

TRUST

Congratulations on taking the step to learn more about understanding your real estate note quote. Note owners like yourself typically want to sell their note to meet various personal needs. 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.

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.

**Matters involving money...
- your money -
demand more than just promises and expectations. They require trust. You simply can't afford to sell your note without having complete confidence in your buyer. You need to know that you are being treated honestly and that you are making the best decision, based on your situation, current market factors and economic trends.**

By choosing Capstone Capital USA for your transaction, you can be assured you are dealing with a highly reputable company. Over the last 35 years, our funding institutional partners have processed more than \$500million in real estate note transactions.

Nowthat's a record you can TRUST!!!

Understanding Your Real Estate Note Quote



NOTE BUYER & SELLER FINANCE CONSULTANT

Dave Franecki

480-232-5477 Dave@CapstoneCapitalUSA.com
www.CapstoneCapitalUSA.com



6 FACTORS THAT INFLUENCE A NOTE'S VALUE

#1

BORROWER'S CREDIT



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. Included in the borrower profile:

- Type of buyer-personal residence or investor
- Credit -5 C's of Credit
- Income (ratio or proof)
- Job / Employment

#2

COLLATERAL



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?

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 cash, while at the same time giving the NOTE BUYER the security they need in this chaotic economic environment.

#3

DOWN PAYMENT



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 3 reasons:

- The amount of down payment determines the LTV (loan to value). The lower the better.
- 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.

#4

NOTE TERMS



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.

#5

SEASONING



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?

#6

PAPERWORK



The # 6 Influence on a Note's Value is the - **Paperwork** - Investors verify the Note, Deed of Trust, Mortgage, Land Contract etc. Was there title insurance and a lenders policy issued? Is the file Dodd- Frank

compliant? If the loan was originated after 1/10/2014, was a Loan Application by a Mortgage Loan Originator taken with verifications to include:

- Income
- Employment
- Down payment
- Credit