

WINNING THE LOTTERY WITHOUT PLAYING: *A Professional's Guide to Selling Lottery Winners' Payments*

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OVERVIEW

Mortgage professionals must diversify their businesses. The brokering of Lottery Winnings can add to your bottom line without a significant increase in expenses. The marketing that you currently do can be slightly changed to add this product line to your business.

A TYPICAL TRANSACTION: NOT A LOTTA WORK FOR THE MORTGAGE PROFESSIONAL TO DO

This applies to state lottery games. Payments may be annual or another periodic payment such as quarterly. In this article, annual payments are assumed; however, the principles apply to all periodic winning payments. Other games and sweepstakes may be saleable in a similar manner.

A Lottery Winner ("Winner") contacts his accountant, attorney, mortgage broker or other financial advisor. He will tell the advisor that he may want some cash for his future payments from Lottery Winnings. The mortgage broker contacts a Lottery Cash Flow Buyer ("Lottery Buyer"). The Lottery Buyer generally asks the following questions:

1. Which state lottery was won?
2. What is the exact win date?
3. What is the exact total amount of Winnings?
4. What are the exact periodic payment dates?
5. What is the gross payment per year before any withholdings or deductions?
6. What is the actual check that is received?
7. What are the total number of installments including when the ticket is redeemed?
8. Does the Lottery Winner have any specific amount of money needed?

The Lottery Buyer gives the mortgage broker one or more quotes for the purchase of all or part of the Lottery Winnings. The Lottery Buyer can offer many flexible cash payments. See the section on flexible programs for more information.

The mortgage broker gives the Winner the quote minus the broker's fee. The fee does not need to be disclosed to the Winner. The Winner and the mortgage broker consult to determine the best cash amount for the Winner. The mortgage broker contacts the Lottery Buyer to let them know which offer the Winner accepts and the amount of the mortgage broker's fee. Your fee is not disclosed to the Winner.

Minimal documentation is needed from the Winner. The Lottery Buyer may want to see the award letter or congratulatory letter and the two most current Form W-2Gs (tax reporting form). The Winner will sign a letter of intent to sell his payments to the Lottery Buyer.

The Lottery Buyer does most of the work. At this point, the Lottery Buyer will speak with the Winner. The Lottery Buyer will review the transaction and answer any questions that the Winner has. The Lottery Buyer will require that an attorney represent the Winner. The Lottery Buyer will review the transaction with the Winner's attorney. The Lottery Buyer's attorney will contact the Winner's attorney and they will prepare the lottery assignment agreement.

The Lottery Buyer and the Winner(s) sign the lottery assignment agreement. The Lottery Buyer's attorney in the prize state obtains the court order that instructs the state lottery commission to pay future payments to the Lottery Buyer.

The granted court order is submitted to the lottery commission.

The lottery commission issues an "acknowledgement letter" to the Lottery Buyer. The letter states that they have received the court order, that they will abide by it and that the payments are free and clear of any lien, judgments, etc. The credit of the Winner is unimportant; however, the Lottery Buyer will review any liens or judgements that the Winner may have.

Within ten (10) business days of the Lottery Buyer's receipt of the acknowledgement letter, the Winner receives his money and the mortgage broker receives his fee. The entire process takes one (1) to two (2) months.

FINDING WINNERS FOR YOU TO WIN WITH

CONTACT TARGET PROFESSIONALS - Develop relationships with professionals who could encounter Winners. These professionals include:

- Attorneys
- CPAs
- Accountants
- Financial Planners
- Stock Brokers
- Insurance Agents
- Mortgage Brokers
- Bank Officers

Typically, Winners will need financial and business advice. The above professionals and other professionals will have contact with the Winners. You should already have relationships with them for their client's mortgage requests. Trust, tax and estate-planning attorneys are the best attorney prospects.

Your marketing can include speaking to professional groups such as Bar Associations and CPA chapters. Other groups that have many target professionals include Chambers of Commerce and Service Organizations such as the Rotary Club or the Kiwanis Club. The best professionals are your personal friends in your "sphere of influence."

You may also solicit professionals by a personal letter or a newsletter. The letter should be short, concise and direct. Any newsletter should be informative and professional.

LIST - Most states have lists available of their past installment Winners. The list will give basic information about the Winners like their name, prize amount, date won, the city they lived in when they won or the city where the Winning ticket was bought. Some state lottery commissions sell the list and some are free.

LIBRARY and INTERNET - In archives, look for Lottery Winner articles in newspapers from three (3) years ago or older. Even if the people have moved, an in-town relative may be able to help you talk with a Winner.

WHY DO LOTTERY WINNERS SELL?

Winners sell for a myriad of reasons. They sell to satisfy their needs, wants, fears and desires. Knowing the reason why a Winner wants to sell will help you empathize with the Winner and increase the likelihood that the transaction will close. Some of the reasons that Winners sell are:

LOTTERY WINNER GROUPS - As you know, many times a group of people will buy lottery tickets together. The Winners may have collectively won a lot, but an individual's share per year may not be very meaningful financially. Therefore, these group participants are a very good market to solicit.

INVESTMENT OR BUSINESS OPPORTUNITIES - Your client may have the need for immediate cash to invest in an investment or a new or existing business.

LIQUIDITY - Many people like the peace of mind in knowing that they have cash in the bank and it is immediately available.

LUMP SUM NOW - A lump sum of cash now may be more valuable than annual payments for an extended period of time to a Winner.

PEACE OF MIND - The money from the sale of a cash flow can be used to pay off credit cards, medical bills or other pressing matters. Don't underestimate the peace of mind a beneficiary may have from eliminating a debt and the related debt service. A reduction in outstanding bills may be worth the discount from the sale of the cash flow.

SIMPLIFY LIFE - Many people like closure and would rather have the cash. They would prefer not to have to deal with the "government."

TAXES - Your client may need the cash to solve a tax situation. Additionally, a taxpayer may want to recognize certain tax consequences currently instead of recognizing them over time.

VACATION, COLLEGE, BILLS, OTHER PROJECTS - A Winner's cash flow can be converted to cash to pay for personal and family items. These items can include a new home, vacations, college tuition, additions for a home, a new boat, a new car, adoptions, opening expenses for a new business and any other project that the customer may have, want or need.

THE WINNING COMBINATIONS

Lottery Buyers are flexible and can be structured to satisfy the needs of the Winner. Lottery Buyers can purchase an amazing array of different cash flow combinations. Some of the combinations include:

Entire Winnings Purchase - All the Winnings could be purchased at a discount. The Winner is entirely relieved of the payments. Most Lottery Winnings pay out between 20 to 30 years.

Partial Winnings Purchase - A specific number of the annual payments could be purchased. For instance, a Lottery Buyer could purchase the next 5 annual payments from a Winner that has 17 years left. The Winner would retain the last 12 annual payments.

The last 12 payments could coincide with the seller's needs for retirement income or a financial need in the future. A partial purchase could also be structured to provide the Winner with a specific lump sum of cash now. This could accomplish the Winner's need for immediate cash for a current pressing financial challenge. The Lottery Buyer could also purchase all or part of the remaining annual payments later.

The Winner could sell 5 years, 10 years or any number of years that would solve the Winners needs.

Factional (Split) Winning Purchase - The annual payment would be split according to the lump sum needs and the cash flow needs of the Winner. For example, an annual payment of \$100,000 could be split. The Lottery Buyer would receive \$72,000 per year and the Winner would retain \$28,000 per year. Additionally, the Winner would have received a lump sum payment. This could accomplish the Winner's need for immediate cash combined with a desire for an annual annuity.

A Winner could sell 20%, 50%, 70% or any percentage that would solve their needs.

Specific Winning Payment Purchase - The Winner could sell specific payments. For example, a Winner of 20 years could sell payments for years 2, 4 and 6. The Winner will retain annual payments for years 1, 3, 5 and 7 to 20.

Many other flexible combinations that satisfy the Winner needs, wants and fears can be accomplished.

YOU, THE BROKER, WIN!

Unlike mortgage originating, Lottery Buying is not as

competitive. Fees are generally unregulated since this is a sale of intangible personal property and not an origination of a mortgage. You are providing a nontraditional service. Therefore, the seller can not readily "shop" your quote as a mortgage.

Professionally, you solved a Winner's financial needs. There is little documentation to gather and due diligence is streamlined.

The Lottery Winner Cash Flow broker quotes one price to the Winner. There are no fees to disclose. A Lottery Buyer will quote a net price to you for the purchase of the Lottery Winning Cash Flow. You, in turn, will quote your client a net price for the sale of his Cash Flow. The difference between the purchase and the sale is your fee.

For example, a Lottery Buyer agrees to purchase a Lottery Winner's Cash Flow for \$600,000. Your client agrees to sell the Lottery Winning Cash Flow for \$540,000. Your fee of \$60,000 is not disclosed to the Winner. All the documents indicate a net amount of \$540,000 to the Winner.

THE LOTTERY WINNER WINS!

The Winner is getting a lump sum of cash now instead of waiting for annual payouts over an extended period of time. The Winner will have cash to invest in a new project, better business opportunities, a new business, education, vacation, new home, etc. The Winner will have the money that they need or want. The sale of the Cash Flow will solve the Winner's needs, wants, fears and desires.

DISADVANTAGES FOR THE LOTTERY WINNER

The disadvantages to the Winner are that the discount of the Lottery Winning Cash Flow can be perceived as significant; however, a lump sum of cash today is more valuable than annual payments over an extended period of time

provided these funds are used prudently.

The income tax marginal rate of a lump sum payment could be more than the income tax marginal rates of the annual payments in the future; however, if the income tax rate increases from its current level, the current income tax rate could be less than the future income tax rates. Remember the top marginal tax rate of 70% in the past vs. 35% now?

The Winner could lose the lump sum of cash in an unprofitable business or financial transaction.

The Winner must have patience since it takes approximately one (1) to two (2) months to consummate a transaction, and sometimes the Lottery Buyer will advance some money to the Winner.

WINNING LOTTERY STRATEGIES

1. Find a Lottery Winnings Cash Flow Buyer. Take them to lunch. (I like Wolfgang Puck's or any Thai Restaurant). Learn a little more about the business.
2. Add a line to your ads that you broker Lottery Winnings.
3. Let all your mortgage colleagues know that you broker Lottery Winnings. Your mortgage colleagues include fellow mortgage brokers, lenders and account representatives.
4. Let your network know that you broker Lottery Winnings. Contact your network, especially professionals, who guide Lottery Winners. These professionals include Attorneys, CPAs, Accountants, Financial Planners, Stock Brokers, Insurance Agents, Mortgage Brokers and Bank Officers. Solicit these folks for mortgage candidates also!

5. Set-up a program to speak to professional groups and service organizations.
6. Acquire a list of Lottery Winners and implement a plan to solicit them. Lists can be bought, created from library archives and obtained from Lottery Commissions.
7. Keep up with your favorable advertisements whether it is the yellow pages, newspapers, community papers, radio, television or direct mail. In your future advertisements indicate that you broker Lottery Winnings.

HIT THE JACKPOT!

Mortgage brokers should diversify their businesses. Lottery Brokering may increase your income. Implementation of a program will only increase your cost marginally and could provide substantial profit for you and your business.

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