

Mitch: This is Mitch. And I'm here with Shannon Stephen and if you're really quick, you could put two and two together, yes Shannon Stephen is my daughter and she's been working with me for over 20 years, collecting payments, drawing documents, going to foreclosures, doing whatever it is that we needed to do and she's become an expert, no doubt over the years. So, she started her own note servicing company which only makes sense, she can do it in her sleep, the name of her note servicing Moat Note Servicing L.L.C. and we're gonna talk to her today, how you doing Shannon?

Shannon: I'm doing fantastic and yourself?

Mitch: I'm doing well, I'm glad we'd get you on the line here, so we can slow you down for a minute and get you to talk to the audience about the possibility of hiring a loan servicing company or a note servicing company. So, I think the first order of the day is let's define what a note servicing company is, what do they do.

Shannon: Well, we're gonna collect your payments, track your payment history, make your deposits, track and record escrow, payments received for tax and insurance, we're gonna pay you tax and insurance, [INAUDIBLE - or when they come due], we're gonna send out your year end tax forms, we're gonna do escrow analysis at the end of the year and then we are gonna send you a check for your principal and interest each month.

Mitch: When you decided to become a note servicing company, did you just pick a name or open up shop, what is it take to become a note servicer?

Shannon: Here in Texas, you've got to get registered with the state, it's not a difficult process it is a time consuming process, first you need to set up your company and you gotta send information to the state, so they can get you set up on their website, fill out all their paperwork, you gotta get a bond and then you kinda go back and forth with the state until they have everything on a paperwork that they what, and then finally you get an approval.

Mitch: So, [LAUGHTER] sounds like a little bit of bureaucracy, no doubt huh?

Shannon: It is, it's very, very simple stuff, like where did you come up with your fiscal year and you then you'll email them back and say look

at page 3 of my L.L.C. document, that's where I got it, it's right there on the form.

Mitch: Yeah, I understand, so, note -- servicing, that kind of unusual name, how did you come up with the name moat, you're talking about moat M.O.A.T., like the trench you dig around the castle that you fill up with water so, people can get in your castle if the drawbridge is up. So, Moat Note Servicing, I'm gonna guess where you got this name from.

Shannon: [LAUGHTER] Well, I know a really smart guy, I call him dad, He wrote a fantastic book called *My Life on a Thousand Houses*, there's a little plug there for you, in that book there is a story or a chapter, a couple chapters I believe, about the moat theory which, I did go back just the other day, but something that you have taught me all my life, is if you get everything that you need to survive, your house and your car and all those things you need and you put it in your castle and you build a moat around it and figure out how much it takes you to keep all of that afloat, you figure out how to make that amount of positive income, build your moats around your house and then you can go out and do whatever you want. Dream big, do things that you wouldn't have done before you know that everything inside your castle is taken care off, that is where Moat Note Servicing came from.

Mitch: [LAUGHTER] Well, I'm honored. The whole thing about financial independence, financial independence happens where your wants and your needs are exceed by your cash flow and so when you find out how much it takes to pay for your wants and your needs and then you figure out how to buy the houses, or buy the investment that pay for that exact amount or more, then you become -- financially free, and when a person is financially free then they can run out into the world and sail as much as they want to and come back inside moat and not go under, not sink and be able to rest and recuperate and then live to go out and try again, you know, the theory is at some point, you go out, you try and you don't fail and you hit it big and now you're not only financially free but you're wealthy. So, part of this is learning to do what you do best and to delegate things that are not in your wheelhouse, or you're not good at, or that you don't like or that simply don't make you the maximum amount of return for your time. So, we're gonna be talking about how note servicing can help you accomplish a small piece of that or part of that puzzle, how long have you been in business there Shannon?

Shannon: Well, I haven't been in business too long, a little bit less than a year, but I as you said earlier, I have been working for you for the last

20 years doing collections on our, our owner financed homes, so I would say that moat note servicing business is been in business less than a year but I have been in business for more than 20 years. I had so many people that we do business with, asked me to collect payments for them and I kept saying no, I can't do it, I can't do it, I'm not registered with the state and finally I just said, you know what? I'm looking at getting registered with the state cause I'm tired of telling everybody, No. So, I looked into it and got it done, and here we are.

Mitch: I'm glad you did, cause you're good at it and you've been doing it for a long time and it only make sense right? You've lived it for 20 years, I'm glad that you're doing it, actually I'm proud of you, for doing it. So, who needs a note servicing company?

Shannon: Well, anyone that would rather spend their time out growing their business, we could do all these things for you so that, you could go out there and make more money and make more note, make you more money, make us more money, you know, we're specialized in [inaudible - interest in] for investors that are doing owner financing, so the more that they can get out there and find more houses and find more buyers, you know, and the less time their spending posting payments and sending collection letters and doing tax forms, the more time they have out there, to get out there and makes more money.

Mitch: So, it's a kind of [INAUDIBLE - key a] theory of "work on your business, instead of in your business" this is a part of your business that you can delegate and so, unless you just really enjoy this part or for some reason, this is where the money is made. I've been in the note creation business for over 20 years and I know where I make my money, I believe where I make my money is going out with contacts to sign up sellers, to sell me their house at discounted prices, that's where I make my money. I don't make my money collecting payments, not to say that it's not an integral, or important part of the business because it's certainly is. If you have a bunch of payments that you're supposed to collect and you don't call these people, the day or the day after their due, if you don't send them letters and let them know, that you know they're late and you're expecting them to pay the payment immediately, then you're training them to not pay you. So you can either train these people to pay you or can train them not to pay you on time. And so we just start from the very beginning training people, how we expect to get paid, and we expect to get paid on the date that it's due and we also expect to get a late fee if you don't honor your agreement with us and we don't let people slide on late fees, because that's part of the training, a lot of us learn all kinds of things in life from

paying -- late fees are painful and people don't like them and they quit being late and so I think that -- specially when you're young in the business, you need to delegate as much as you can, because you're "wearing a lot of hats, a lot of hats". I had to think about all there is to do in the house flipping or the owner financing business, I mean you have to be the advertiser, the bookkeeper, the accountant, the collector, the -- you have to service your own loans, you have to be the seller, you have to be the private money finder, you have to be -- you have to find the funds to buy these houses, "there's so many hats", so when you find a particular segment that you can delegate out, for a reasonable fee or for a reasonable expense, then you need to strongly consider doing that, because where you make your money is buying houses, you hear her said, you makes her money when you buy --

Shannon: Over the years I've also, you know, you mentioned new people, that are new getting into it, another -- another hard part I think that are new, when it comes to collection, as their skin hasn't gotten pick it up yet, and they try to work with these people, because they hear these sad stories, my kid was sick or whatever and then, you know, eventually when you do it for long enough you realized half of the time that people are lying to you, I've seen all these people get themselves into place, where they'll -- I feel really bad and now they're 5 months behind, we'll if you bring your stuff to us, we've heard all the stories, and we know how - you know, we're not heartless but the bottom line is that, the mortgage payment needs to get paid, so when they give you their story, you know, we know we need to say "I'm really sorry that's happening to you, but when are you gonna make your payment?".

Mitch: Yeah, I've seen that a lot too, they fall for old tricks that we quit falling for, a long time ago, but here's the -- a neat thing, when you hire a note servicing company or when you hire someone to put between you as the owner of the notes, and you put someone between you and the payor of the note, the person in the middle does not have the authority, no matter how sad or treacherous their excuse is, the person in the middle i.e. Moat Note Servicing, they don't have the authority to waive the payment, they simple don't, they're just a service that's put in place to collect the payment and to send out the late notices and the fees, and that's one of the things that you could shelter yourself from, by hiring a collection company or a note servicing company or a loan servicing company, is to get away from having to hear those excuses and have them to make decisions like that, turn it over to a company that simply says, you know we're really sorry that's happening to you, but my job is to collect this payment and I don't have the right to waive

it or to waive the late fees or anything. I need to collect the payment, I need to collect the late fees, and you know this is a lot of mental stress for certain personality types, I was one of them, I'm a very compassionate person, you know, I felt feeling sorry for all these people. Well, here's the thing, if enough people don't make their payments, then I can't make my payments and my family goes out on the streets, so I need to collect my payments, that's what they agreed to do, you agreed to give them a house, you did, they agreed to make their payments on time and if they don't they agreed to make the payment and they get a late fee or give you back your house. And so, that's the rules we play by, we're gonna do exactly what everyone -- we're gonna expect people to do exactly what they said they were gonna do. What services can you expect while we're on the subject Shannon? What services can you expect from Moat Note Servicing, in regards to slow payer, you listed a bunch of things you'll do, for your clients but that was kind of the standard task. What happens when payors get behind? How far do you go for your clients?

Shannon: Well, I'm sure that most people know, that the new law and stuff, you know, where it makes it more difficult for people that are doing owner financing is, a new law in the real estate settlement procedure act says that you cannot file any type of foreclosure on your borrower until they have been in default for 120 days or more. So, if your client misses their very first payment, you've 4 months before you can foreclose on them. So, the minute that a client is 1 day late on the very first, you know, maybe it's not their first payment, but the first time that it's not here on the 1st, we will send -- there's a form that our attorney sent us that said, you know, this is the best way to do it, send them a letter that said, we're notifying you that you're in default. So, that letter is gonna go out, when I don't have a payment at the end of the day on the 1st. So, that clock starts to tick, the rules say "once in default always in default". So, if you do that the very first time, they're 1 day late, they're always in default. So then, that clock starts to ticking, so let's say they pay the next 2 years on time and then they get behind again, then you don't have to wait out that 120 days again, they're already in default because they were in default 2 years ago. So, we'll get those out right away, that-you know- just on the first time they're late, it's not something that you have to continue to send out and then we send letters out on 2nd, 15th and 25th, So they'll gonna get, you know, on the 2nd they'll gonna get a friendly reminder "pay your payment due, we haven't seen it, maybe it crossed in the mail, just a reminder" on the 15th it's gonna be a little bit stronger, you know, "your payment seriously past due now, we need to get your payment in", the one on the 25th it's gonna say "If we don't have your payment

in 10 days, we're gonna start foreclosure" at that point I do not handle foreclosures, because foreclosures are different in all state, so at that point, I would go to my client and say "hey, they're more than 30 days late, do you want me to work with them?" and you know, it's gonna depend if they've called or whatever, do you want me to work with them or do you want me to spend the information over 2 years or any so you can start foreclosure, and at that point it would be their choice what way they wanted to go with that.

Mitch: You've done your job and put pressure on them up to the first 30 days, which is super important especially at a young relationship between the collector and the payor, you gotta set your standards right from the very beginning. And I also think it's really neat that, you know, you can go out, you can study all this laws and you can learn how you can do this, -- you can learn the different kinds of notices, typed up and ready to go, or you can just hire a company that already know how to do this and get on with the business of signing houses and buying houses, and that's what I think, -- the scene is over and over again is you should contemplate heavily delegating as much as you can and this is certainly a task that can be delegated, you talked about escrowing taxes then I guess you also escrow insurance because -- if you're doing owner financed houses it's my understanding that [INAUDIBLE - dough franklin] that you have to collect the taxes and the insurance, you have to escrow it in the payment, so talk to me about that Shannon. How much do we need to escrow? What does it mean? What is escrow? Touch this subject, tell us how you handle escrow?

Shannon: Well to start. So, escrow is -- it's basically a saving account, so your -- they just call it a escrow account, so your borrower is going to pay one twelfth of their taxes and depending one twelfth of their insurance into an escrow account which is a saving account that you're -- I am going to put aside into a separate account, so when those bill come due, that money is just sitting there waiting to get paid out.

Mitch: I like to jump in right here, note servicers, loan servicers have to have a separate escrow account to put these funds into, you can't be commingled with your business accounts or any other accounts, it's simply a savings account that's set aside, so that every time your payors sends in a check, that includes principal interests, taxes and insurance, that the portion for the taxes and the portion for the insurance is set aside in a separate non-business account, just an account waiting to pay for these peoples bills at the end of the year, am I correct?

Shannon: That is correct. Now, the only thing is, it does not have to be a savings account, mine is a checking account, because when those bills are due I need to be able to write checks out of that account to pay those bills. For example, Moat Note Servicing has a main operating account, that's a checking account and then it's got a Moat Note Servicing escrow account and twice a month on the 15th and at the end of the month, we'll take all we can run reports on how much escrow have you collected and we will transfer all of that money over to twice a month -- to the escrow account and it just sit there.

Mitch: OK. Yes it sits there and waits until it's time for you pay for their next insurance policy or pay off their yearly property tax bill, right?

Shannon: That's right. The big thing -- here's where we need a little bit of help from our clients, so and just so you know, when I say "client", client "the person that hired me, to collect for them" and borrower of course is "the person that borrows" so kind of the terms -- that I'm using. So, when the property closes, we need our client to have us added on the insurance, -- as a non-financial third party, there's several different ways that it can be said, but we need them to get us added onto that insurance, so that when insurance is due we get the bill, if we don't get the bill, we can't pay it, so that's one big thing, the other thing is, the taxes we need them to call their tax office and get our address put on there, so we get the tax bills. [CROSSTALK]

Mitch: -- forwarding mail and everything.

Shannon: Right -- if you forget or you -- we can't pay bills if we don't have them. Of course we're going to keep track of them, and we can start, hey you know like I haven't got your tax bill or, you know, hopefully those tax bill are online, we could pull them up, but it just -- it makes it a lot better, a lot more smooth for everybody if we get those addresses changed and it's really easy, a lot of times you can do it online or you can shoot an email to the insurance agent and just say, you know, add this person as a nonfinancial third party or servicing company or you know, whatever that insurance company is calling it, -- additional insured or additional mortgagee, you know they call it kinda different things, so -- that way they'll send us [INAUDIBLE - renewal bill].

Mitch: When someone first signs up, do you have -- escrow requirements, like how much -- when someone just signs a note over to you, how much prepaid taxes and prepaid insurance -- do you require?

Shannon: There's not a real simple answer, so we actually have come up with a spread sheet, that we sent out to everybody, you know, taxes-taxes are due on the end of the year. So, but in Florida I think they're doing in June or July, in Alabama they're doing on October, So, that escrow chart is gonna say, you know, if you close in this month and their first payment due, I'm sorry, If the taxes are due on this month and their first payment due in this month, you can kinda follow the chart over and they'll tell you, how many month of escrow to collect, the easy answer is, you need to collect the number of payments since where taxes were due, so let's use Texas for example, taxes were due in January, but essentially the end of December, So you'll gonna need to collect, January, February, March, April, May and now June because your borrower's probably not gonna make their first payment until July at this point, plus 2 months, we always keep 2 months of reserve, I think it's debatable whether that is required or not, we have been told that it is required and so that's we're gonna do, so it's the number of months plus 2 months. So in Texas, 6 months plus 2 months, so that's what you would need to collect at closing, and then as far the insurance we just require 2 months because they're gonna pay their first year upfront.

Mitch: I don't wanna get people confused with this, this is just a part of the service that they'll handle in -- you'll send them a chart, you'll talk to them about each individual house and you'll help them get to this part so --

Shannon: And that really is one of the biggest question that I have is, how do we know how much escrow? And I say, give me one minute and I will send you an email with the chart.

Mitch: I have this question before, do you report to credit bureaus? And so let's do the short answer here, we could talk -- a long time about why but, do you report to credit bureaus?

Shannon: We do not report to credit bureaus, the people that we deal with, these investors are in the business of collection, not because they want these people to go out and refinance their houses, so we don't report to credit, at some point if I had enough people that wanted that,

it's something that I would considered, but it's not something even considering at this point.

Mitch: Yeah, cause people like me, I wanna collect payments for years and years and years.

Shannon: For 30 years.

Mitch: Yeah, I'm actually disheartened when someone says, hey, I'm gonna refinanced my house and pay you off. I was just like, well now I gonna go find a house to buy with this money. So, -- it doesn't bother me that you don't report to the bureaus, but if someone called you for a reference, to say how'd they paid you and have their complete payment history, right?

Shannon: Absolutely, yeah and you know I tell people, if they need it they can send me a -- there's a form called a verification of mortgage and I'll be more than happy to fill those out, it just -- it's showing their payment history, it's just not on their credit report.

Mitch: Yeah.

Shannon: And most, I think most places except those these days they're not just looking at the credit report anymore.

Mitch: Yeah, cause there's a lot of owner financing going on these days, a lot more than they used to, cause things have gotten too tight and people's credit has gotten so much less than what's required because of a lot of the economic debacle that we've been having over [CROSSTALK]

Shannon: -- And I was seen 95% of those people owner financing aren't reporting to credit, I was almost gonna say a 100%

Mitch: Yeah, they talk to me about what you charge for this service, to collect my notes, what do you charge?

Shannon: It's \$35 a month and then we keep any late fees that we collect, just to cover the cost of our time and to send out these letters and make these phone calls and all of that good stuff, that's really it for the monthly charge, there is a setup fee a \$100 per file setup fee, of those with volume would be lowered, so you don't have -- if you brought me 20 notes, I'm not gonna charge you a \$100 per file setup

fee, so we would work out some sort of a reduced rate for the setup fee and so for the monthly collection fee with volume brought in.

Mitch: I wanna point out to people, that everyone knows that you can collect, principal interest, taxes and insurance, but not everyone knows that you are allowed to collect from your payor, principal interest, taxes, insurance and servicing fee, I learned this a long time ago and I've been collecting principal interest, taxes, insurance and servicing fee for many years and what this does is, it allows me to add the \$35 a month that I need to pay Moat Note Servicing for this example, I collect it from my payor, now I have instances where my payor can't afford the principal interest, taxes and insurance plus \$35 per month for the servicing fee, but they can afford \$20 a month for the servicing fee to be added on to their bill, so in that case, I'll collect \$20 from them and I pay \$15 out of my pocket, but if you start to work the numbers on this, if your owner financing houses and you have the chance from the very beginning to dictate that you're gonna collect the principal interest, taxes and insurance plus the note servicing fee, then think of how much that could add to your bottom line or how much work load that could take off you and you're not even gonna pay for it or not having to pay all of it, so I want you to strongly consider if you're in the owner financing business and you're creating notes that owner financing your buyers, strongly consider adding the note servicing fee in with the rest of their payments and that will go a long way to offsetting your expenses, if not completely offsetting your expenses and you would put in -- I would put in my notes, that the principal interest, the taxes, the insurance and I'm allowed to collect an additional note servicing fee up to \$60, however I'll just pass along the fee whatever it is and in this case your fee would be \$35 a month and you talked about the setup fee and be negotiable for volumes, I think that's good, If someone signs up -- how long is their commitment?

Shannon: Let me go back to the setup fee real quick just for a second, I've also had several clients that have charged that setup fee as a closing cost on the closing statement to their buyers, and they're collecting that \$35 a month, so they're \$0 out of pocket for the whole thing. [CROSSTALK], so that setup fee is something that you can -- if it allows for it, well you know in the owner financed business you have to enable closing cost and stuff sometimes, cause they only have so much money that they can bring in, but if it works that can also be a fee that can be charged to them at closing.

Mitch: That's fantastic, I didn't think of that, so I'm glad that you brought it up, so you can add the setup fee into the closing cost, so Shannon if I -- I've got 5 notes here and I want you to start collecting on this 5 notes, how long is my commitment?

Shannon: You know, we don't do contracts, we're a firm believer if you're not happy, we don't wanna make you stay, we're very confident that you will be happy with the service, so we're not gonna lock you into something, if your life circumstances changed, or you're not happy with the service, then we just require a 60 day notice to terminate.

Mitch: Yeah, that will give you enough time to get everything together that you need to get back to them anyway, I think that's a good policy, you're not happy? You know, there's no problem. So, explain to me process, I say I'm all in, OK I love your program Shannon, what do I physically have to do to get started, do I have to fill out some forms, what?

Shannon: Yeah, It's a real-real simple we have an intake form that-really just, basic information on the client, the information on the borrower, things like, where do you want us to mail check to? And how do you want us to make it out? basic, basic information on the borrower name, obviously the property address, social things like that, so we can do tax forms, it's a 2 page form, the first page, first three quarters of the page actually get spelled out, the second page is really is just some bullet points on things that we do and don't do, what the fees are and then kind of breakdown of the money that you're spending, sometimes you'll get a check in-in it, difficult to figure out, like what portion of this is taxes, what's insurance, what fees, all of that good stuff, so just have to kind of break that down for us, so you'll just send that in along with copies of your closing documents, now we won't necessarily need all of your closing documents, but sometimes it's easier for people to just throw the whole package in the copier and scan the whole thing, we kinda weed out what we need and don't need, but basically we need their application, so we have all their information, -- we like to have a copy of the note and not just the closing statement, their insurance, so some of the basic form, and then your checks for the escrow and the setup fee, so the setup fee gets paid up front with the escrow deposit and that's really it, and we get all that documents, we get it in the computer and we immediately will send out a notification to the borrower, just kinda welcome letter thing, we're gonna be your servicing company and we look forward to working with you and here's all of our information if you need to

contact us, it's a real simple process to get started once we get all your questions answered.

Mitch: Alright, Where are you located at?

Shannon: I am physically in San Antonio, but we can collect in any state, the rules are pretty-pretty standard across the board, like I said until it comes to foreclosure, earlier I said until it comes to foreclosure, that kinda why we don't do the foreclosure part, but we will get any information, that's actually one of the questions on the intake form as well, who is your attorney, what their contact information, that way if the client does choose to send it to foreclosure, we have all of that stuff and we can get all the documentation together and get it over to that attorney as quickly as possible, and get that process started.

Mitch: I think we've covered pretty much of the details, can you think of anything else we've left out or anything else you wanna comment on?

Shannon: One thing is, I have a lot of people asking me about underlying loans, if we handle their underlying from their private investors or bank, we do not handle that, so we will accept the payment from your borrower and we will forward that onto you.

Mitch: You're saying, you don't make payments for your clients, like if your client owes some money to a lender, you collect the money -- from the payor, you don't write check to make their payments, that would be kinda problematic wouldn't it, because you could only make a payment if you collected a payment and sometimes ---

Shannon: Right, and it ends up putting them in a bad place with their banker, with their private lender, so we leave that task to them to make sure, like -- for us in our business, it doesn't matter if we get payments or not, our lender are getting their checks, period.

Mitch: On time.

Shannon: On time, -- as the servicer I can only pay them if I get paid, that's really to handle it --

Mitch: -- Another fact that you really should delegate to your bookkeeper if you don't want to do it yourself. OK Shannon, I really appreciate you, I think we've covered everything, if anyone has any questions, how do they get a hold of you at Moat Note Servicing L.L.C.

Shannon: Well, they can go to the website which is www.moatnoteservicing.com, borrowers will be able to make their payments on that website, you can email me at shannon@moatnoteservicing.com, or you can give me a call at 210-504-8878 and I will answer any questions you have, I think probably the best way would be email, because it's real -- I sit in front of it all day, so it's real easy for me to answer any question you have on there, but if it's something we need to talk about, feel free to give me a call.

Mitch: OK, so that's -- your email address again is shannon@moatnoteservicing.com, and you spell moat you guys M.O.A.T just for the record, if it's not someplace you can see it, shannon@moatnoteservicing.com, phone number 210-504-8878.

It's been a pleasure talking to you Shannon, thanks for the information, I think you've done a great job of letting people know what Moat Note Servicing will do for them, I guess we're out, Have a good rest for the day, and it's been a pleasure.

Shannon: OK, thanks for having me.