

The Insider's Due Diligence Checklist

The Non-Performing Note

- Sign NDA agreement
 - a. Example Docs*
- Review the BPO (Brokers Price Opinion) value
 - a. If one is not provided we recommend ordering one*
 - b. Example Docs*
- Cross-check with other opinions of valuations: Zillow / Eppraisal / Google Maps / Trulia / Redfin / Shackshout.com
- Review the loan payment history
 - a. Age of delinquency*
- Review the credit report
- Review the collateral documents (promissory note, mortgage/deed of trust, closing statement, etc.)
- Check property tax status with local county treasurer and/or assessor
- Order and review title search to ensure clear title
 - a. Original amounts of mortgages*
 - b. Prior foreclosure - is the first in foreclosure or not?*
 - c. Liens and judgements*
- Execute purchase/sale agreement
 - Wire funds
- Verify note endorsement (allonge) and mortgage assignment have been properly executed
 - a. RESPA letter*
- Contract third-party loan servicing company

The Performing Note

Once you have selected the note you are interested in purchasing based on your financial objectives, the following due diligence should be performed:

- Sign NDA agreement
 - Review the BPO (Brokers Price Opinion) value
 - a. If one is not provided we recommend ordering one*
- Cross-check with other opinions of value via on-line sources
- Review the loan payment history
- Review the collateral documents (promissory note, mortgage/deed of trust, closing statement, modifications, etc.)
- Check property tax status with local county treasurer
- Order and review title search to ensure clear title
- Verify property insurance status
- Execute purchase/sale agreement
 - Wire funds
- Verify note endorsement (allonge) and mortgage assignment have been properly executed
- Contract third-party loan servicing company

6 Elements of a Note (Characteristics of Note Value)

“There Are No Bad Notes Just Bad Prices”

I. Borrower

- A. Is the borrower paying
- B. Can/Might they start paying
 - 1. Review financials
 - 2. Credit report
 - 3. Valuation of property
- C. Modify
 - 1. Qualifications
 - a) Income
 - b) Employment

II. Collateral

- A. If NOT paying, then assume you're buying a foreclosure in incubation
 - 1. Good Payment Record
 - a) Re-Performing Note: Cost 60%-80%
 - 1) Safer
 - 2) More Secure (not as lucrative sometimes)
 - 3) Less painful investments
 - 4) Less work
 - 2. Bad Payment Record
 - a) Non-Performing Note: Cost 10%-40%
 - (1) More Profitable
 - (2) More work

III. Buyer's Equity

- A. Two kinds
 - 1. Loan balance divided by the property
 - a) Loan-to-Value Ratio (LTV) “skin in the game”

- 2. Emotional equity
 - a) Family, time, that's “momma's home”

IV. Terms of the Note

- A. Time Value of Money
 - 1. Money is worth more today than tomorrow
 - 2. Interest rate
 - a) Variable or fixed
 - b) Home equity line of credit
 - 3. Desired yield “return” on the investment
 - a) Senior liens
 - b) Junior liens

*** The investor's yield is almost always tied to their tolerance**

- 4. Is there a balloon
 - Additional notification requirements

V. Payment History

- A. Good payment record or bad
 - 1. Establishing their commitment

VI. Paperwork- Is it Tight?

- A. Document Preparation
 - 1. Note endorsement (allonge)
- B. Deed of Trust or Mortgage transfer (assignment)
 - 1. Buy/Sell Agreement (reps and warranties)
- C. Mortgagee's Title Policy
 - 1. Title search
- D. Proof of Property Insurance (if applicable)

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