into more taking on more risk, you can get into double digits 1516 18% is common. Especially some of these short term loans, like hard money loans to investors, they command a pretty, pretty steep, pretty aggressive return. And the downside of that is that their short term loans are usually six month loans or 12 months loans. And so for you

as an investor, your job is to when that money's goes out, and then the money comes back quickly. And you have to redeploy that, right? So that's part of that trade off. So it really is across the board. There's no right or wrong answer. It's all about finding what works best for you. And your comfort level as an investor. And then you go from there and over time, what the trends are usually city which happened to me and others and I know in the industry, over time, you get more experience, you get more comfortable taking on more risk, handling more problematic items. And so you can do different different deals get involved in different deals that way, but you know, like anything else, you start out small always crawl all before you walk, get your comfort level build up, build up a network and relationships with the people that are going to help you succeed in your business. Yeah, it's like any any other type of investing, right?

Mike Stohler

Right. Yeah, you always need the mentor you always need the coaches. Absolutely. Learn from our mistakes is what I say. Now you know what is so someone say You buy a \$5 million Note. So hotel, they stopped paying you do you get that hotel? I mean, do you have to foreclose on them, you have to go through that process? How does that work with when they if they don't pay?

Fred Moskowitz

Well how that works. Lenders always will have that recourse in their loan documents to the ability to pursue the property through through foreclosure depends on what state it's in, it's going to be what's called a judicial foreclosure or non judicial. And what I, what I found, Mike, is that, in those situations where there is a default, usually the best resolution is when all the parties can come together, and work out in agreement, work out a solution, loans often will, can be restructured, or come up with a payment plan to help things get back on track, because this is a reality. No lender wants to take a property back, that's not what they want, they didn't get into lending, so that they go out and get properties. It's not the objective. The lender wants, the terms of the terms of the debt to be honored. And that's it.

And so working together, whether it's through intermediaries or directly with the borrower, that's how you get things back on track and, and get we're get we're, the lender wants to wants to get paid in the end. And so a lot of times from the borrower's perspective, there might be have been a problem, there was a temporary scenario that came up, whether it's in the operation of the hotel, management issues, a pandemic and anything like that. But given enough time and a desire to come together and work in agreement, then that's how you can get a resolution. And in the end, very few hotels, very

few properties actually get to a sale or sale is happening. Where it actually takes place. The majority of the time, it gets worked out before that. And that's what everyone wants, the lender doesn't want does not want the property back. The borrower does not want to lose the property either. And so coming together to an agreement is the most likely outcome. And frankly, it's the one that's best for everyone. The Emily is

Mike Stohler

Yep, I agree, you know, for Yeah, that's just a sticky situation. And you know, especially since COVID, you know, a lot of times it's not even, it's no one's fault. It's it's COVID fault, right? So, yeah, and that hurts everybody, no one's getting paid. So it's just so as good to try to work things out.

Fred Moskowitz

It is it is in the end, it's always the best approach. And like I said, usually what's needed is time, more time to allow us for stabilization, stabilization of a property or an asset. And if the right team is in place, that can happen it can happen in an effective way.

Mike Stohler

Yeah, right. So Fred, you know, people are listening. They might be focused and interested on notes. Where can people find you?

Fred Moskowitz

Yeah, thank you. I love connecting with with investors speaking with investors, learning about what people do networking is such a big part of my business as a note investor. And and I love it. I love doing it love connecting. So best way to get in touch with me is can reach out through my website, which is [Fred moscowitz.com](http://Fredmoscowitz.com). Or, for an easier spelling can go to [gift from fred.com](http://giftfromfred.com) and sign up on my website I can send out a special report about nude investing. Now as an alternative if you prefer to connect using your mobile device smartphone, you can text me as well by texting the keyword money to the phone number 215461 or 433 and then just following the prompts there, but as I said, I love love hearing from you I love connecting with with investors. It's fascinating to me, investors to see So many different things to get involved in all these different deals, especially those of us in the alternative investment space. And so I find it fascinating to just learn about that learn about that spend some time being curious of hearing about what others do. Because there's it's such a diverse world out there and I love learning.

Mike Stohler

It is no everybody if you're interested in notes, Fred moskowitz.com, and or texting. Fred, I appreciate you being on the richer geek. You've been very helpful in taking us through mortgage notes, and we hope you have a great evening.

Fred Moskowitz

Thank you, Mike. Great speaking with you.

Mike Stohler

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/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 who can benefit from listening and leave a rating and review to get the podcast in front of your eyes. I appreciate you and thanks for listening.