



How to Earn Big Profits From Discounted Mortgages

A special report from Real Estate Expert Bob Bruss

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Before we get started discussing how to earn big profits from discounted mortgages, we need to understand the term “discounted mortgages.” No, it doesn’t mean obtaining a new mortgage at a discount, bargain interest rate from a mortgage lender! Instead, a discounted mortgage means buying an existing mortgage as an investment from its current owner-lender for less than the balance due on the loan.

To illustrate, suppose you sold your home last week and carried back an amortized \$10,000 second mortgage at 8% interest for 10 years with a \$121.33 monthly payment. However, today you suddenly need cash to buy a boat! So you run a classified ad in the newspaper offering to sell your mortgage. I hate to be the bearer of bad news, but unless you are incredibly lucky, you won’t find a buyer who will pay you \$10,000 for that mortgage. Why? Because mortgage investors insist on higher yields to compensate for their risk. Suppose I offer you \$8,000 for that mortgage. If you need the money badly enough, you will probably accept my generous offer. Then I will have purchased a \$10,000 mortgage for \$8,000. This is called a “discounted mortgage.”

Was this a good investment for me to buy your \$10,000 mortgage for \$8,000? Let’s think about this. First, nothing changes for the borrower. He or she will continue making their \$121.33 monthly payment including 8% interest. Instead of paying you, however, now they will pay me \$121.33 each month. Second, my yield on my \$8,000 cash investment is a combination of the 8% interest paid by the borrower, plus my \$2,000 discount amortized over the 10-year life of the mortgage. Since I only have \$8,000 invested, whereas you had \$10,000 invested in that mortgage, my yield will be somewhat higher than 8%. To be exact, my yield will be 13.40% annual interest. Not bad! However, most experienced discounted mortgage investors would not be very happy with that low yield. They usually want 15% to 20% minimum! This report will show you how to get those yields, and even higher. For now, let’s be certain we understand the basic fundamentals of discounted mortgage investing.

INVESTING IN DISCOUNTED MORTGAGES DOES NOT MEAN MAKING “HARD MONEY” LOANS. I have a friend who loans money at 12% “interest only” for three years secured by new mortgages (that means there is a balloon payment of the principal due in three years). He charges borrowers a 10-point loan fee (each point equals 1% of the loan amount). For example, if he makes a \$100,000 loan, after paying the lender a 10% loan fee, the borrower only receives \$90,000. Yet the borrower pays 12% interest on the full \$100,000 and owes my friend \$100,000 when the loan comes due in three years. In other words, my friend the lender earns \$12,000 annual interest on his \$90,000 cash investment. What is my friend’s annual yield on his \$90,000 investment? Just divide the \$12,000 annual interest by the \$90,000 invested to arrive at a 13% annual return. However, in three years he will receive \$100,000 cash. The additional \$10,000 is extra profit. That makes his total annual yield from both the interest and the loan points discount amortized over three years 16.23%.

This is called a “hard money” loan because actual cash is being loaned. Banks, S&Ls and finance companies, as well as individual lenders like my friend, are hard moneylenders. While some finance companies and loan sharks typically earn interest rates well over 20%, most banks and S&Ls charge reasonable interest rates. My friend (who is a subscriber to this newsletter, by the way) and I have discussed why he would be better off buying existing mortgages at a discount, but he continues making hard money loans instead of investing in discounted mortgages at much higher yields and with greater safety. However, as a hard moneylender my friend is burdened with mortgage loan disclosures and, in some states, the usury laws would limit his maximum annual interest rate. Incidentally, the usury laws do not apply to buying discounted mortgages since the borrower’s interest rate remains unchanged.

WHY IS A DISCOUNTED MORTGAGE INVESTMENT BETTER THAN A HARD MONEY LOAN?

Yields on most hard money loans are far lower than can be attained by purchasing discounted mortgages. In a nutshell, that is the answer. When properly purchased, a discounted mortgage is also safer than a hard money mortgage because the loan-to-value ratio of a discounted mortgage is lower than for a hard money loan.

To illustrate, suppose a home sells for \$100,000, the buyer makes a \$10,000 cash down payment, and obtains a new \$75,000 first mortgage. The seller carries back a \$15,000 second mortgage. The total loan-to-value ratio is 90% (\$75,000 + \$15,000). However, if you buy that second mortgage at a discount for, perhaps, \$7,500 because of its high risk, then your loan-to-value ratio is not 90% but only 82.5% (\$75,000 + \$7,500). That’s still high, so you deserve a high yield. But if you made a \$15,000 hard money loan instead, then you would have a very high-risk 90% loan-to-value ratio.

In summary, discounted mortgages are usually better for lenders than hard money loans because (1) the yields are higher on discounted mortgages. (2) the loan-to-value ratio is lower after considering the discount and (3) the discounted mortgage buyer doesn’t have to be concerned about loan disclosures or usury limits. A major drawback of making hard money Loans is the lender must comply with various state and federal loan regulations, such as usury limits, Truth-in-Lending Regulation Z, state licensing, and loan disclosure requirements. However, these Laws do NOT apply to discounted mortgage buyers. There is NO maximum interest rate, which can be earned by the investor on discounted mortgages.

ADVANTAGES OF DISCOUNTED MORTGAGE INVESTMENTS. Before we get to the mechanics of calculating discounted mortgage yields, let’s think about the possible advantages of investing in discounted mortgages. They include (a) high yield on the dollars invested, (b) possible resale profits (mortgages purchased at a high-yield discount are often sold at a profit to another investor who is willing to accept a lower yield), (c) safety of investment based on the real estate security (NEVER buy a discounted mortgage on property you wouldn’t want to own if the borrower defaults and foreclosure becomes necessary — ALWAYS look at the property security from the exterior before buying a discounted mortgage), (d) ease of management (retirees especially enjoy mortgage investing because there is virtually no physical work involved, just bookkeeping — use the T-Value computer program offered on the last page), (e) interesting work because each mortgage situation is different (you won’t get bored!), (f) easy math performed by pushing a few keys on an inexpensive \$30 financial calculator, (g) the longer the loan investment, the bigger the discount to expect and the higher the yield on dollars invested, (h) no real estate license is required if you invest as a principal for your own account (a license is required in some states — such as California — if you resell mortgages, acting as a broker), (i) unlimited profit opportunities (you’ll run out of cash before you run out of mortgages to buy), and (j) CASH FLOW!

DISADVANTAGES OF DISCOUNTED MORTGAGE INVESTMENTS. The drawbacks of investing your money in discounted mortgages include (a) no tax shelter for the high yield income, (b) possible foreclosure if the borrower doesn't make the payments (perhaps this should be listed as an advantage because of the profit opportunities IF the borrower has sufficient protective equity), (c) competition from other smart investors who also buy discounted mortgages (the benefits of discounted mortgage investing are not a secret!), (d) simple math (some investors can't stand any math, although only a simple \$30 financial hand-held calculator is required), (e) some mortgages run for long terms of 10 to 30 years, but many have balloon payments due in three to five years (the longer the mortgage term, the higher the discount and the higher your yield — I welcome long-term mortgages because of their profit potential and long-term retirement income), and (f) lack of liquidity since there is no organized market for selling discounted mortgages and most banks do not like to make loans secured by mortgages (it's called hypothecation when a mortgage is pledged as security for a bank loan —just like a pawn broker, but bankers don't like that analogy!).

HOW TO CALCULATE DISCOUNTED MORTGAGE YIELD. Later, I'll give you information on some excellent classes, books and computer programs about discounted mortgages, which I recommend. If you are seriously interested in this topic, either for investing or as a full-time business, I strongly suggest you learn much more than this brief report can explain.

To be a successful discounted mortgage investor you will need a financial calculator. The model you buy must have keys for future value, present value (loan amount), interest, term (in months) and monthly payment. The Texas Instrument Business Analyst and Hewlett-Packard models seem to be the most popular (but I find my H-P calculator is too complicated for me). I like the "Financial r" and "Real Estate Master" which fit in my shirt pocket. They cost \$30 to \$70 from Calculated Industries, 22720 Savi Ranch Parkway, Yorba Linda, CA 92686, phone (714) 921-1800 for a brochure. Some models also calculate loan qualification percentages, remaining balance, etc. This is handy if you are a realty agent.

After you have your financial calculator, learn to use it! Don't be afraid. Don't keep it in your desk drawer — you can't make a mistake, which will cause it to explode! The worst that might happen is it will say "error." At first, you might want to write out your calculations in a little notebook, but later you will become so confident you won't need to do so. There are five potential entries into your calculator for each mortgage, but in most situations you will only use four. Here is how to set up your notebook, along with explanations of what these numbers mean. Let's use our example of a \$10,000 amortized mortgage at 8% for 10 years. We are solving for the number, which is underlined:

	N	I	PMT	PV	FV
(1)	120	8%	\$12.131	\$10,000	0
(2)	119	8%	\$121.33	\$9,945.34	0
(3)	108	8%	\$121.33	\$9,319.48	0
(4)	36	8%	\$121.33	\$10,000	\$7,784.29
(5)	84	8%	\$121.33	\$7,784.29	0

N = the number of remaining payments on a loan. This is called "term" on most financial calculators. Using our earlier example of a \$10,000 loan at 8% interest for 10 years, on line (1) above we enter 120 months and push the calculator's "term" or "N" key. The result fills in the missing blank so we know a monthly payment of \$121.33 will fully amortize this loan in 10 years (120 monthly payments).

Now, suppose you want to know the loan balance after one payment has been made. As shown on line (2) above, we solve for the loan balance by entering 119 (the number of remaining loan payments) and pressing “term” or N. The result is \$9,945.34. This means, from the first monthly payment of \$121.33, \$54.66 went to reduce the principal loan balance and \$66.67 was interest, isn’t this fun?

Just to see what the loan balance will be after 12 payments for the first year, let’s enter 108 remaining payments (120 minus 12 payments already made) under “term” or N to see what happens. Did you get a \$9,319.48 loan balance, as shown on line (3) above? That means, after 12 monthly \$121.33 payments, which total \$1,455.96, \$680.52 went to reduce the principal loan balance and the remaining \$775.44 was interest. Of course, in future years the portion of each payment on an amortized loan going toward principal increases a little each month and the interest portion declines a little each month.

I = the interest rate. On most financial calculators the annual interest rate must be changed to monthly interest, usually by pressing the “change to monthly” or similar key. Read your calculator’s instruction booklet to learn the exact procedure for your model

PMT = the monthly mortgage payment if “N” is in months and “I” in monthly interest. A few mortgages have quarterly or annual payments, but most mortgages have monthly payments.

PV = the “present value” or the current loan balance. In our example above, the beginning loan balance was \$10,000 which was entered under “PV” or loan balance.

When you know any three of the above four numbers (N, I, PMT, PV), just push the key for the unknown number to calculate it. For example, on line #1 above we entered into our calculator the known number of payments (120), the interest rate (8%) changed to monthly interest within the calculator (0.67%), and the starting loan balance (PV) of \$10,000. But we didn’t know the monthly payment so we pushed the “PMT” button. It says \$121.33! I underlined that above to show that is what we calculated.

Remember back on page 1 where I bought this \$10,000 mortgage for \$8,000? To find my yield, just enter \$8,000 and push PV. That means my present value or purchase price is \$8,000. Now, push I to see what my yield will be if I buy this mortgage for \$8,000. Did you get 1.12%? That is the monthly interest rate. To convert it to annual interest, just multiply by 12. That’s how I got 13.40% annual yield.

FV = the “future value.” Normally, you won’t need to calculate future value, nor will you need to enter any number here. However, if you are doing several calculations, which don’t use FV, be certain there is nothing entered in FV. Just to be safe, enter zero in FV each time.

But FV can come in handy if you need to know the amount of a balloon payment, such as one due in three years or the current balance on a loan after a specific number of payments have been made. For example, suppose our mortgage is amortized (paid in full) over 10 years, but it has a balloon payment coming due in three years after 36 payments will have been made. To calculate the balloon payment due after 36 payments (three years), we enter 36 under the “N” or term key and then push FV to arrive at the \$7,784.29 balloon payment due in three years (line #4 above) after 36 payments have been made. Isn’t that interesting? After three years of payments, the loan still has a \$7,784.29 balance.

Incidentally, the same result can be obtained, as shown on line (5) above by entering the remaining 84 number of payments after 36 payments have been made in the N key and then pressing PV to learn the loan balance when 84 payments remain. Either way, the answer should be the same.

HOW MUCH SHOULD YOU OFFER WHEN BUYING A DISCOUNTED MORTGAGE? Last month I attended a meeting of the Bay Area Investor's Club at the San Francisco Hyatt Regency (an excellent group, by the way — phone (510) 339-9014 or write Box 20866, Oakland, CA 94620 to get on their monthly meeting mailing list if you live near San Francisco) where one of the speakers was a professional investor in discounted mortgages. He emphasized he always asks the seller of the discounted mortgage “How much do you want?” rather than first making a discounted offer. He said the discount offered by the mortgage seller is often far larger than he would dare request when making an offer to buy the mortgage.

Using our example of the \$10,000 mortgage for 10 years at 8% interest, how much would you offer? The answer depends on the yield you want, suppose you want a 20% yield on your cash invested to buy this mortgage a week after it is originated. In your calculator, enter 20% interest (be sure to change it to monthly interest). Then push the PV or Loan Amount key. Did you get \$6,278.09? That is the amount you would offer the mortgage seller if you want a 20% yield on your money. Do you think he or she will accept? Probably not, unless he or she is very anxious, that \$3,721.91 discount is substantial.

Unfortunately, I don't have enough space in this report to go into negotiation strategies. But I know several investors in discounted mortgages who just offer a certain percentage of a loan's remaining balance. They make some spectacular deals and some deals I would pass up. For example, suppose your policy is to offer 80% of a mortgage's balance. That means you would offer \$8,000 in our example above. Then your yield would be 13.40%. To get this result, after you have the basic \$10,000 loan, 8% interest, 120 month term, and \$121.33 monthly payment already in your calculator, enter \$8,000 and push the PV or loan amount button. You should get 1.12%, which is the monthly interest, and then multiply by 12 to get 13.40% annual interest. If this is enough to satisfy you, buy the mortgage! Otherwise, offer less. Also, there are other alternatives, such as offering to buy just some of the payments (called a “partial purchase”), which gives you a higher yield but avoids a big discount for the mortgage seller.

WHERE CAN DISCOUNTED MORTGAGES BE BOUGHT? Unfortunately, there is no “Discounted Mortgage Store” where you can go to buy mortgages at a discount, but there are mortgage brokers who buy mortgages from individuals at a high-yield discount and then sell them in the so-called secondary discounted mortgage market at a lower yield. When I sell houses, I often carry back second mortgages as investments. I then quickly get inundated with letters and postcards from mortgage investors begging to buy my mortgages at a discount. Some are buying for their own portfolios, but I suspect most are trying to buy at a bargain discount and then quickly resell at a profit

For example, I understand Fleet Financial bought over \$1 billion of discounted mortgages last year from mortgage brokers. Reportedly, Fleet currently wants a 13% yield on their invested dollars. That means if you buy a mortgage discounted to yield 18% and sell it to Fleet at a 13%yield, you can earn the quick 5% yield differential without putting out any of your own cash. However, you must prepare a “loan package” to meet Fleet's requirements. Other finance companies also buy discounted mortgages. However, I never resell discounted mortgages so I am not familiar with the details. If this interests you, I suggest you study more about the discounted mortgage business and take several courses so you thoroughly understand the sometimes-complicated details of reselling mortgages.

Whether you want to hold or resell the discounted mortgages you acquire, here are the primary sources of these mortgages:

1— HOME SELLERS WHO CARRIED BACK A FIRST OR SECOND MORTGAGE. Most discounted mortgages originate when a home seller carries back a first or second mortgage to facilitate the sale of their residence. They often would prefer cash but had to take back a mortgage to put the sale together. However, they usually (a) have no idea how to turn their mortgage into cash and (b) didn't know their mortgage is worth less than the face amount or loan balance! In most counties, you can now buy lists of property sellers who carried back mortgages. The biggest firm in this business is TRW. I understand they charge about 35¢ per name. Or, you might find a better service such as a local credit bureau, which tracks property sales. Your county recorder can probably tell you who buys lists of property sellers and then resells those lists.

Although it pays to contact property sellers shortly after the sale, long-time investors in discounted mortgages tell me their most productive mailings to these sellers occur six months, a year, two years and even up to five years after the sale. That's when the seller may need cash! In other words, keep in touch by sending these sellers your postcard at least every six months so when they need cash from their mortgage, they will think of you first.

2— NEWSPAPER CLASSIFIED ADS. Another good way to find sellers of mortgages at a discount is to run a "rate holder" constant classified ad in your local newspaper under an appropriate heading such as "real estate loans." But the big drawback of such ads is you will attract callers who want to borrow money on hard money loans. However, you can refer these callers to a local hard money lender who, if legal in your state, can pay you a referral or finder's fee.

3— THE LOCAL MULTIPLE LISTING SERVICE (MLS) BOOK. One of the most successful buyers of discounted mortgages in my area researches homes, which are listed for sale in the MLS book. He then checks to see which of those homes have second mortgages held by private parties. Next, he contacts that lender to see if they would like to sell their loan at a discount. This technique can produce astronomically high yields because, chances are, the house will sell soon and the second mortgage will be paid off in full. The sooner a loan is paid off, the higher the discounted mortgage buyer's yield.

However, unless you have a real estate agent friend who will give you last week's MLS book, these books are not available to the public so don't expect to get one unless you belong to the MLS as a licensed realty agent or have a friendly agent.

4— DELINQUENT MORTGAGES: Recently, I had to record a Notice of Default on one of my mortgage borrowers who was behind in his monthly payments. After repeated phone calls to him, he still didn't pay, so I had no alternative. Of course, then he paid but only after incurring unnecessary fees which he could have avoided by keeping his monthly payments current. However, I received three letters from buyers of discounted mortgages offering to purchase my mortgage which was in default. One even offered in his letter to buy my mortgage for 50% of the current balance and he would take over my problems! Isn't that nice?

If I had been a little old lady who was afraid of foreclosure and feared I might wind up owning the house again, I might have been tempted to sell my mortgage to one of these sharks. At 50% discount for buying delinquent mortgages, all it takes is a few acceptances to make very profitable investments. However, use the customary precautions because delinquent paper often has special problems, such as a very high loan-to-value ratio.

5— YOUR CURRENT LENDERS. A few years ago I took both of Jimmy Napier's excellent discounted mortgage courses, the basic and advanced classes. He taught me one of the most profitable sources of discounted paper is my current private lender. Jimmy suggests including a handwritten note with each loan payment to private individual lenders such as "How much of a discount can you give me if I pay off your mortgage in full this month?" Don't expect immediate results. But after a few months or years you will eventually get an offer. One month I offered a specific amount (which was all I had at the time) and got a \$24,000 discount from another lender, I got a \$7,500 discount however, this technique doesn't work with institutional lenders!

6— REAL ESTATE BROKERS, MORTGAGE BROKERS, BANKERS, LOAN OFFICERS, ACCOUNTANTS AND LAWYERS. These people are either in the lending business or have contacts with people who hold mortgages. They often run into situations where your services as a buyer of an existing mortgage at a discount can be helpful. For example, a lawyer might be probating an estate where the deceased owned a second mortgage, which needs to be sold to raise cash. You are the logical buyer for a quick sale. Periodic reminder postcards to your contacts in these fields can produce surprising results.

7— TITLE INSURANCE AND ESCROW OFFICERS. One of the best sources of discounted mortgage paper is where they are originated — in the offices of title insurance companies, escrow firms, or wherever property sales are closed in your community, perhaps attorney offices. You may even want to offer to provide a FREE loan amortization schedule to the individual lenders who are carrying back mortgages. This will give you an instant list of these lenders and the terms of their loans on which you can make offers to purchase! In my area, a local title insurance company used to provide this service free without asking but the individual offering this service never followed up to ask if I wanted to sell my mortgages I carried back. If you have a computer, I highly recommend buying the TValue program available at the end of this report if you want to offer this amortization schedule service.

CRITERIA FOR BUYING SAFE DISCOUNTED MORTGAGES. Occasionally I receive unsolicited phone calls from people in the real estate business that says something like "I hear you buy discounted mortgages. I have a third mortgage on a slaughterhouse in Iowa. How much will you offer me for it?" Just last week I was offered a \$45,000 third mortgage on a house worth, I was told, at least \$1 million. But the first mortgage is about \$550,000 and there is a \$200,000 second mortgage, both in default! No thanks! I'll pass on both those "opportunities." Why? The slaughterhouse mortgage is secured by a specialized property, which is (a) out-of-area and (b) worse yet, a one-use type of property. The expensive house third mortgage would cost too much to protect since the first and second mortgages are both in default. Even if their payments were current, I wouldn't want a small mortgage behind a big mortgage. However, I would be interested in a big mortgage behind a small first mortgage. Here are the general guidelines to use:

1— THE DISCOUNTED LOAN-TO-VALUE RATIO. For the safety of investors in discounted mortgages, the borrower should have sufficient "protective equity" in the property. That means, the borrower should have something to lose by defaulting and the property should not be mortgaged for as much as its market value. For example, a major reason so many newer VA mortgages are in default is the borrower usually has no equity since VA mortgages can be obtained for up to 100% of the home's purchase price (nothing down!). Since VA mortgages are so risky, the government must guarantee them for VA lenders who otherwise would not make such loans.

Here are reasonably safe loan-to-value ratios to minimize your risk: RESIDENCES: Owner-occupied, 1-4 units—75%, Non-owner-occupied—70%; COMMERCIAL PROPERTIES: Apartments over 4 units, office buildings, shopping centers, industrial properties—60%; VACANTLAND: STAY AWAY because the resale market in the event of foreclosure is almost nonexistent

To show how the discounted loan-to-value ratio works, suppose you are considering buying a mortgage secured by a \$200,000 home, which sold within the last year. Beware of appraisals from an appraiser with whom you are not familiar because the appraisal could be vastly inflated. Incidentally, don't waste your time even looking at any appraisal from an unlicensed appraiser (although they can now legally appraise homes below \$250,000 for banks and S&Ls — it's shocking!). Suppose there are a \$125,000 bank first mortgage and a \$50,000 second mortgage carried back by the seller who is now offering to sell it to you for \$30,000. The loan-to-value ratio is 88% ($\$125,000 (63\%) + \$50,000 = \$175,000$ divided by $\$200,000$). If you can buy that second mortgage for \$30,000, your loan-to-value ratio is a much-safer but still borderline 78%. A high yield will help compensate for your risk.

2— NEVER BUY A MORTGAGE ON A PROPERTY YOU DON'T WANT TO OWN. As explained earlier, be sure to always inspect any property on which you purchase a discounted mortgage. Ask yourself "If the borrower defaults, I have to foreclose, and no bidders show up at the foreclosure sale, do I want to own this property and can I at least get my invested dollars out by selling the property?" Almost every time I hear about someone losing money on a mortgage investment it was because they bought a mortgage on either an out-of-town property they didn't personally view or on an undesirable property they don't want to own.

For example, recently I had lunch with a mortgage investor who holds a second mortgage of about \$150,000 on a large apartment building in a rough, low-income part of town. The first mortgage is over \$1 million. The property owner has been keeping up payments on my friend's second mortgage but the owner is now over \$100,000 in arrears on the first mortgage payments. In other words, he has been "milking" the property. The investor is reluctant to foreclose because he doesn't want to own this management-intense property and, if the S&L first mortgage lender forecloses, the investor doesn't want to cure the default by spending roughly \$100,000 to protect his \$150,000 second mortgage.

3— READ THE TERMS OF THE MORTGAGE YOU ARE BUYING. AS WELL AS THE TERMS OF ANY SENIOR MORTGAGES: LOOK FOR LATE CHARGES. PREPAYMENT PENALTIES (WHERE LEGAL AND DUE ON SALE CLAUSES. Before buying a discounted mortgage, always get a copy of the (a) promissory note and (b) mortgage (or deed of trust) of both the discounted investment you are considering buying and any senior mortgages. Read them! Look for late charges, prepayment penalties (if legal in your state) and due on sale clauses. The absence of these clauses may influence your decision to buy or not to buy. Avoid buying contracts for deed, land contracts, contracts of sale and other non-routine paper. Be sure the mortgage paper you buy has a late charge: without it the borrower has no incentive to pay on time. A prepayment penalty will raise your yield if the loan is paid off early. However, it will discourage early pre-payment, which raises your yield (the sooner you get paid in full on a discounted mortgage, the higher your yield). After buying a discounted mortgage, you may want to notify your borrower you will waive the prepayment penalty if the loan is paid off early by a specified deadline.

4— CONSIDER BUYING THIRD MORTGAGES. Most investors won't buy third mortgages. However, if the loan-to-value ratio is safe, you may have zero competition for such a mortgage which can be bought at a high discount. However, be sure to notify the senior lenders to IMMEDIATELY contact you if their payments are ever late so you can protect your mortgage.

5— ALWAYS GET TITLE INSURANCE ON MORTGAGES YOU BUY. You can usually get the current lender's title insurance policy assigned to you at no cost. If there is no title insurance, be sure to buy such insurance and consider the cost in your offer to buy the discounted loan.

HOW TO INCREASE YOUR DISCOUNTED MORTGAGE PROFITS. If there were more space available, I would like to explain how smart discounted mortgage~ investors increase their yields by (1) buying just part of the mortgage, such as the first 60 monthly payments, and then returning the balance of the mortgage to the mortgage seller, (2) hurrying the loan payback by offering to reduce the interest rate if the borrower will increase his monthly payment or encouraging the borrower to refinance the mortgage, (3) selling the mortgage at a lower yield to another investor (already explained), and (4) trade the mortgage as a property down payment at its full loan balance without any discount for real estate.

WHERE TO GET MORE INFORMATION. For more information on discounted mortgage investing: (1) Study the excellent best-seller book "Invest in Dept" by Jimmy Napier (\$15 postpaid— not available in bookstores—from Jim Napier, Inc., P0 Box F, Chiply, FL 32428 or phone 904-638-0005; also ask about his Basic Paper Course, Advanced Paper Course, and excellent paper course videotapes), (2) read "The Stefanchik Method" by John Stefanchik (William Morrow & Co, New York, 1994), available in stock or by order at local bookstores, (3) read The Number One Real Estate Investment No One Talks About by Sanford W. Hornwood and I. Lucretia Hollingsworth (Prentice-Hall, 1987) available at bookstores. (4) If you live in California, read "Smart Trust Deed Investment in California" by George Coats (Barr-Randol Publishing Co.), as well as his excellent forms book, available in stock or by special order at California bookstores and (5) acquire the TValue 4.0 computer program for interest calculations and loan amortization schedules, available for \$149 (plus 7% sales tax for Florida residents) from Jim Napier, Inc., P0 Box F, Chipley, FL 32428; phone 904-638-0005 to order with a credit card. It is available in DOS, Windows and Macintosh versions; be sure to specify which you want

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