The Risks of Holding A Mortgage - Guest Blogger- Jeff Armstrong, Armstrong Capital

I have never been an advocate of trying to convince a note holder to sell their mortgage. I have always believed that when a potential note seller really needs the money they will sell you their note if you have given them a fair price and you have built up a rapport with that note seller. I do, however, like to let them know what the potential risks of holding a mortgage are.

When I have given the note seller a price for their mortgage and it seems that they may be interested in my offer I send them what I call a "price letter". In the price letter I include the terms of their note and 1 or 2 different options for them to consider. Additionally, I include a one-page article that I wrote entitled "The Risks of Holding a Mortgage". The following is an exact duplicate of what I include with my price letter. Feel free to use it yourself, modify it, add to it, or take away from it for your own use.

The Risks of Holding A Mortgage by Jeff Armstrong

A real estate note is a promise to pay a debt with the promise secured by a mortgage, trust deed, or other security instrument. Such a note, when properly constructed, can be sold by its holder to raise immediate cash.

Within the last few years, hundreds of thousands of American property owners have financed their own property sales by accepting a trust deed or mortgage (together with a promissory note) as part of the proceeds of a real estate sale. (These are sometimes known as purchase money mortgages.) Unfortunately, many people get into this type of situation and are not aware of the risks involved with holding a mortgage. (read more by clicking on the arrow below)

One of the major risks of holding a mortgage is that if the buyer of the property stops making the payments and the holder of the note ends up having to foreclose on the property, the holder of the note may not be able to get all of his money back. The FHA is currently receiving only around 60 cents of every dollar it has invested out of the properties on which it has to foreclose. The buyer may have excellent credit and a secure job when he bought the property but he very well could stop making payments at any time. Then what will the mortgage holder do?

How many ways can you think of that would make the payor on a mortgage stop making payments? A death in the family, loss of a job, prolonged illness, divorce, disaster, fire, flood, hurricane, tornado and the list goes on and on. Even if the mortgage holder does get all of the payments, a bout with hyperinflation could destroy the value of the mortgage itself.

The holder of the mortgage is also running a liquidity risk. If the holder of a note needs the money he has tied up in the mortgage now, he may not be able to sell the mortgage quickly enough or for as much as he would today. And, of course, the world turns and things change. Who knows what changes and events in the next five, ten, or even twenty years could affect a mortgage and its value?

If retained long enough, some notes may eventually pay off. However, late payments, insurance liabilities, tax problems and foreclosure can plague many real estate contract holders. Even if these problems do not arise, many people prefer to have a lump sum of cash rather than the small monthly payments. Why take the risk?

Everyone that calls Armstrong Capital has a need or, if you will, a problem. And that is what we do, we solve peoples problems. Every offer that is made and every price that is given is subject to the verification of the information given to us by the note holder. Everything is thoroughly checked out. Potential transactions are only turned down if something is wrong that wasn’t communicated up front or if the risk turns out to be too great.

It is advantageous for any note holder to sell his or her notes now rather than collect the small monthly payments every month with which not much can be done. Some people like the payment coming in every month and that is fine. But what happens if those payments unexpectedly stop. For other note holders something might come up where a lump sum of cash is needed – maybe to pay a hospital bill, to reduce credit card debt, to purchase other property, or maybe buy that new car or take that dream vacation. Whatever that need might be, there is now another alternative to get cash quickly and use it however wanted.

Ten years ago a trip to the movies cost $3 and a nice car $7-8,000. With money losing value like that, it is easy to see the kinds of risks involved in holding a mortgage.

That is it, short, simple and to the point. It lets the note holder know what might happen in the future and plants a seed for future thought. Every time a payment comes in even a little late or they get a notice from the hazard insurance company that the coverage has been cancelled, they will remember what they have read. I have had many note holders call me that I have sent this article to with my price letter and not do a transaction with me, only to call back in six to twelve months, and even as long as two years, ready to sell. Try it out! It might help you as well!

Jeff Armstrong is president of Armstrong Capital. He is a Master Broker, visiting instructor for the American Cash Flow Institute, Nouveaur Riche College Instructor, and the author of "Scripts and Tips, A Handbook for the Serious Note Broker". Listen to Jeff talk about the art of buying and selling notes on the April's Expert Interview Podcast to air- Tuesday, April 21st. In the meantime, you can learn more about him at ArmstrongCapital.com.