LIENLORD

Secrets to creating massive passive income with secured mortgage loans

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Introduction

Alternative investments are becoming increasingly ubiquitous in the portfolios of investors all over the country. It's likely that by 2023, the global market for alternative investments will reach or exceed $14 trillion, with investors seeking a higher level of control and greater yields from this asset class.[1]

This information, while definitely compelling, comes as little shock to me. As I write this, the country is in the midst of the 2020 COVID-19 pandemic and resulting recession. As a result, we're seeing a lot of fear and turmoil surrounding the markets, where there was already a void in stable, low-risk, income-producing investments. Because of this, investors are left seeking yield in a falling bond market when more of them should consider turning to noncorrelated alternative investments.

Investors frequently look to real estate to provide fixed income solutions, many in retirement. What they learn, like I learned, is that rental property income is neither stable nor consistent. What if I told you that you could

[1]https://docs.preqin.com/reports/Preqin-Future-of-Alternatives-Report-October-2018.pdf

benefit from a *truly passive* real estate investment without all the headaches and risks?

It's difficult to sit on the sidelines, watching investors flounder when I know there's a better way. After all, I've been there myself. As a landlord, I struggled, which is what drove me to become a *lienlord*. This is my motivation for writing this book—to introduce more investors to the concept of becoming a lienlord by investing in secured mortgage loans.

Of course, this all starts with a question: *Why don't more investors consider mortgage loans as investments?* I don't see any reason why, other than lack of knowledge. It makes sense to avoid investing in something you don't know much about or don't understand. That's certainly what Warren Buffett suggests.[2] But here's the interesting point: If you have or have ever had a mortgage, then you know enough about mortgage investing to create a solid knowledge foundation. Hopefully, this book will round out that knowledge so you can determine whether mortgage loan investing is a suitable option for you.

> "Never invest in a business you cannot understand."
> —Warren Buffett

What Is Mortgage Loan Investing?

Investing in mortgage loans has provided me with a level of financial freedom I failed to achieve through my job and *two decades* of real estate investing. The numbers for the mortgage industry are staggering. As of 2019, there was

[2]https://www.cnbc.com/2017/05/01/7-insights-from-legendary-investor-warren-buffett.html

$15.8 trillion in mortgage debt in the United States.[3] Home ownership *is* the American dream, and you don't need to be a massive bank or financial institution to enjoy the benefits of mortgage loan investing. Everyday investors like us can invest in that dream.

When I purchase a residential mortgage loan as an investment, I am simply buying a debt obligation for a set number of payments from an existing loan that has already been originated, usually by a licensed financial institution. Once originated, the loan terms cannot be changed unless both parties agree. Originating mortgage loans is a completely different endeavor from buying and owning them. Origination is a tightly regulated business requiring licensure and compliance with myriad laws on the state and federal level.

Investors can buy the loans secured by multifamily properties, commercial properties, vacation homes, and single-family primary residences. For the purposes of this book, the focus will be on the latter—single-family, owner-occupied, primary residences—which I believe to be the safest mortgage-related investment.

Mortgage loans are *secured* loans, meaning that the borrower's home is pledged as collateral. A lien is recorded against the property to secure the lender's interest, and if the borrower ever defaults, the lender has the right to foreclose the collateral and sell the property in order to satisfy the debt.

While the borrower is the rightful owner of the property and is allowed all the rights and responsibilities of ownership, that ownership is subject to the lender's lien on the property, which must be paid in full before the borrower

[3] https://www.housingwire.com/articles/u-s-mortgage-debt-hits-a-record-15-8-trillion/

completely owns the home. What the borrower builds in the meantime is *equity*, or the difference between the value of the property and the amount of debt owed to the lender. Over time, equity grows as the value continues to rise and the amount of debt is paid back to the lender.

The types of loans covered in this book are referred to as *performing loans*, and there's a good reason for that. In a performing loan, the borrower is current and making regular payments. This is something that can help an investor feel confident about their investment, but I want to be clear that tracking billing and payments is not part of the job of a mortgage loan investor.

Almost all investors hire a *loan servicer* to manage their mortgage loans. Servicers are usually licensed in the states in which they service loans and charge a flat monthly fee per loan for servicing. This involves:

- notifying the borrower of any changes in loan ownership
- sending monthly mortgage statements
- collecting monthly payments
- keeping track of the payments and loan balance via payment history
- communicating with the borrower
- paying property taxes through an escrow account
- collecting proof of hazard insurance on the property
- disbursing monthly payments to the lender
- following up on any delinquencies
- handling payoffs
- sending out year-end tax statements to the borrower and lender

I use several servicers, and find that their monthly servicing fees range from $15 to $30 per month, per loan.

Considering the amount of work, regulation, licensure, and responsibility it takes to service a loan, this is a bargain.

Part of the beauty of mortgage loan investing is that the lender has no other responsibilities for the collateral property; that is entirely up to the homeowner. Ultimately, mortgage loan investing is a simple business. Money was lent, the borrower needs to pay it back in monthly payments, the investor buys the lender's rights to the repayment, and the rest is an opportunity for our accounts to grow exponentially.

Feel free to contact me with any questions or for more information about mortgage loan investing.

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My Story: Seeking Freedom

I'm often asked what led me into mortgage loan investing, and I point to an incident that occurred when I was thirteen that really shaped my view of money.

I grew up the oldest child in a single-parent home in Hoffman Estates, a suburb about forty minutes northwest of Chicago. Hoffman Estates was where my family had our first home and first mortgage.

I was lucky enough to attend one of the top high schools in the state, filled with students split between my middle-class town and a much more affluent town next door. Many of my affluent friends' parents were executives, business owners, or doctors, and it was not uncommon for my friends to drive brand-new Porsches and Mercedes to school.

One day after riding my bike home from a baseball game, I saw my mom talking to a city inspector. Our main sewer line kept backing up, and the city inspector said that our only option was to hire a plumber to run a camera down the pipe and diagnose the problem. He pointed down to a section of our yard, right before the sidewalk, that was sunken.

“That’s likely your problem there,” he said. “If the crack is on the street side of the sidewalk, the village is responsible for the repair. But if the crack is on the homeowner’s side, you’ll have to repair it.” He estimated the cost for the repair at $5,000 to $10,000.

I recognized the panicked look on my mom’s face. I knew enough to know that we didn’t have the money to pay for the repairs; my mom was a teacher, and we lived paycheck to paycheck my entire upbringing.

I felt totally helpless standing there next to her, with no knowledge of plumbing and no ability to get anywhere near the amount of money required to pay the repair bill. I grew frustrated with the situation, embarrassed, then angry, and made a silent vow to myself that day to never be in that position again.

From that point forward, for me, money represented freedom. Freedom from having to worry. Forget the material possessions; money meant complete control over my own life.

Ten years later, I found myself training to become a high school teacher in the same district I attended as a student. For twenty-three years, I went to work every day out of a sense of responsibility. I believed in the mission of public education in our society as the great leveler, and I believed I had a responsibility to inspire and guide my students, many of whom struggled at home.

But midcareer, I found myself struggling daily with the sheer weight of the profession. The days were long and intense, and the workload was never ending. I spent many days hiding an immense sense of frustration and feeling completely overwhelmed, seeing firsthand what my students had to struggle through.

Regularly, I came home from work and hid. All my energy was spent, and I had little to nothing left for my own children. I would get depressed and stressed out Sunday nights thinking about the week ahead. Honestly, there were many days that I would arrive in the parking lot and just sit there, not ready to get out of the car.

This is the problem too many people find themselves in, regardless of their profession. Stuck, too tired to figure a way out, and resigned to unhappiness. As a teacher, I learned that most of my coworkers felt like they had no choice but to stick it out for thirty-six years for the pension, the promise of future happiness.

During my quest for financial freedom, I invested in traditional investments and real estate, but nothing met my needs for stability, passive income, and scalability until I found mortgage loan investing in 2016. It represented everything that real estate investing wasn't.

By 2019, after twenty-three years of service, I retired from teaching. I entered into the great unknown of entrepreneurship with a wife and young kids who depended on me to provide for them. I knew it was time. I knew that if I stayed, I would regret being unhappy more than if I failed.

As of the date of this book, I have purchased over 250 mortgage loans. I am by no means rich, but I am financially self-sufficient, and I am able to support my family using my investment income, which was my original goal. Material possessions still don't matter to me. As I get older, the more I think about what I am building and what I am passing on to my children, in lessons and in legacy.

I am grateful for all the people I met in my early years in mortgage loan investing as well as my mentor, because they all taught me lessons that have turned me into the investor I am today. I am still learning about this business every day, and I enjoy passing on my knowledge to others.

I made a promise to my mentor early on in our relationship that in exchange for his help, I would teach someone else this business. I see this book as a means of fulfilling that promise, and sincerely hope you learn something valuable by reading it.

This book is not a complete educational program in mortgage loan investing; it is considered an introduction, designed to pique your interest and to make a case for a real estate-based, passive supplement to traditional investments.

I understand that not everyone will be as driven as I was for change, and most people are generally satisfied with their careers. But I believe there are many more investors who would choose mortgage investing for a part of their investment portfolio, because it is such a simple yet effective model.

I strongly believe that we all should have the opportunity to control our financial futures and create the lives we desire. Mortgage loan investing has allowed me to do that—I hope it can help you too.