NOTE HOLDERS HANDBOOK

WRITTEN BY DAVE FRANECKI

How to profit from and correctly manage your real estate note

This handbook is intended for the hundreds of thousands of individuals who sold real estate and financed the buyer. The number of property sellers financing their buyers is growing every day. The most popular reasons for financing the buyer are:

1) Financing is now tougher to obtain for most buyers and many types of property.
2) Sellers want to earn a higher interest rate than they could with most investments.
3) The property sells more quickly and at a higher price than conventional financing.

Your loan to the buyer is a valuable investment that must be protected. This manual is focused on those who already hold a note, but anyone considering seller carryback financing can pick up some vital information before they complete their transaction.

This handbook is divided into seven chapters for your reference along with three appendices for your use.

Chapter 1. The basics of seller financing
Chapter 2. The benefits of financing the buyer
Chapter 3. Drawbacks to seller financing
Chapter 4. Vital information to protect your investment
Chapter 5. What you need to know about selling your note
Chapter 6. Analyzing Your Note Quotation – Benefits of a Partial Purchase
Chapter 7. Glossary of important terms

Appendix A: Income Verification Form
Appendix B: Pay History Form
Appendix C: Authorization to review borrower's credit report

Disclaimer: *This Handbook is designed to provide accurate and authoritative information in regard to carrying a seller financed note and allow the reader to converse with expert advisors. HOWEVER, state laws vary and not all situations described will pertain to you. Laws and market conditions change over time. Consult your Attorney, Title Company and other Real Estate professionals before entering into a legally binding transaction. This handbook is* ***NOT*** *a substitute for legal advice.*

Chapter One
THE BASICS OF SELLER FINANCING

Here is an overview of what you must know about carrying a note to protect yourself before agreeing to the sale.

Banks look at loans in two broad steps. First they create the loan, next they manage the loan. The care they take creating the loan will determine how successful they will be managing the loan. Generally each step is looked at as:

> **1) Loan Creation -** When making a loan, the bank first sets the terms and conditions of the loan consistent with the risks of losing money on the loan. The greater the risk, the more reward in the form of higher interest rates and points (fees) they must charge to compensate them for that risk. (Chapter 1)
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> **2) Loan Management and Protection -** The banker must properly track all payments and appropriate the payments among principle, interest, impounds, reserves, past due interest, and late payments. They must also make certain their collateral remains fully insured and well maintained. In addition to this, the IRS requires they accurately report the transaction for proper taxation. (Chapter 4)

Creating the seller financed loan
Creating the loan involves evaluating your risks and providing loan terms to the buyer.

1. Evaluating the risks
Your loan terms should be based on the risks involved with extending credit to the buyer. Each of these items is critical to determine the loan terms.

We estimate over 60% of loans go into default if any of the first three points of loan creation are disregarded. The 60% of sellers who do not follow these steps may be trapped in an expensive struggle to collect payments and take the property back in undamaged condition. The value of knowing your buyer's credit, income sources and down payment are critical to your success getting paid and earning interest income as you anticipated!

A. Credit

Every lender must, absolutely review their borrower's credit score before making the loan and monitor their score as necessary.

All lenders, including private individuals, have a right under the Fair Credit Reporting Act to collect information necessary to determine and monitor the creditworthiness of the borrower.

Depending on the report, you will see one to three "credit scores" predicting how reliable the borrower's future payments will be on a scale of 350 to 850.

Table 1 shows our guideline for how likely a borrower will default on the loan based on industry standards:

Table 1: Credit Score correlation to risk of foreclosure

Score Range	Risk of Foreclosure
<580	very high
580-620	high
620-650	moderate
650-700	not likely
700+	very safe unless catastrophe occurs

Carefully review the credit report and make certain the story your buyers provide you regarding their credit and work history match the details on the credit report. You should also match up the buyer's previous residential addresses with those reported to you and confirm they don't have any gaps. Be cautious if your potential buyer is not fully disclosing their history to you.

B. Income Source

<u>Knowing how the buyer will repay their loan is another "absolutely must do"</u> before making the loan to your buyer. We recommend you have your buyer complete an income verification sheet and we included a sample sheet at the end of this handbook for your use and…….have them qualified by a Registered Loan Originator. We work very closely with:

Russ O'Donnell Call the Underwriter
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The reliability of the buyer's income source to make the payments is critical. Income from a steady job or a long, stable work history is considered safe. More risky are loan payments coming from the rent originating from the property or other self-generated / self-employment income. Buyers relying on a relative or other non-stable income source can be very risky. If a relative is helping the buyers, check the relative's credit and require them to cosign the loan. If the relative's income cannot support paying the loan, you should look for new buyers.

C. Down Payment

A large down payment can offset negative factors such as poor credit or risky property type. It is usually expressed as a percentage of the property's sale price. After the subprime meltdown, even traditional borrowers with great credit are required to make at least 3.5% down payment for the lender to feel safe. You need to demand enough of a down payment (preferably 15 – 20%) that your buyer will not risk losing their down payment if they have difficulty making loan payments in the future. If they put little or nothing down, they will walk away from your loan with nothing to lose. If they risk losing money by defaulting on the loan, chances are they will continue making payments when they experience financial hardships.

The less the buyer is tied to the property emotionally, the more likely they will abandon the property, therefore a larger down payment is required. Buyers are much less likely to risk losing the house they live in as compared to raw land requiring additional investment from them to develop.

Table two has guidelines for minimum down payment on various seller financed properties. This guideline will change depending on economic conditions and perceived risk in the mortgage market.

Table 2: Minimum Down Payments for Type of Property

Property Type	Minimum Down Payment (% of sale price)
Owner Occupied Single Family	20%
Rental House	15%
Double wide Mobile Home/w land	20%
Other Mobile Homes	30%
Commercial Property	30%
Improved Lot	30%
Undeveloped Land	40%

D. Buyer's Character

How likely is the buyer going to keep his word even in tough times? Asking for references including past landlords will help you gage if the buyer is being truthful about the stability of his income and willingness to pay on time. If the buyer holds a mortgage with a lender, request a copy of his loan statements to verify his loan is current and payments are made before the due date. If they are a renter, call the landlord to confirm they paid on time and were good tenants.

E. Buyer's plans for property

Evaluate how a buyer intends to use the property to determine how involved they will be to keep payments timely and maintain the property. A buyer intending to live in the property is usually closely involved with the property and considered safe. If they plan to rent the property, income may be more sporadic and the property will not be maintained as well as the borrower's personal residence. If the buildings are going to be knocked down or the property is bare, the buyer must have an exit strategy should his plans not work out.

F. Senior Loans

If the buyer is taking out a bank loan to purchase your property, any loan you have will be subordinate (second) to the bank. The benefit to you is receiving more cash out of the sale of your property. The problem is your loan is very risky and if the payments stop, the legal bills and bank loan must be paid off before you receive a dime and many junior lien holders do not get anything out of foreclosing on the property.

2. Loan Terms

After evaluating the ability of the buyer to eventually pay off the loan, you will need to figure out the loan terms to offer your buyer. To make the sale of your property successful, the loan terms must meet two objectives:

1) Compensate you fairly for the risks you are taking.
2) Be affordable by the buyer given their reasonable expected future income.

Many of the loan terms to consider for a successful sale are below. We prefer to consider the terms in the following priority but there are no hard fast rules. You might change the priority to make the loan easier to pay down, manage, or meet your other goals.

A. Principle amount

This will be the Sale Price of your property minus the Buyer's down payment and any closing costs you agree to pay for. The lower the principle amount relative to the true value of the property, the safer your loan.

B. Interest rate

You should charge your buyer and earn an interest rate 4% to 6% higher than a conventional bank loan, (with a maximum of 10% on single family owner occupied houses), which will be in compliance with the recently passed Dodd-Frank Act. Your buyer will not pay any loan points, bank fees or pay mortgage protection insurance (MIP). In most cases, the increased interest rate will be more beneficial to your buyer instead of the extra points, loan fees and MIP they would pay a bank.

If your goal is to earn investment income, consider setting the rate equal to what you would earn if you invested the same cash in an investment with the same risk. See what the banks would charge the borrower to make this loan plus a little more. The "little more" is negotiable and should be enough to compensate you for the hassle but low enough to keep the transaction viable to the buyer. The interest rate must be reasonable and should be within the financial capabilities of the buyer. Just keep in mind, the higher the rate, the more an investor will pay for the note. Remember, CD's, Treasury Bills and annuities are all **much** safer than any private loan, so do not use these investments as guidelines.

You might consider offering an adjustable interest rate to protect yourself from holding a low interest bearing loan if interest rates go up. Adjustable loans are tied to an index that moves to reflect current market conditions. These loans are much more complex than a fixed interest loan. Due to Dodd-Frank guidelines you will need to consult an expert to help you create an adjustable interest rate. An alternative is to have a balloon date in your loan. See information below regarding Balloon Payments.

C. Payment Amount / Amortization

Payment amounts must be something the buyer can afford given reasonable expectations of their future income. The primary cause of the subprime meltdown was loan payments jumped beyond amounts borrowers ever had planned to afford. If the buyer cannot afford the future payments now, the loan will go into default very quickly. Do not anticipate their income will rapidly increase. If the borrower promises to make a large bump or balloon payment in the future, verify they are able to obtain the funds to make a large payment.

Amortization is how quickly the loan pays off. The higher the payments, the sooner the loan will pay off. You want the loan to pay down as quickly as possible

to provide the greatest amount of protection for yourself. Unless the buyer makes 25% or more down, you will want the loan to amortize and payoff within 20 years.

Another factor to consider is your age and anticipated longevity. A younger lender can expect to live long enough to see the final payment on a 20 or 30 year amortized loan and earn interest from all of those years. However, an older lender will require a shorter loan. They should not hassle with the management of a note into their 80's and beyond. If the loan outlives the lender, heirs are then required to manage the note and divide payments among themselves. A task they may not wish to participate.

D. Balloon Payment

Subject to Dodd-Frank Guidelines, to protect yourself, should you need to renegotiate loan terms, you could include a balloon or maturity date when the entire balance of the loan comes due. Ten years gives the buyer enough time to establish a pay history and increase their equity in the property, assisting their ability to refinance the loan. If the term is too short, many buyers will not have enough time to establish a history of payments or create greater equity in the property to obtain a good loan.

Chapter Two

THE BENFITS OF SELLER FINANCING

Offering to finance the buyer of your property has many advantages. Some industry experts claim offering seller financing will move a property 70% faster than restricting yourself only to bank financing.[1] This has never been more true than now, during the post subprime loan crash and the strict lending guidelines institutional lenders have set up as a result. There is not any doubt offering to carry the loan will provide numerous benefits including:

1) Earning interest income secured by a property you understand better than any bank.

The biggest advantage you have over a bank is you are very familiar with the property. You know first hand all of the extra special things about your property that increase its value which a bank or appraiser will not make the effort to discover. You have a greater awareness of neighborhood tends that will increase the property's value. You know if your neighborhood is better than the one a few miles away that an appraiser might use to compare your house.

Items most appraisers and banks miss when valuing a property:

1. You neighborhood or area is better than the one miles away they used to compare your house.
2. The extra features that make your property better than similar properties. For example: a nice swimming pool, shed, watering system, view, extra storage.
3. Extra upgrades and renovations to kitchens, bathrooms or other parts of the property.
4. Additional living space created by finishing a basement or attic that does not show on county records.

2) Making your property more attractive to buyers

Seller financing offers many benefits attractive to buyers such as:

A. Better loan underwriting guidelines

You can offer terms to your buyer that benefit you. You set the interest rate, down payment and repayment terms that fit you needs, You don't need to worry about fickle banks holding up a loan approval for several months before declining your buyer's loan a day before closing. You personally review the buyer's credit and ability to make payments the same day they offer to purchase your property. You will know within 24 hours if a buyer is right for you. If the buyer falls on the low side of what is an acceptable credit risk, you might be able to require a larger down payment or make other accommodations acceptable to you.

B. No loan fees, appraisal fees or other "junk" bank fees

Your buyer can save thousands of dollars in fees that add to the cost of buying the property. This will make the property appear a better value than identical properties in the buyer's eyes. Since they are saving thousands of dollars, smart sellers can negotiate for the buyers to pay for title insurance policies customarily paid by you, the seller, saving you extra money as well.

C. No mortgage insurance premiums (MIP)

Banks are required to charge borrowers MIP when their loan balances exceed a certain percentage of the property value. The current MIP for an FHA loan is currently 1.5% of the property sale price at closing and .5% each subsequent year. On a $250,000, sale borrowers would pay $3,750 at closing and $105 each month for MIP. Saving the buyers $5,000 provides you a great selling point

3) Increasing the number of eligible buyers

By offering seller financing you attract many more people who could not otherwise purchase your property. Currently, many banks will not make or severely restrict loans to:

- Buyers who have credit scores below 625 (about 25% of Americans).
- Anyone who has defaulted on a loan even if their situation has changed and they can now make payments.
- Properties in areas that have too many foreclosures.
- Investors who have properties that are temporarily not making money.
- Investors of certain property types out of favor with banks.
- Investors who own too many of one type of property or too many properties in one area.
- Buyers related to you.

4) Selling your property at a higher price

You don't need to worry about a bank appraiser cutting your sales price because they missed something when evaluating your property. Your sales price must be competitive with the market, but because you can save buyers tens of thousands of dollars as explained above, your property will command top dollar from the buyer. This can give you a larger down payment, cash in your pocket now and more interest earned from the note that has a larger starting balance.

5) Selling your property quickly

Your buyers can acquire the property extremely fast without a bank to slow down the process. Transactions can move from offer to close as quickly as you can review the buyer's credit and income, and the title company can issue a policy and schedule the escrow closing. Some sales with a well organized seller and buyer have closed in 24 hours. The key is having the title and escrow set up before-hand in anticipation of the buyer making an offer.

6) Deferring taxes

Selling property on installment payments may drastically lower your tax bill on any taxable appreciation of its value. Tax laws are complex and subject to change every year. You will need to read IRS Form 537 and other related information found at www.irs.gov, and consult your tax preparer regarding how this applies to your situation. We cannot offer any tax or legal advice on your situation.

Chapter Three

THE DRAWBACKS OF SELLER FINANCING

Financing your buyer requires some work to manage the loan properly. If you stay on top of any problem when it starts, you can avoid many larger problems later. Here are the common problems we see with the notes we purchase.

1) Keeping payments current

Like a bank, you are required by law to carefully track all payments the borrower sends you. You must review the loan every month. If a payment is missing or late, you must contact the borrower to check on the situation. Sometimes they insist they sent their check on time when you have not received it. Other times they acknowledge an unforeseen financial hardship that prevents them from paying the full amount due. You should impose and keep track of any late payments due. Keep on top of the borrower and do not allow the payment from arriving 30 or more days late. Every payment 30 days late reduces the value of your loan to an investor.

Keep the envelope from each payment to preserve the date stamp as evidence when it was mailed, then write down the date the payment arrived in your mailbox. You need to apply the payment to the loan effective the date the payment arrived in your mailbox. UTILIZE a servicing company if at all possible.

It is also a good idea to give your borrower enough time to prepare for larger than normal payments. We recommend you notify the buyer two months before any bump payment is due and three months before a balloon payment is due.

2) Tracking payments and solving disputes how payments are applied

You must provide an accounting of how the installments were applied. The note or contract will stipulate how the payment shall be divided between interest, principle, taxes, insurance, late fees or other items you agreed to. You may use the payment history form at the end of this handbook to track payments received over the year then run and amortization program to calculate how interest, principle and other items are to be partitioned. We are working on a program for you to track how each payment should be applied.UTILIZE a servicing company if at all possible.
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3) Monitoring taxes and insurance
It is wise to send a reminder to your buyers taxes need to be paid about six weeks before taxes are due. Follow up with the county tax assessor a week after taxes are due to make certain the taxes were paid. Realistically, it is best to escrow taxes, insurance and HOA fees.

The county will assess a tax lien on unpaid taxes taking a priority lien ahead of your loan to the borrower. Some of these liens assess interest at 24%, and the penalty for nonpayment can quickly escalate to the point where the borrower can't afford the taxes and still make payments to you. In such a situation, you need to payoff the taxes and add the balance to the loan, if the loan terms allow you to take action.

If the property has a valuable structure, you must make certain the borrower has enough insurance to protect your interest should the structure be destroyed causing the property to lose value. Make certain you are listed as the loss payee (also called loss mortgagee) on the insurance policy. If there is a loss, the insurance company must go through you to release funds to the borrower. If you are not on the policy, the borrower can take the insurance check and use it any way they want. Some borrowers will pocket the insurance money and stop paying on their loan, leaving you, the lender, with a worthless piece of property.

Confirm with the insurance agent they will contact you anytime the policy is changed or is in danger of being cancelled. Since some agents fail to notify lenders of important events regarding the policy, call the agent every six months (at renewal and six month anniversary) to make certain the policy continues to be in effect, you are still listed as loss payee and they don't see any problems with the policy being enforced.

If the borrower has problems maintaining a policy to protect you, see our information regarding forced insurance below.

4) Reporting Taxes
The IRS may levy large penalties or fines if you fail to issue your buyers a form 1099-INT accounting for the interest they paid on their loan. You need to use the form to report interest earned from the buyers and if the interest they will want to report how much interest they paid when it qualifies as a deductible expense for their home or business.

You may also need to file IRS Form 6252 reporting Installment Sale Income. Your tax preparer will determine what appropriate tax reporting forms are required for your particular situation.

5) Monitoring upkeep on the property

Your loan is likely to be one of your largest assets and you need to treat it like you would your house or other large asset. Make certain the property securing your loan is being well maintained. A deteriorating property indicates the buyer cannot afford to maintain it or may have other issues where they cannot attend to the property. This is a signal of future problems making payments to you. Buyers will first stop investing in the maintenance of the property before they stop paying on the note.

6) If interest rates go up, your note value goes down

The payment stream on a loan is like a bond. Investors will pay the current market rate for the anticipated future payments on a loan, bond or other fixed income stream. If the loan’s interest rate is set at the market rate for that particular risk, an investor would pay the current loan balance (less some minor transfer costs) to buy that loan. If interest rates go up, investors have a choice of buying a new loan at a higher interest rate or the old lower interest loan at less money everything else being equal.

For example, if loan A and loan B were the same in every way except A had a higher interest rate, investors would pay more money for loan A and the value of B is less. Loan A will require more payments or a higher payment for the same principle balance.

As we pointed out in Chapter Two, you should charge your buyer and earn an interest rate 4% to 6% higher than a conventional bank loan, (with a maximum of 10% on single family owner occupied houses), which will be in compliance with the recently passed Dodd-Frank Act. If you later wish to sell your note or contract, that higher interest rate, all else being the same, could provide you an extra $10,000 or more from an investor.

Chapter Four

VITAL INFORMATION TO PROTECT YOUR INVESTMENT

Critical Loan Documents and Loan Terms that Protect You

A. Title Insurance

All parties to a real estate transaction must have title insurance to make certain their interests are secured as intended. You need a lender's policy if using a mortgage or trust deed and an owner's policy if using a land contract. Discuss the title policy with the title officer before closing the transaction to make certain your interests are protected.

B. Due on Sale Clause

A Due on Sale or Alienation clause requires the borrower to payoff the loan if they sell or otherwise abandon the property. Without this clause, the borrower can sell the property and rely on payments coming from their buyer to make payments to you. In some ways this is like giving a loan to a stranger who may not be reliable.

C. Insurance Clause

Require the borrower to insure all structures of value against fire or any other destruction of the structure. The policy must cover the outstanding balance of the loan to protect your interest. The loan must require the borrower to appoint you as "loss payee" on the insurance policy to make certain you control the repair funds if there is a loss and you are notified if the policy lapses. If the property is in a flood zone, the loan provisions must also account for required flood insurance.

D. Assignment of Rents

This allows the lender to take rents directly from any tenant of the property if the borrower defaults on the loan. In most states you need to obtain a court order and provide the tenants notice a certain period ahead of time before collecting. This prevents the buyer from collecting rents but not paying you on the loan.

Other Very Important Details

A. Maintain a detailed History of All Payments Received

Keep a detailed and legible record of all payments received from your borrower and how they were applied to the loan balance. We created a ledger at the back of this handbook to track your payments. Along with the ledger, keep the envelope the payment came in and/or make a copy of the check before you deposit it.

To gain as much value as possible from selling your note, a copy of the deposit slip from the loan payment is often required as proof the actual payment was made.

UTILIZE a servicing company if at all possible.

B. Foreclosing

A very high percentage of loans go into foreclosure when the lender did not check credit, verify income or require an appropriate down payment. We highly recommend you hire an attorney licensed in the same state and preferably located in the same county as the property to handle the foreclosure. You will need to interview several attorneys to determine who is the most qualified and can be trusted to work efficiently and not incur unnecessary expenses.

The costs of foreclosing are three fold:

1) You will incur legal fees, court costs, title research and other hard expenses to win your property back. Add more fees if your buyer files bankruptcy protection to stall the foreclosure.

2) You lose all of the income you expected to earn from the loan while in foreclosure. Unless you have an Assignment of Rents clause, you cannot collect any payments on the loan. You will not have any access to the property for six months to three or more years depending on the state rules.

3) Fixing up the property and reselling it. If the borrower could not afford to pay the loan, they are unlikely to keep the property maintained. Most foreclosed homes require expensive repair work.

Only an attorney can give you the proper legal advice to assist you with foreclosing on your borrower. We call our attorney to handle the foreclosure process on the loans we hold.

C. Store Your Note in a Secure Place

Treat the Promissory Note like a check from your buyer that anyone who finds it can cash. Your note is a negotiable instrument meaning it can be endorsed to anyone by you or someone forging your signature. Keep the original note in a very safe place like a fireproof safe or safe deposit box. If the note is lost or destroyed, it is like tearing up a check and relying on the kindness of the issuer to sign a new document with the same terms. Don't count on them acting in your best interest. Make a photocopy to keep with your loan and other escrow papers.

D. Have a Backup Plan to Get Forced Insurance

Most insurance companies will only allow the owner to take out a casualty insurance policy. Lenders must go to separate companies that specialize in issuing insurance policies only for lenders when borrowers fail to provide insurance necessary to protect the lender's interest. If you feel your borrower may fail to keep their insurance policy in place, search the internet for companies offering this specialized insurance.

Chapter Five

WHAT YOU NEED TO KNOW ABOUT SELLING YOUR NOTE

Thousands of seller carryback loans, trust deeds, mortgages and contracts are purchased by investors every year.

Why Sell Your Note?
The private note holders we purchase notes from generally sell their loan for a couple reasons.

They need cash for something else
Many times the loan has tied up a large amount of cash now needed for something else. Many times unanticipated investment opportunities appear. Others need cash to purchase a new property or RV. Others have a health or other emergency need for the cash.

If you have outstanding credit card debt charging a higher interest rate than you receive on your loan, you should come out ahead selling part of your note to pay off your credit cards and other high interest debt.

They are tired of managing their loan
The other primary reason people sell their loan is they don't want to manage it anymore. The interest earnings are not worth their time and effort bookkeeping, collecting late payments, reporting interest earned every year, tracking the buyer's upkeep of the property, tax payments and insurance coverage. Many times their financial needs change and they are better off with a lower earning, safer investment they don't need to constantly monitor.

How Do I Avoid Being Scammed?

While most investors are honest, a small number of companies give note sellers inflated quotes they have no intention of keeping. After you signed their contract, they switch prices and require you to accept a much lower offer and claim you are obligated to accept their new price under the terms of their contract. These "contracts" are illegal! They hurt the entire industry and we will do everything possible to end their scam.

There are four important steps to make certain you are working with a legitimate company:

1. Read all contracts and make certain you must agree to any new price they switch to.
2. Make certain they document in the contract they will complete the transaction by a certain time or you have no obligation to continue.
3. Verify how long the company has been in business.
4. Be careful if they use initials after their name as if they are credentialed. All of the "credentials" come from fly-by-night get rich quick seminar givers. Also if they refer to themselves as a "note finder", or "certified note broker", they come from the same seminar scheme.

Why Would an Investor Purchase My Loan?

Capstone Capital USA specializes in investing in private loans as our source of income. Our principals and investors purchase seller carryback loans to hold until maturity, earning interest on their investment. Additionally we broker notes.

Capstone and their funding partners have over 30 years of experience and expertise allow us to manage loans professionally, and more easily than a private individual. Our economies of scale allow us to automate processing and managing the loan more efficiently than an individual could.

Ideally we want and will pay the highest price for well secured notes we feel will continue paying according to the loan terms. Over half the notes we manage go into default at least once during the time we hold them. Our national network of experienced attorneys allow us to handle a default quickly and more efficiently than a private person.

What Are My Options If I Don't Want To Sell All of My Payments?

You may sell a certain number of payments to obtain your financial goals if that suites your needs. Many sellers only need enough cash for a specific purpose. They chose to sell a certain number of payments to give them the cash they need. That way they can earn thousands of dollars of future interest earnings and receive the cash they need now.

In some cases, the loan is deemed too risky for us to invest enough to purchase the entire loan. When this happens, we offer you the maximum amount of cash possible, and you to keep future payments we can't give you credit for. If the loan proves to be less risky than we anticipated we can give you more cash for the remaining payments as the note seasons

What Should I Know About The Investor?

- Time in business: How long has the investor been in business?
- Professionalism: Do they answer all of your questions in a knowledgeable and professional manor?
- Customer Service: Do they return calls and e-mails promptly?
- Honest quote up front: Will they give you a quote based on the specific details you provide them regarding your loan.
- Number of complaints: Check with the Secretary of State and Better Business Bureau.

What Are The Costs of Selling My Loan?

All normal costs are paid by us and part of our quote to you. Normal costs may be covered to include pulling credit, property appraisal, title insurance, property review, drawing documents, recording and overnight couriers. We use our own closers to facilitate escrow. You are free to use your own escrow officer at your expense. We will tell you before we order the appraisal if the property's value is suspect or if an expensive commercial appraisal is required and we would request you pay for the appraisal.

What Are the Steps To Selling My Loan?

1. The first step is to request a no obligation quote from an investor.
2. If you agree to the terms, we will send out some paperwork requesting additional information and copies of your documents.
3. If the borrower's credit is acceptable, we will order appraisal and title for underwriting the purchase of your loan.
4. We send the final set of documents for you to execute and return
5. Documents are recorded and funds are wired or by sent overnight mail.
6. You relax and use your cash as needed.

How Will Selling My Loan Impact The Payor?

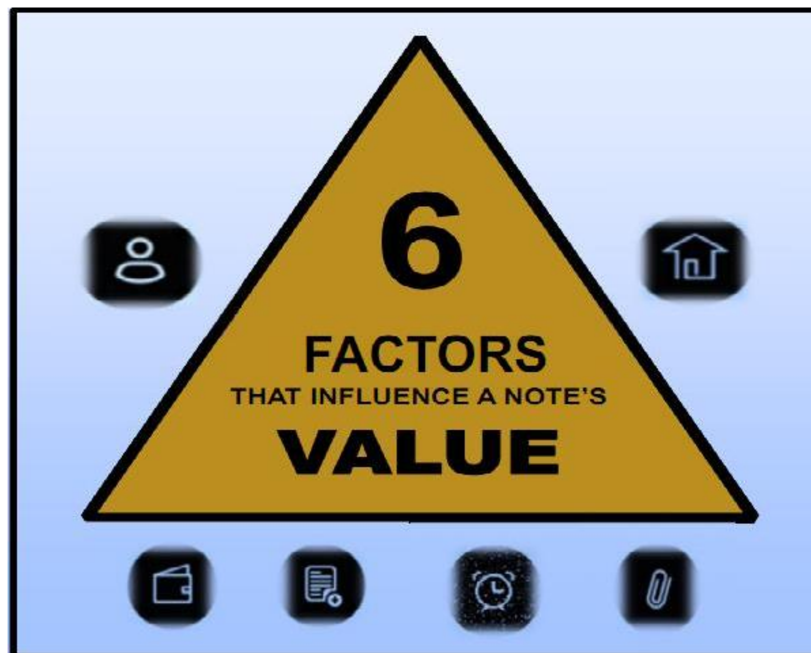
Your payor experiences no change in the way the payments are structured. The only change will be the address where the payments are mailed. They usually are not contacted until the transaction is nearly complete.

Chapter 6.

Analyzing Your Note Quotation

Congratulations, you have now received your note quotation. You are probably, yikes, now what do I do? Is this a fair quote? What am I looking at? Consider the following a summary of what has been presented in preceding chapters. Now you can drill down and learn more about understanding your real estate note quote – from a note buyers perspective. Note Buyers are Investors. They buy notes as a passive cash flow investment. They do not want to own the property and are risk adverse to Landlord or resale issues. To minimize their risk, they underwrite the note based on several key factors. They consider the worst case - what if scenario - what if the payor stops paying, and ...hope for best, that the payor will pay off the loan until maturity. Their underwriting criteria is based on experience. A super nice property with a great buyer will sell for 85-88% of the unpaid balance. If some of the factors are marginal, then they will pay less. This has to be weighed to sync with and what you require to meet your personal needs.

However, there are options to minimize the discount. We can blend market conditions and still be sensitive to your needs, to make the transaction work for you.



The # 1 Influence on a Note's Value is the

- BORROWER'S CREDIT - the person making the payments. Is the BORROWER bankable? This is the 1st item an Investor checks when going through the due diligence process. The borrower affects many other factors in the value on a note such as the collateral's upkeep, the down payment, seasoning etc. The credit on a buyer is not just their FICO score, but the 5 C's of credit and how each factor complements or redeems another. Included in the borrower profile:

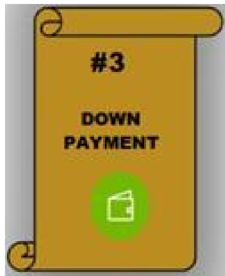
- Type of buyer, rehabber or "mom and pop" (sold personal residence)?
- Credit
- Income (ratio or proof)
- Job / Employment

The # 2 Influence on a Note's Value is the

- COLLATERAL - the condition of the asset.

As they say, "every picture tells a story".

- Owner occupied or rental?
- Commercial or single family?
- Prior seller residence?
- What is the value?
  - Is there a pride of ownership?

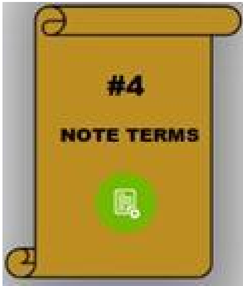


The # 3 Influence on a Note's Value is the

- BORROWER'S DOWN PAYMENT -AKA "skin is in the game".

The % of down payment (preferably 20%) is important for 2 reasons:

- The amount of down payment determines the LTV (loan to value). The lower the better which investors look at when considering purchasing.
- It shows the buyer's commitment to the Property. The more they've personally invested, the greater chance they will stay current with payments and more inclined to maintain the property.



The # 4 Influence on a Note's Value are the

- Note Terms -

The Interest Rate, Amortization, and Balloon (if applicable) impact the note's value in the following ways:

- Interest: If a note has no interest, it is the nail in the coffin. If the interest rate low, it will also take a significant discount hit. The higher the interest rate, the less of a discount.
- Amortization: The longer the note amortization, the larger the discount. To neutralize this, clients may prefer a partial purchase as an additional option.
- Balloon: A note with a balloon has less of a discount because the money is closer to the payout. In certain cases a balloon that is too short can play a negative role in evaluating a note. The likelihood of refinancing to pay off a balloon must be logical & practical when cast against the buyer's credit & current economy.

The #5 Influence on a Note's Value is

- Seasoning or The Payment History -

What is the payor's track record on paying not only their monthly principle and interest payment, but are the property taxes and insurance being paid. This can make or break a deal.

- Is there a 3rd party verification confirming the payments from the Borrower, preferably from an outside Servicer?
- Is the note seasoned - how long have they been paying? 3-12 months = Better credit preferred. If 12 months or more a Sub 625 FICO may be OK. Are the taxes & insurance escrowed?

The # 6 Influence on a Note's Value is the

- Paperwork -

Finally you have the last factor in a note's evaluation, the paperwork. What investors verify are the following:

- Note, Deed of Trust, Land contract, etc.
- Federal disclosures
- Title insurance: note: if the note seller did not secure title insurance at the closing of the note, the fee to do so will be taken out at the closing of the note sale.
- Loan Application Verifications: includes income, employment and down payment. If the loan was originated after1/10/2014 is the file Dodd- Frank compliant.

Of the 6 Factors, #'s 1 and 2 are pivotal for the note investor. If they present a high risk, the transaction may be subject to a heavy discount. To minimize the discount, a partial purchase may be the best approach, where sellers can get lump of cash, while at the same time giving the NOTE BUYER the security they need in this chaotic economic environment.

Partial Purchases

In addition to an outright purchase of the note, a "partial" purchase can be structured that gives you immediate cash for a set number of payments, after which time the note reverts back to you. If you need to raise a specific amount of capital, a partial allows you to receive exactly the amount that you need without having to cash out the entire note. A partial is one example of how we can work around a less than perfect note. Partial purchases are actually pretty common in the finance world. Banks have been selling loan portions (participations) to each other for over 50 years. It allows the origination lender to sell and recoup a large portion of their cash, which leverages their loans generating a better return.

5 Reasons to Consider Selling Part of Your Mortgage Note

If you are thinking of selling your mortgage note, we strongly recommend you consider a partial note sale. A partial note sale will allow you to choose the number of monthly payments to sell, and you will retain the remaining payments.

A partial is just a slice of the note pie

Here are five reasons why you should consider a partial note sale:

1. The discount is only applied to the portion that you sell. Since cash today is worth more than cash tomorrow, all note sellers can expect a discount to be applied to their remaining note balance when selling. By selling only part of your note, less of your remaining note balance is used to pay the discount.

2. You have payments left that can be sold in the future. Let's say you need $10,000 cash today and you have a note with a remaining balance of $50,000. You can sell part of the remaining balance today in order to get the $10,000 cash that you need. After selling part of your note, you will retain the rest of the balance. Should you need cash again in the future, you can sell all or part of the backend payment.

3. It puts the most cash in your pocket in the long run. Aside from not selling your mortgage note, a partial note sell is the way to go to get more cash in your pocket. The discount on your note will vary depending on several factors including the remaining term. A longer remaining term may be subject to a greater discount. A partial note sale will discount a smaller portion of the remaining term and allow you to continue collecting monthly payments with interest on the rest.

4. You maintain a level of control. Since you are still part owner of the note, you do have control in certain situations. For example, if the note goes into default, you have the right to buy back full ownership of the note. This will allow you to either foreclose or resolve the default and bring the note back to good standing.

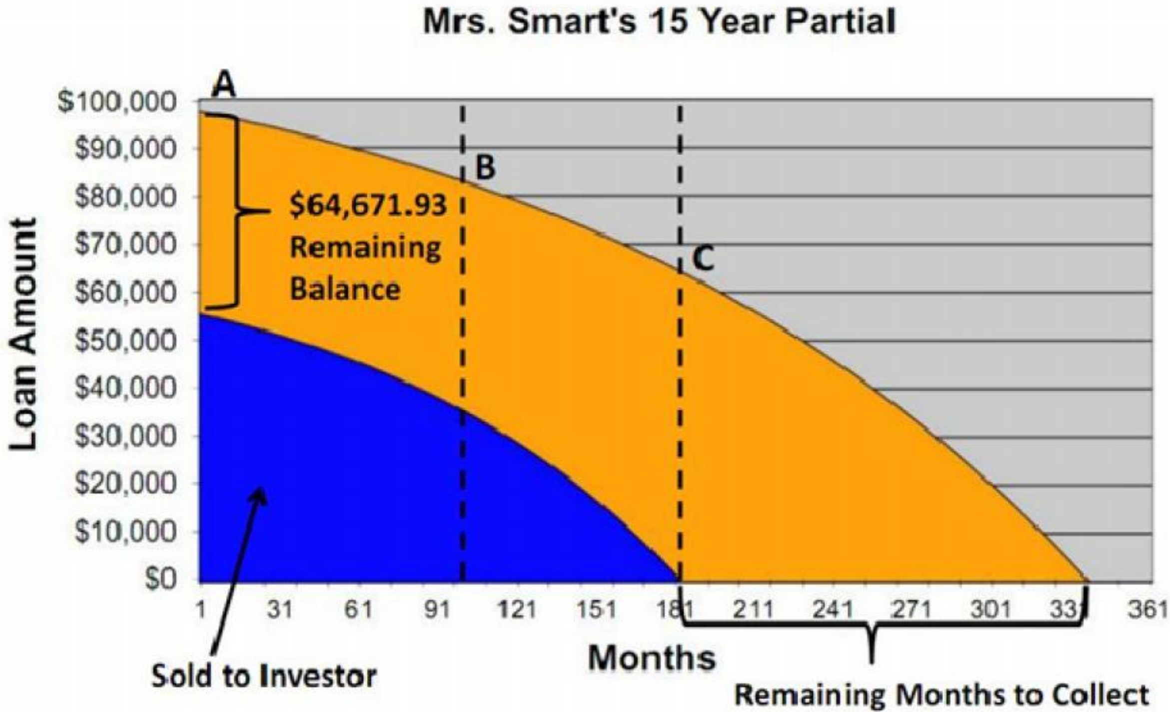
5. The management hassle is eliminated. Even with a partial note sale, the broker will take over managing the note. Monthly payments, calculating reserves, financial reporting, and much more are no longer your responsibility for the life of the note.

Keep in mind that the only time you should sell a mortgage note is when the benefit offsets the cost. Partials are a great way to accomplish that. We have many years of experience with partial note sales and can ensure that your remaining backend payments are correctly accounted for.

CASE STUDY

The easiest way to understand how partials work would be to take a specific example. In the attached graph, we show a typical 30 year loan amortization along with a partial purchase of the next 15 years of payments. Mrs. Smart sold 15 years of her loan after receiving 24 payments. Her note had a very low interest rate of 5.95% because her real estate agent encouraged her to accept that rate to make the sale viable even though Mrs. Smart thought it was best to structure the rate at 8%. The monthly payments at 5.95% were $596.34. The loan balance at the time of her sale was $97,445.16, represented by Point A on the upper line of the graph. The investor purchased the next 15 years of payments for $55,493.87 which we'll track on the lower line. Since Mrs. Smart did not sell the entire loan, she still has equity in the loan as shown in the lightly shaded portion of the graph. Notice that as the payments are made, the lower line (investor's entitlement) reduces much quicker than the upper line (entire note entitlement). In other words, Mrs. Smart's equity increases with every payment made (the lightly shaded area gets larger). At the end of the 15 year period (point C), the entitlement due the investor has amortized to zero. The loan balance is still $64,671.93 and that is the amount that reverts back to Mrs. Smart. At the beginning of the sale, she receives a significant amount of cash for the partial purchase and also collects the remaining principle $64,671.93 plus interest

at the end of the partial term. At her option, Mrs. Smart could either collect the payments on reassignment or sell that portion of the note. Mrs. Smart is aptly named!



For a video over view of a partial go to

https://vimeo.com/260998585/06a2b420ba

Glossary of Important Terms

The terms below are commonly used by real estate professionals to transact a sale or help manage a seller carryback loan. They are good terms to know to communicate with the professionals assisting you to sell the property, create and manage the loan.

1031: A tax-deferred exchange. A method by which a property owner trades one or more relinquished properties for one or more replacement properties while deferring the payment of federal income taxes on the transaction. The exchanger must identify the property to be purchased within 45 days following the sale of the relinquished property, and close the transaction within 180 days. No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business, or for investment.

"A" credit: Borrowers who have a history of managing credit indicating they are a very good loan risk. Typically 720 or better. They receive the best loan terms from lenders.

Abandonment: Giving up dominion and control of a property with the intention of relinquishing all claims to it.

Abstract of Title: A written history of all transactions and conditions bearing on the title to a certain parcel of land. It covers the period from the original source of title to the present and summarizes all documents of public record.

Acceleration Clause: A loan clause allowing the entire debt be due immediately if the borrower fails to fulfill a term or condition of the loan.

Accrued Interest: The amount of interest earned but not paid.

Add-On Interest: A loan repayment method where interest payable is determined at the beginning of a loan and added onto the principal. The sum of the principal and interest is the amount due on maturity.

Addendum: An addition to a written document further describing the agreement between parties.

Adjustable Rate Mortgage: A loan where the interest rate and payments that correspond to the interest are adjustable according to an index. Common indexes are Treasury Bills, the Prime Rate and LIBOR index.

Ad Valorem Taxes: A tax determined on the value of a property. Most real estate taxes are ad valorem.

Agent: A person authorized to act in the best interest of another under a fiduciary relationship. The agent represents a client in negotiations.

ALTL Title Insurance: A standard title insurance policy approved by the American Land Title Association and used by institutional lenders to insure them against loses due to title defects on the property securing their loan.

Alienation: The act of removing your interest in a property. Alienation may be voluntary, such as by gift or sale, or involuntary, as through foreclosure, eminent domain or adverse possession.

Alienation Clause: The clause in a loan causing the balance of the debt to become immediately due and payable if the property is alienated by the buyer.

All-Inclusive Trust Deed: Also: Wrap-Around Mortgage. A method of financing the sale of a property, where a new loan requiring a higher payment than the original loan is created and placed on the property. The buyer pays the seller the higher payment due on the new loan and the seller pays the original loan what is due and retains the remaining amount.

Allonge: An additional document attached to a negotiable instrument to add endorsements when there is not sufficient space on the instrument itself.

Amortization: The amount of time the loan is scheduled to be paid down to zero. If a balloon payment is due, it would disregard the balloon payment and be quoted in terms as if no balloon payment were due.

Amendment: A binding agreement that changes or amends the terms of a contract or legal agreement.

Annual Percentage Rate (APR): The true cost of a loan to a borrower as required by the Truth in Lending Laws.

Assessor's Parcel Number: The unique code given to each parcel in a county by the county to identify that specific property.

Appraisal: An estimate of the value of a property using established professional guidelines.

Appreciation: An increase in the value of a property due to market conditions.

Arm's Length Transaction: A transaction between a willing seller and buyer who have no prior relationship or undue influence to buy or sell at a price different than market value.

Arrears: When the borrower is behind in making the scheduled loan payments

Assemblage: The combining of two or more adjoining lots into one larger tract in order to increase their total value.

Assignment: The transfer by endorsement of interest in a negotiable instrument such as a note, check or bond.

Assignor: The person assigning something of value. The party giving up the negotiable instrument to another party.

Assignment: The transfer of rights in a negotiable instrument from one party to another.

Assumption of Mortgage: Acquiring title to property on which there is an existing loan and agreeing to be personally liable for the terms and conditions of the underlying loan.

Attachment: The act of taking a person's property into legal custody by judicial order to hold it available for application to that person's debt to a creditor.

"B" Credit: Borrowers with a credit history that shows a moderate risk of default. Generally considered credit scores between 650 and 720.

Bad Debt: Debt written off as uncollectible.

Balance Due: See Current Balance**.**

Balloon Payment: The final payment on a loan that is due before the time when the loan would naturally pay down to a zero balance.

Bankruptcy: A state of insolvency of an individual or organization.

Bargain and Sale Deed: A deed that carries with it no warranties against liens or other encumbrances but that does imply that the grantor has the right to convey title.

Beneficiary: The person or party entitled to receive the money due in trust. Can refer to the party receiving payments on a trust deed secured loan.

Blanket Mortgage: A loan covering more than one parcel.

Bilateral Contact: A contract containing mutual promises with each party being a promissor and promisee.

Bill of Sale: Written evidence the title to a personal property has been transferred from one party to another.

Boot: Money or property given to make up any difference in value or equity between two properties in an exchange.

Brokers Price Opinion (BPO): The opinion of a local real estate broker or agent on the value of a property.

Breach of Contract: Violation of any terms a contract without legal reason.

Broker: One who acts as an intermediary on behalf of others for a fee or commission.

Brokerage: The bringing together of parties interested in making a real estate transaction

. **Buyer:** Also Vendee or Purchaser. One who purchases property

Bump Payment: An unusually large payment due on a loan at a certain date or occurrence of an event.

Cancellation: A party ending a contract but retaining the right to any remedy for breach of contract.

Capital Gain: Profit earned from the sale of an asset.

Cash Flow: Future cash payment or series of payments.

Casualty Insurance: Insurance to protect structures against losses due to fire, theft, vandalism, and most other causes of destruction. Commonly excludes flood and earthquake damage.

Caveat Emptor: "Let the buyer beware."

Caveat Venditor: "Let the seller beware." Requires a seller to deliver exactly what was promised in a contract unless the contract allows the seller to make unilateral changes in the goods or services delivered.

Certificate of Discharge: See Release of Mortgage.

Certificate of Title: A legal opinion on the status of the title to a parcel furnished by an attorney or title company.

Chain of Title: Connecting the current owner of a property back to the original owner (generally the US Government) to prove the owner has legal title to the property.

Clear Title: Title not encumbered or burdened with defects that give some right to the property to another party.

Closing: The process of dispersing executed documents and funds to finalize a real estate transaction.

Closing Costs: The fees and charges involved in purchasing a property. Generally they are between 1.5 and 5% of the sale price depending on the costs involved with the transaction.

Closing Statement: A detailed accounting of a real estate transaction showing all cash received, all charges and credits made and all cash paid out in the transaction. Generally provided on a HUD-1 form

Clouded Title: Any claim, lien or encumbrance that may impair the title to real property or make ownership of the title in question.

Collateral: Property pledged as security for performance of a loan or other obligation

Combined Loan to Value: The total principal balance of all loans on a property divided by the current value of the property. The lower the percentage, the better the risk.

Commission: Fee paid to a broker for executing or referring a transaction between buyers and sellers.

Commit Waste: To neglect property or allow it to be used in a way that lessens its value.

Community Property: A system of property ownership based on the theory that each spouse has an equal interest in the property acquired by the efforts of either spouse during marriage.

Comparables: Similar properties used in an appraisal report to determine the subject property's value.

Compound Interest: Interest accruing and drawing interest on itself. Interest owed starts accruing interest as soon as it is owed.

Condemnation: A judicial or administrative proceeding to exercise the power of eminent domain, through which a government agency takes private property for public use and compensates the owner.

Consideration: Something of value given to induce each party to enter into a contract. A legal right or promise exchanged for the act, promise or property of another person.

Constructive Notice: Notice given to the world by recorded documents. Possession of property is also considered constructive notice that the person in possession has an interest in the property.

Contract: A legally enforceable promise or set of promises performed between two or more parties, under which, if a party fails to keep its promise, it may be sued and forced to honor its obligation.

Contract for Deed: See Land Contract.

Conventional Financing: Loan financing without guarantees by a governmental agency**.**

Convey: To deed or transfer title to another party.

Conveyance: The document such as a deed or other recorded notice used to transfer or relinquish a right to the property.

Cooperative: A residential multi-unit building whose title is held by a trust or corporation that is owned by and operated for the benefit of persons living within the building, who are the beneficial owners of the trust or stockholders of the corporation, each possessing a proprietary lease.

Counteroffer: A new offer made as a reply to an offer received. It has the effect of rejecting the original offer, and providing new terms acceptable to one party.

Covenant: A legally enforceable promise or restriction in a contract. The breach of a covenant usually creates a default and can be the basis for foreclosure.

Credit Report: A report issued by one or more of the companies who track the creditworthiness of a person or company. Used to help determine the probability that party will make payments on a loan or other debt.

Credit Score: A numerical score, used by all lenders, representing the creditworthiness of a person generally from one or more of the major credit bureaus: Equifax, Experian and Transunion.

Creditor: One who is owed payments on a debt by a debtor.

Cross Collateralize: To place a loan on two or more unattached parcels of real estate.

Current Principal Balance: The balance currently owed on a loan.

Debt Instrument: A document legally creating a debt obligation and repayment by a future payment or series of payments.

Debt Service: The amount of monthly payment required to keep the loans on a property current.

Debt to Income Ratio: The ratio of a borrower's monthly payments on their long term debts to their gross monthly income.

Debtor: The borrower or one who owes a debt to a creditor.

Deed: A recorded document that conveys or transfers property ownership or another right in the property from one party to another.

Deed in Lieu: A deed given from the borrower to the lender to satisfy a debt and avoid foreclosure. By accepting the deed in lieu, the lender accepts all other existing claims on the property.

Deed of Trust: An instrument by which title to real property is conveyed to a trustee to hold as security for the holder of a note.

Deed Restrictions: Clauses in a deed limiting the future uses of the property.

Default: A failure to perform on one or more of the terms of a loan. Examples are failure to present payment or failure to maintain the collateral property.

Defeasance Clause: A clause used in loans and leases canceling a specified right upon the occurrence of a certain condition.

Deficiency Judgment: A personal judgment levied against the debtor when a foreclosure sale does not produce sufficient funds to pay the loan in full.

Delinquent Payment: A payment not presented by the due date specified in the loan.

Devise: A gift of real estate by a will or last testament.

Down Payment: The borrower's own funds used to purchase a property beyond the funds provided by a lender.

Discount Point: One percent of the principal amount.

Due Diligence: A comprehensive review of a transaction to make all risks involved in a transaction known to a party. When financing the buyer, due diligence requires inspecting borrower's credit, confirming sources of income and down payment and other ability to repay the loan along with satisfaction of other risks concerning the buyer/borrower.

Due-On-Sale Clause: See Alienation Clause.

Earnest Money Deposit: Money deposited by a buyer under the terms of a sale contract to show good faith in their effort to purchase the property and compensate the seller for taking the property off the market while the sale is pending. It is forfeited if the buyer fails to purchase the property.

Easement: A right of a non-owner to use or cross the property for their own enjoyment. Commonly used for utilities or for a land locked parcel to receive access.

Eminent Domain: The right of a government to acquire property for public use through condemnation.

Encroachment: Something physical from one parcel that extends onto the adjoining property illegally.

Encumbrance: Anything, such as a mortgage, tax, or judgment lien, an easement, a use restriction that may diminish the value of a property.

Endorsement: Signing over a negotiable instrument to a third party for collection.

Equity: The value or interest a party has in the property. The lender's equity is generally equal to the loan balance and outstanding taxes.

Equitable Title: The interest held by a vendee under a land contract; the equitable right to obtain absolute ownership to property when legal title is held in another's name.

Escrow: The closing of a transaction through an independent third party in charge of receiving, accounting for and releasing funds in addition to other instructions required by the parties to the escrow.

Escrow Instructions: Instructions to the escrow officer from each party requiring certain duties the escrow officer must perform guarantee that party receives what they require from the escrow.

Escrow Officer: The administrator of the escrow. Is responsible for all parties receiving what they require out of the transaction in escrow.

Estoppel: "A man's own acts speak louder than his words." When one should speak the truth but does not and by their acts, representations or silence intentionally or through negligence induces another to believe certain facts exist.

Estopple Statement: A written statement by a lender or borrower concerning the current status of a loan sent to the payor to confirm the terms and condition of the loan.

Eviction: The process to remove a person from possession of a property.

Evidence of Title: See Abstract of Title.

Face Amount: The original principal balance appearing on the face of the note.

Fair Credit Report Act: Federal law regulating the collection and use of consumer information used to evaluate the creditworthiness of a person. It prevents parties from obtaining private credit related information without the express need to know that information.

Fee Simple Estate: The ownership of every right to real property. The highest form of ownership, no other party has any legal claim to the property

FICO Score: The credit score created by Fair Isaac Corporation which is the scoring system used most often by lenders to determine the creditworthiness of borrowers.

Fiduciary Relationship: A relationship of a party to act in the best financial interest of a client party.

Fixture: An item of personal property that is permanently affixed and has become part of the real property.

First Lien: A real estate loan that has the highest position of all loans to be paid in full at liquidation of the property. The first position lender is paid off before any junior lien holders are paid.

Forced Insurance: Casualty insurance purchased by lenders when the borrowers fail to insure collateral structures on a property.

Foreclosure: A legal procedure whereby property used as security for a debt is sold to satisfy the debt in the event of default in payment of the mortgage note or default of other terms in the mortgage document. The foreclosure procedure brings the rights of all parties to a conclusion and passes the title in the mortgaged property to either the holder of the mortgage or a third party who may purchase the property at the foreclosure sale, free of all encumbrances affecting the property subsequent to the mortgage.

Forfeiture: The loss of money or other items of value due to failure to perform under the terms of a loan or contract.

Free and Clear Title: See Fee Simple Estate.

Full Purchase of Note: The purchase of all future payments due on a note usually in one lump sum.

Fully Amortized: A loan that is paid down to a zero balance without any scheduled bump or balloon payments.

General Warranty Deed: A deed in which the grantor fully warrants good clear title to the real property. Offers the greatest protection of any deed.

Grantee: A person who receives or is conveyed a right in real property from a grantor.

Grantor: The person giving up a right to or an interest in real property to a grantee.

Ground Lease: A lease of land and not any structures or buildings on the land. A tenant can build a structure on the parcel but risks losing it at the termination of the ground lease.

Grace Period: The period during which one party may fail to perform without being considered in default.

Guaranty: A legal promise by one party to pay a debt or perform an obligation on behalf of another if the original party defaults on their promise.

Hazard Insurance: See Casualty Insurance.

Heir: One who has the right or claim to inherit a property.

Highest and Best Use: That possible use of land that would produce the greatest net income and thereby develop the highest land value.

Holder: The owner or one who is in possession of a note. Without safeguards, the holder may not be the rightful owner but can make demands on the note maker.

Holder in Due Course: One who acquired possession of a negotiable instrument through proper negotiation for value, in good faith and without notice of any defenses to the instrument. A holder in due course has more defenses against dishonor of the note then if they are not holders in due course.

Homestead: Land that is owned and occupied as the family home. In some states, a portion of the area or value of this land is protected or exempt from judgments for debts.

Homeowner's Policy: Casualty insurance specifically designed for homeowners excluding perils common with rental property.

Hypothecation: The use of a note or other debt instrument as collateral for securing a loan.

HUD-1: See Uniform Settlement Statement.

Implied Agreement: An unwritten contract which the agreement of the parties is inferred by their acts and conduct.

Improvement: Structures built on land, or utilities brought onto the land that enhances the value or use.

Imputed Interest: The interest considered to be paid when there is no interest or below market interest. If a seller offers a below market interest rate to avoid paying taxes on interest income, the IRS can determine (impute) what a market interest rate should be and require taxes on the rate they determine.

Insolvent: A person who either has ceased to pay or cannot pay his debts.

Installment Contract: See Also Land Contract. A contract for the sale of real or personal property where the purchase price is paid in periodic installments from the buyer who takes possession of the property before paying off the contract. The real estate version of an installment contract is referred to as a Land Contract or has similar titles.

Installment Note: See Promissory Note.

Installment Sale: A transaction in which the sale is completed with an installment contract.

Insurance Premium: The cost of an insurance policy. Usually quoted in six month or yearly terms.

Instrument: A legal document used as evidence of a legal event.

Interest: A charge made by a lender for the use of money.

Interest Rate: The interest charged by a lender expressed as percentage of the outstanding loan balance.

Interest Extra: A loan where each payment goes to principal and not to interest.

Interest Included: A loan where each payment is first applied to interest and any surplus is applied to principal.

Interest Only: A loan where the only payment required covers accrued interest and the principle is not required to be paid down. The loan requires a maturity date for the loan to be paid off or it would continue forever.

Intestate: An estate left when the owner dies without a valid will.

Income Property: Any real estate owned expressly to earn rental income from the property.

Income Stream: The future expected payments from a loan, income property or other revenue generating source.

Institutional Lender: Banks and other lenders who can raise capital in the financial markets through stock offerings, bonds or borrowing.

Intangible Personal Property: Something that has value but is not a physical asset such as goodwill, a trademark or copyright.

Joint and Several: Two or more parties have an obligation binding them individually as well as jointly.

Joint Tenancy: Ownership of real estate between two or more parties who have been named in one conveyance as joint tenants. Upon the death of a joint tenant, the decedent's interest passes to the surviving joint tenant or tenants by the right of survivorship.

Joint Venture: The joining of two or more parties for a specific business transaction.

Judgment: A decree from a court providing that one individual is indebted to another for a certain amount.

Judgment Lien: A lien upon the property of a debtor resulting from a judgment.

Judicial Foreclosure: The legal proceeding a lender or creditor uses to obtain a court ordered termination of the borrower's interest in the collateral property.

Junior: Takes priority behind and secondary to loans and other encumbrances recorded before the instrument, and has a lower priority to disbursement of any funds out of a foreclosure.

Land Contract: An installment contract for the sale of real estate. The seller (vendor) retains fee title ownership of the real estate while the buyer is allowed to occupy and use the land. A deed is passed from the vendor to vendee only after all conditions of the contract have been satisfied.

Landlord: The owner of a rental property.

Late Charge: A fee charged to the borrower when the lender does not receive the payment according to the loan terms.

Lease: A contract between a landlord and tenant transferring the right of possession and use of the property to the tenant in exchange for rent or other considerations.

Lessee: One who occupies property by the terms of a lease.

Leasehold: A tenant's right to occupy and use real estate according to the terms of a lease

Lessor: The landlord who allows others to use their property under the terms of a lease.

Legal Description: A unique legal description of a parcel of real estate that identifies it from all other parcels.

Lender's Title Insurance: Title insurance that protects the lender against any liens or other title defects that may interfere with their loan position.

Leverage: The use of debt to finance the purchase assets. The more debt used to purchase the asset, the higher the leverage of the borrower.

Liability: A debt or financial obligation.

Liable: One legally responsible or obligated to another.

Lien: A right of creditors to have their debts paid out of the property of a defaulting debtor

Life estate: A right to possess or use a property for the lifetime of the tenant. When the tenant

dies the life estate ends.

Life tenant: A person in possession of a life estate.

Liquidity: The ability to sell an asset and convert it into cash in a short period of time.

Line of Credit Loan: A loan that is expandable up to a maximum dollar amount.

Lis Pendens: A recorded document giving constructive notice that an action affecting a particular property has been filed in either a state or a federal court.

Loan Terms: The provisions and promises in a loan governing all amounts and events in the life of a loan.

Loan to value (LTV): The ratio of amount of outstanding debt(s) to the current value of the property expressed as a percent.

Loss Payee: Names the lender as the beneficiary of a casualty insurance contract. If a casualty loss occurs, the lender controls the insurance proceeds to protect their loan and interest in the property.

Loss Mortgagee: See Loss Payee.

Maker: The person who creates and signs a note making them obligated to honor the note.

Marketable Title: Title to property without encumbrances preventing the owner from selling the property.

Market Value: The price at which an interested, ready, willing, and completely informed person would pay for a property on the open market.

Marshaling Assets: The fair distribution of a debtor's assets among their creditors.

Maturity: The date which the final payment of the loan is due, even if it requires a balloon payment.

Mechanic's Lien: A statutory lien created in favor of contractors, laborers and material men who performed work or furnished materials for the erection or repair of a building.

Military Indulgence: Protection and relief from collection afforded a borrower whose military service prevents them from making timely payments or other obligations on the loan.

Mobile Home Note: A note secured by the interest in a mobile home.

Mortgage: A common term for loan. Specifically, a type of loan using a recorded mortgage lien instrument on the collateral property and promissory note. Generally used on the east coast of the United States.

Mortgage Estopple: See Estopple Statement

Mortgage Insurance: Insurance protecting a lender from loss in the event a borrower defaults on their loan.

Mortgage Note: A promissory note secured by a mortgage.

Mortgage Release: The lender's release of a mortgage when the loan has been paid off.

Mortgagee: The party lending the money and receiving the mortgage.

Mortgagee's Title Insurance: See Lender's Title Insurance.

Mortgagor: The party borrowing money secured by real estate and giving a mortgage.

Negative Amortization: A loan where payment terms do not cover the accrued interest creating an increasing debt obligation over time.

Negotiable Instrument: A written promise or order to pay a specific sum of money that may be transferred by endorsement or delivery. The transferee then has the original payee's right to payment.

Nominal Interest Rate: The interest rate stated in a note.

Nonconforming Use: The use of property that is contrary to the zoning or permitted use according to the governmental authority. Use may be legal or illegal depending how, when and type of use.

Notary Public: One who is authorized by the state or federal government to attest to the authenticity of signatures on a legal document.

Note: See Promissory Note.

Note Amendment: An agreement by all parties to a note changing the interest, payment schedule, or due date or other terms on an existing note without writing a new note.

Note Holder: The person currently in ownership and possession of a note and entitled to collect all its remaining payments. The holder might not be the original beneficiary.

Notice of Default (NOD): A legal notice from a lender notifying the borrower their loan and collateral property is in default and in threat of being foreclosed.

Novation: Substituting one obligation for a new one, or substituting new parties to an existing obligation.

Obligee: The person payments are owed to on a note.

Obligor: The person required to make the payments on a note.

Offer and Acceptance: Required to make a valid contract. One party must make an offer that is accepted by the second party.

Open-end Loan: See Line of Credit Loan.

Opinion of Title: See Abstract of Title.

Option: A contract between buyer and seller for the buyer to purchase something for a stated price and terms within a certain time period.

Optionee: The person who has the right to buy under an option.

Optionor: The person who has agreed to sell property under an option.

Original Principal Balance: The beginning principal loan amount on the face of the note.

Origination: The creation of a loan.

Or More Clause: A loan term allowing payments tendered to be more than the minimum payment required. This eliminates a prepayment penalty for early payments.

Outstanding Balance: The current amount owned on a loan.

Owner Financing: Financing provided by a property owner to the buyer to facilitate the sale of the property.

Owner Occupied: The property owner lives in or occupies the property.

Owners Title Policy: Title insurance covering the buyer against any title defects and insuring their right to the title at the time they purchase the property.

Parcel: A unit of property under one ownership, usually considered one specific entity in the county assessor's office.

Parcel Number: A number given to a piece of property by the county for tax purposes.

Partial Amortization: Loan terms where payments cover principal and interest for a certain period of time then call for a balloon payment before the loan fully amortizes.

Partial Purchase: The purchase of a set number of the payments due on a note or contract. The note holder retains the right to receive the remaining payments after the payments owed to the investor have been received. The note holder retains an equity interest in the note, junior to the investor making the purchase.

Party Fence: A wall or fence located on the boundary line between two adjoining parcels of land and used by owners of both properties.

Payment: The tendering of cash or other agreed form from a borrower to a lender to be applied to a loan under the terms of the loan.

Payment Due Date: The date an installment is due according to the terms of a loan.

Payee: The person receiving payments on a note.

Payment Schedule: The schedule of how much and how each payment is to be made according to the terms of a loan.

Payor: The person making payments on a note.

Per Annum: In or for each year annually.

Periodic Estate: A tenant's interest continuing from period to period such as month to month.

Personal Guaranty: A personal cosigner on a loan if a business or other nonperson entity defaults on the loan. Required by lenders on loans to most small businesses.

Personal Property: Any property that is not real property (land) or physically attached to real property.

Plat: A plan or map showing property boundaries of a specific area.

Plat Map: A public record showing the division of land into streets, blocks, and lots and indicating the measurements of the individual parcels.

Portfolio: A group or package of loans held by a bank, finance company or private individual.

Power of Attorney: A document authorizing a person to act legally on behalf of another.

Premises: The subject land.

Principal: The outstanding balance on funds loaned

Principal Balance: The amount of principal currently owed to a lender.

Principal and Interest Payment: An installment payment that includes funds to pay the accrued interest and principal of the loan according to the loan terms.

Principal, Interest, Taxes and Insurance (PITI): Installment payments intended to cover interest and principal in addition to part of the upcoming property taxes and insurance premium. The lender keeps the insurance and tax funds then pays the insurance and taxes on behalf of the borrower.

Private Mortgage Insurance (PMI): See Mortgage Insurance.

Preliminary Title Report: An initial report is issued by a title company chaining the title and showing all encumbrances and clouds on the title that need to be addressed before the will insure their client's interest in the property.

Prepayment penalty: A charge imposed by a lender on a borrower who pays down the loan principal early. This penalty compensates the lender for lost interest.

Present Value: The current value of a future payment or series of payments discounted to reflect the risks the payment(s) will be made as expected.

Priority: The order of position or time that an interest in a property was recorded with the county clerk. The earlier recorded interest granted has a higher priority. Tax liens and other governmental assessments can take a higher priority over other interests.

Private Party Financing: The providing of funds to finance the purchase property by a private party.

Privately Held Loan: A loan owed to a private individual or business rather than to a bank or other financial institution.

Probate: A legal process by which a court determines who will inherit a decedent's property and other assets.

Promissory Note: A written promise to pay a certain amount of money over a certain time as agreed by the maker and beneficiary on the note.

Purchase Money Loan: A loan given to a buyer to purchase the property.

Purchaser: One who buys a property.

Quit Claim Deed: A deed transferring any interest the granting party may have in a property to the Grantee. The Grantor does not represent or warrant they have the right to transfer any interest to the Grantee.

Real Estate: See Real Property.

Real Property: The land and all things permanently attached to the land including the rights going along with the land.

Reserve: An amount a lender or their servicer holds from each payment to cover future expenses, usually taxes and insurance.

Recast: To renegotiate the terms of an existing loan often because the borrower cannot repay the current loan terms.

Reconvey: The removal of a lien hold position on a deed of trust.

Reconveyance Deed: A deed used by a trustee under a deed of trust to return title to the trustor.

Recording: The act of recording documents providing interests in real estate with the county in which the real estate is located. This gives constructive notice to all parties an interest in the parcel lies with a certain party.

Redemption: The buying back of real estate sold in a foreclosure or tax sale.

Regulation Z: Regulations applying to all non-private lenders implementing the Truth in Lending Act requiring full written disclosure of loan terms to a borrower before closing.

Reinstatement Period: The period specified by local law in which a debtor has the right to catch up the payments and outstanding fees to redeem a property lost to a foreclosure or tax sale.

Release Deed: A document releasing all rights back to the grantor. Used in some states to release the borrower after the loan has been paid off.

Release of Liability: The appropriate documentation from a creditor to a debtor, releasing the debt and any liens associated with it.

Release of Mortgage: See Satisfaction of Mortgage

Reproduction Value: The cost of construction at current prices of an exact duplicate of the subject property.

Representations: A fact represented as true for the purpose of inducing another party to purchase a property.

Request for Reconveyance: A document from a lender directing the trustee to convey his lien back to the property owner.

Restriction: A limitation on the use of real property placed in the deed to the property.

Reversion: The remnant of an estate that the grantor holds after granting a life estate to another person.

Right of Action: A right to enforce a claim in court.

Right of Survivorship: See Joint tenancy.

Rollover Loan: A short-term loan renewing at a specific time at a new interest rate as determined in the loan terms.

Sale Price: The mutually agreed upon dollar amount to be paid for the property.

Sale and Leaseback: A transaction in which an owner sells his or her improved property and then leases the property from the buyer to remain in possession of the premises.

Sales Contract: A contract containing the complete terms of the agreement between buyer and seller for the sale of property.

Satisfaction: The discharge of an obligation by paying a party what is due.

Satisfaction of Mortgage: Completion of the terms of repayment and release from liability on a mortgage. A document releasing the mortgage on a property.

Seasoned Loan: A loan with an established, documented pay history. The length of time required to become seasoned will depend on the individual lender.

Secondary Market: The market where loans are bought and sold between investors.

Security Interest: An interest in property as collateral for a debt or other obligation.

Secured Loan: A loan with specific collateral property pledged to secure repayment. If the

borrower defaults the lender can foreclose on the property and sell the property.

Servicing: The collection and accounting of loan payments and applying the funds to the loan balance according to the loan terms.

Section: A square section of land one square mile or 640 acres. Six square sections make a township.

Seller: A party who has sold property.

Seller Carryback Financing: See Owner Financing.

Senior Lien: A lien recorded before and receiving higher priority than subsequent liens.

Seniority: See Priority.

Separate Property: Community property law treating property owned solely by either spouse before marriage, acquired by gift or inheritance after the marriage or purchased with separate funds after the marriage.

Severalty: Ownership of real property by one person or entity.

Shared Appreciation Mortgage: A mortgage loan in which the lender participates in the profits the mortgagor receives when the property is sold.

Sidwell Number: See Parcel Number.

Simple Interest: Interest only being drawn on the principal balance of the loan.

Special Assessment: A tax or levy imposed against only those properties that benefit from a proposed public improvement.

Special Warranty Deed: A deed where the grantor warrants title only against defects arising during the period of his or her tenure and ownership of the property and not against defects existing before that time.

Specific Lien: A lien affecting or attaching only to a certain, specific parcel of land or piece of property.

Statutory Lien: A lien imposed on property by local or state law

Straight Note: A note having no payments during its term and a balloon payment at the end.

Subdivision: A tract of land divided into lots and streets.

Subordination: A senior interest holder allowing a junior interest holder to have a more senior interest in the property. The senior interest holder's position assumes a lower priority than the party they subordinated to.

Subject To Clause: A clause in a deed specifying exceptions and reservations affecting the title.

Subject Property: The property that is the basis for a report or loan collateral.

Subrogation: The substitution of one creditor for another, with the substituted person succeeding to the legal rights and claims of the original claimant.

Substitution of Trustee: Replacing one trustee for another.

Survey: The process by which boundaries are physically measured and land areas are determined.

Successor: One who next receives or succeeds to take title to a property from the prior holder.

Tax deed: A certificate given by the county to the high bidder to pay the property's taxes at a tax sale allowing the bidder to have a secured lien to collect taxes from the property owner.

Tax lien: A lien created by the county to force collection of property taxes. It takes priority over all other liens.

Tenancy By The Entirety: The joint ownership of property acquired by husband and wife during marriage and automatically transferred to the surviving spouse.

Tenancy In Common: A form of co-ownership where each owner holds an undivided interest to the entire the property but each owner's share may be unequal an each owner can sell or pass down their share of ownership to heirs.

Term: The amount of time for the loan to amortize down to zero or reach maturity date.

Testate: Having made and left a valid will.

Time Is Of The Essence Clause: A clause common in contracts stating that acts must be completed by a specific period of time.

Time Value of Money: The value of a certain sum of money earning a given interest rate in the future or past.

Title: The right of a party to possession of property.

Title Commitment: See Preliminary Title Policy.

Title Insurance: Insurance to protect parties against any losses or defects in their right or interest to a parcel of real property.

Title Policy: See Title Insurance.

Title Search: Research of public records, law, and court decisions to disclose the past and current facts regarding ownership of real estate and issue title insurance.

Township: A six-mile-square tract delineated by a government survey to legally describe a parcel of land in the area.

Tri Merge Credit Report: A credit report using all three major credit reporting companies: Equifax, Experian and Transunion.

Trust: A relationship between parties which one holds property for the use, enjoyment and benefit of another.

Trust Deed: See Deed of Trust.

Trustee: The third party who administers a trust on behalf of the trust's beneficiary

Trustee's Deed: A deed executed by a trustee conveying land held in a trust.

Trustor: The person who owes the money on a note secured by a Trust Deed. The property owner.

Trustee: One who holds property in trust for the benefit of another.

Truth in Lending: A federal law requiring disclosure of total finance charges and annual percentage rate for credit in order for borrowers to shop for credit.

Underlying Debt: A loan that is recorded prior to the referenced debt and is still in effect against the subject property. Term often associated with All Inclusive Trust Deed.

Underwriting: The process a lender takes to analyze the comprehensive risk of creating or purchasing a loan and the terms under which they will extend or purchase the loan.

Uniform Settlement Statement: A settlement statement required by RESPA accounting for how all funds flowing through escrow were used. Also referred to as a HUD-1

Unilateral Contract: A one-sided contract wherein one party makes an offer to induce a second party to perform something. If the second party accepts the offer, the first party is obligated to keep the promise.

Unimproved Land: Land which has no development on it.

Unmarketable Note: A note that has no cash value in the secondary market. Often due to poor borrower credit or capacity to make payments.

Unseasoned Loan: Loan has not had enough payments made to satisfy a lender's underwriting requirements.

Unsecured Loan: A loan not secured by property. The lender has no borrower assets to seize in event of default.

Useful Life: The number of years a building will have value to its owner.

Usury: Charging interest at a higher rate than the maximum rate established by state statute.

Use Restrictions: Terms in deed placing limitations or restrictions on the property's use by future owners

Utilities: Electrical power, water (drinking and sewer), phone lines and other amenities.

Vendee: The purchaser of a property; the party making payments on an installment contract.

Vendor: The seller of a property; the party receiving payments on an installment contract

Valid Contract: A legally binding contract complying with all the essentials of a contract that is enforceable on all parties to the contract.

Value: The worth of a good or service to command cash or other goods in exchange at a specific time.

Variance: an exception from local zoning ordinances.

Voidable Contract: A contract not having all essential elements of a contract and is therefore not enforceable by one or both of the parties.

Without Recourse: Endorsement of a note to protect the assignor from any further liability on the sale, even in the event the Maker fails to pay on the note.

Workout: The process where a lender and borrower renegotiate the terms of a loan so they will each benefit.

Wraparound mortgage: See All Inclusive Deed of Trust

Warranties: Promises to take specific action or fix specific defects of a contractual obligation.

Warranty Deed: A deed that conveys or transfers title from one party to another with covenants assuring that the title transferred is free from all encumbrances.

Yield: The true rate of return on investment.

Sample Income Verification
Short Form

Courtesy of:

Capstone Capital USA
1-888-861-4292
www.CapstoneCapitalUSA.com

Buyer Application

Property Address: ____

BUYER INFORMATION

Name Buyer One:	Name Buyer Two:
Phone Numbers Home: Work: Cell:	Phone Numbers Home: Work: Cell:
Current Employer Name and Address: Employer Phone: Position/Type of Business: Years on this job: Yrs. Employed in this profession: Self Employed? Yes No (If yes include two years of company tax returns)	Current Employer Name and Address: Employer Phone: Position/Type of Business: Years on this job: Yrs. Employed in this profession: Self Employed? Yes No (If yes include two years of company tax returns)
Prior/Second Employer Name and Address if less than 2 years ago: Employer Phone: Position/Type of Business: Monthly Earnings: Dates Employed: Yrs. Employed in this profession:	Prior/Second Employer Name and Address if less than 2 years ago: Employer Phone: Position/Type of Business: Monthly Earnings: Dates Employed: Yrs. Employed in this profession:

Retain a copy of buyer's current paystub and last years W-2(s) to verify loan and document if necessary for secondary market

Other Regular Income Sources

Source of Income:	Annual Income from Source: Date Income will end:
Source of Income:	Annual Income from Source: Date Income will end:
Source of Income:	Annual Income from Source: Date Income will end:

Retain a copy of buyer's proof of other regular income sources to verify loan and document if necessary for secondary market

Buyer Application Short Form Page 1

Checking and Savings Accounts:

Name and address of Bank or Credit Union	Account No.	Current Balance
		$
		$
		$
		$

Retain a copy of buyer's current account statement(s) to verify loan and document if necessary for secondary market

Schedule of Real Estate Owned

Property Address	Type Of Property	Present Market Value	Outstanding Loans & Liens	Gross Rental Income	Monthly Mortgage Payment	Monthly Insurance, Taxes, Maintenance, & Miscellaneous	Net Rental Income
		$	$	$	$	$	$
		$	$	$	$	$	$
		$	$	$	$	$	$
		$	$	$	$	$	$
		$	$	$	$	$	$
		$	$	$	$	$	$
		$	$	$	$	$	$
		$	$	$	$	$	$
		$	$	$	$	$	$
		$	$	$	$	$	$

I/We certify the information provided in this application is true and correct and acknowledge that any intentional or negligent misrepresentation(s) may result in civil liability or criminal penalties.

Date: ________________________Signature: ________________________________Signature: _________________________________

Buyer Application Short Form Page 2

Pay History Ledger

Courtesy of:

Capstone Capital USA

Tel: 1-888-861-4292

www.CapstoneCapitalUSA.com

For the Year of: ____________

Borrower: ____Borrower Phone: ____________________

Property Address:____Parcel No.: __________________

Beginning Balance:___________________Start Date: ________________Interest Rate: ____________

Due Date: ____________ Amount Due: _____________Late Penalty: __________________________________

Special Payments Due: ____

Insurance Agent: __________________Agent Phone: ___________________Policy Renewal Date: ____________

Property Taxes Due: ________________________Assessor's Phone: ___________________

We recommend you keep a copy of your note or contract with this ledger and the original in a safe place

Due Date	Paid Date	Payment Amount Received	Payment to Reserves	Interest Paid	Principle Paid	Late Penalty Paid	Current Balance	Late Penalty Incurred

Other Links:

www.Seller-Carry.com
www.LoanOptions.Org

Email: Dave@CapstoneCapitalUSA.com