

Cookbooks, a Doorbell and a Bag of Cash????

by Jeff Long, CPA

Is this a new movie title? What kind of article title is this? You might ask, "What can I learn from this article?" Read on and you will gain wisdom and get some laughs at the same time.

Financial Resources, Inc. buys seasoned and unseasoned private mortgages. We also originate residential and commercial real estate loans and pay referral fees to consultants.

This article has three of my favorite deal stories. This story, involves the unique ending to the purchase of a second mortgage.

In 1999, we bought a small \$4,000 owner-financed second mortgage. The payer got off to a rocky start with a 45-day late first payment. Subsequent payments were always 30-90 days late, but they eventually came in. Then in early 2001, he stopped paying any payments. We contacted the first mortgage company and discovered that he was paying them in the same sloppy manner he was paying us.

Following many calls by our company and our collection agent, we wore him down, and he started making payments after an eight-month hiatus. He soon realized that when you don't pay your payments for eight months, the foreclosure knock would come to your door.

The first mortgage company would not accept monthly payments after an eight-month gap. They wanted either a payoff or eight full payments. We knew he was about to lose his house, so we got creative.

The payer ran a small publishing company that focused on printing large city specialty cookbooks. Thus, we seized the opportunity and worked out with the payer that we would accept payment for the \$3,300 he owed to us in the form of 1,100 cookbooks. Each cookbook has a retail value between \$9.99 and \$14.99. We are now giving them to our loan customers during their loan closing, as a thank you gift. We are trying to keep this hush-hush to our other mortgagors, because if anyone finds out about this, we might start receiving payments in the

form of vegetables, pies, kids, and live poultry. What is the moral of this story? It is better to be rich in cookbooks than poor with nothing.

Have you ever heard of a \$5,000 doorbell? If not then we have one for you.

A few years ago, we were working on a simultaneous closing on a \$62,000 house. The homebuyer and the home seller were very high-strung people and grew to hate each other very early in the process. Fortunately, one Realtor in the middle acted as a buffer.

Most of the disagreements were about house repairs that the buyer wanted fixed that the seller insisted were not needed. Other disputes were about which items would stay with the house and which items the seller would take with him. The hottest contested item was a \$50 organ chime doorbell that the seller had installed over the original doorbell. The buyer wanted it to remain with the house, and the seller wanted to take it with him for his new house. The seller begrudgingly consented to leaving the doorbell, and all issues seemed to be cleared up.

Two weeks later, the seller decided to move out early and move into his new house. You guessed it; he took the doorbell with him. Well, this was the final straw for the buyer. The buyer backed out of the purchase, declaring that the seller breached the contract and he would never buy the seller's house. The seller was both humbled and furious — and stuck.

The cash flow consultant even offered to give the buyer a new doorbell. The buyer was incredibly stubborn and refused to buy the house. A month went by, and the seller was getting desperate and offered to reduce the sale price by \$5,000 to \$57,000. The buyer was swayed by the offer, and the deal actually closed.

There are at least two morals from this story. The seller learned that a \$50 trip to a home improvement store is better than a \$5,000 trip to the poor house. The buyer learned an unpleasant negotiating method, that if you have a person against the wall, you should back down and see what they offer you.

A few years ago, a note holder responded to our Yellow Pages advertisement and wanted us to buy his two-month seasoned private mortgage. He said that he

sold his house for \$70,000 and got a \$35,000 down payment from the buyer, thus he took back a \$35,000 first mortgage. He said the 22-year-old single lady buyer had a good job but had minimal credit. With this kind of a down payment, we usually don't care much about the payer. We gave him a strong mortgage purchase offer, which he quickly accepted. We gave him a list of documents that we needed to see before we could buy his mortgage.

A week went by and he had only given us some of the requested items. The items noticeably missing were the down payment related items such as: the closing statement or a copy of the payer's down payment check or a copy of the seller's deposit slip proving that he deposited the \$35,000. We only needed one of these items, but he was unable to provide any of them. He told us that he closed with an attorney, and that the attorney handled all of these items for him. We of course asked if we could contact the attorney.

After a week of dodging our question, he admitted that he closed it himself and had simply forgotten to make a copy of the check. We asked if we could contact the payer to see if she could provide us with proof of her down payment. He refused to let us talk to her, stating that he did not want to disturb her if we were unable to buy the note. We were running out of options and of course smelled something fishy.

We then looked deeper at the documents we already had and noticed something peculiar for a \$70,000 sale price. The payer had paid a state tax stamp amount that was based on a sale price of only \$35,000! Had this really been a \$70,000 sale price, she would have paid double the tax. We confronted the note seller with this information, and he was quick to say that it must have been a mistake. By this time, we were getting tired of this seller and his obvious lies. We pressed him one more time on the down payment. Sensing we were about to put the final nail in his coffin, he told us one more amazing lie. He said that this 22-year-old payer showed up to the closing with — you guessed it — a bag of cash. He said that it looked like it had to be \$35,000, and he didn't even bother to count it or question where she got it. He added that he had since spent all of the money. Needless to say, we were dealing with a crooked seller, thus we politely told him

that we would not buy this mortgage. What is the moral of this story? This might be hard to fathom, but some sellers actually lie about the mortgage they are selling, so be careful.

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