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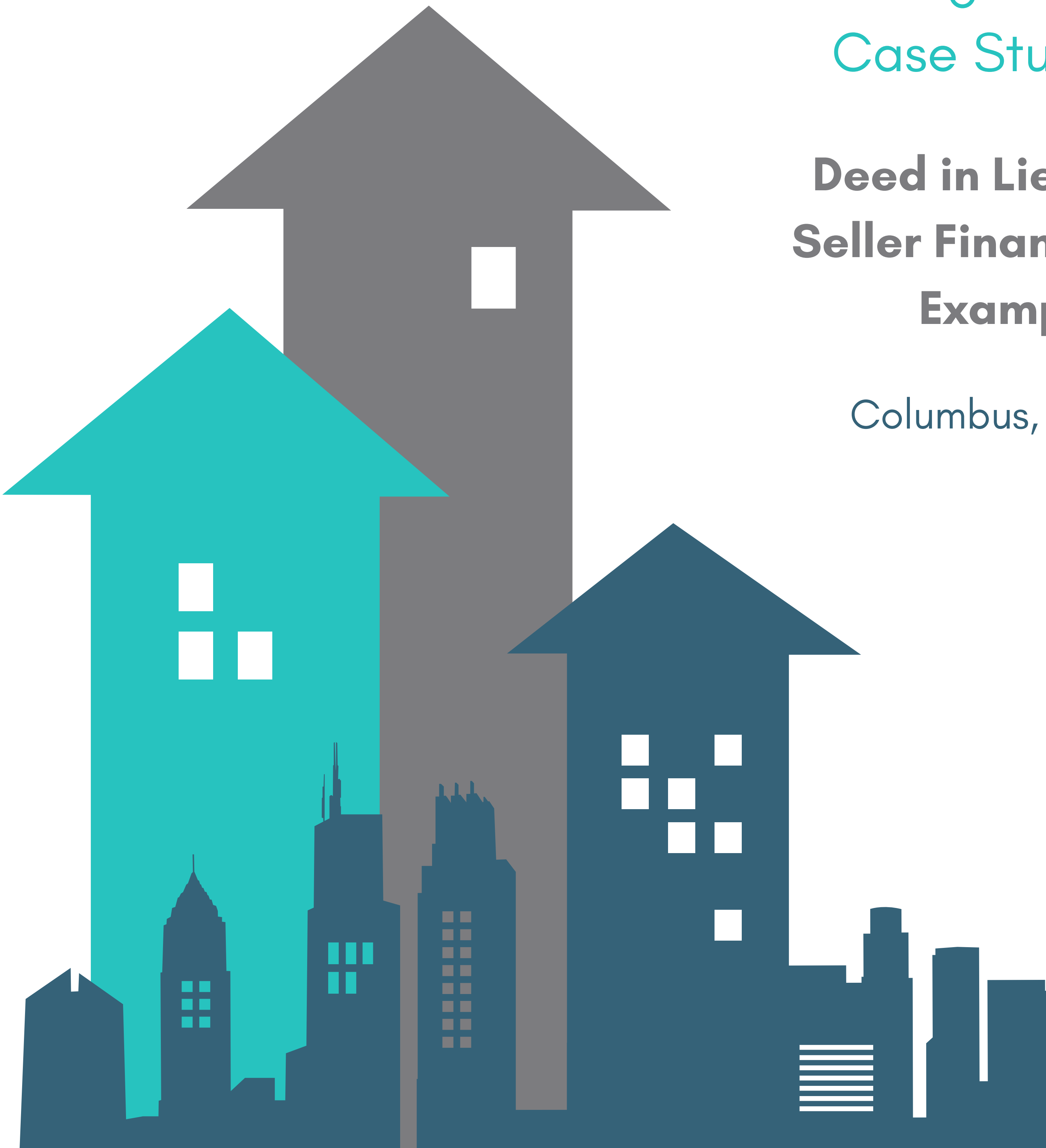
Non-Performing Note Case Study

Deed in Lieu/ Seller Finance Example

Columbus, OH



Background:

Mr. X purchased a single family property in Columbus, Ohio in 2013 for $38,100 from a hedge fund who provided a seller financed mortgage for $36,640 to the borrower. Mr. X stopped paying the mortgage in 2015 and the non-performing note was available to purchase from the hedge fund.
Details as follows:

Date of mortgage	13-July	Date that the mortgage was taken out by original borrower
Property purchase price	$38,100	Borrower paid in 2013
Original loan	$36,640	30 year amortization @ 9.9%
Monthly Payment (P&I)	$318.84	Principal and interest payment
Outstanding loan (UPB)	$34,720	UPB - Unpaid Balance - loan amount outstanding at purchase
Assessed value (BPO)	$35,000	Broker Price Opinion - current assessed value of the property
Note Purchase Date	16-June	
Offer price	$13,500	The mortgage note was offered at 38% of BPO
Property status	Vacant	The property "owner" was believed to have moved out
Property taxes owed	$756	Back taxes unpaid by borrower and outstanding
Property Sold Date	17-Feb	Date when the property was "Resold" on Seller Finance
Property Resale Price	$30,000	Property sold to investor with Seller Finance
Down Payment received	$3000	Down Payment as part of the Seller Finance, mortgage of $27k
Monthly Payment	$356.84	New P&I including from investor
Note Sold Date	17-Oct	Date when Note sold internally after paying out JV investor

Comments:

This non-performing mortgage note cost $13,500 to buy and the hedge fund assigned all rights and responsibilities of the non-performing note to us and we effectively became the new "lender". Our course of action was as follows:

- Engaged a realtor to perform a BPO to verify valuation and do a drive-by to determine occupancy status. Appeared to be vacant
- Ordered an "Owner & Encumbrance" title report to determine whether any other liens were attached to the property. Generally outstanding taxes and utility liens remain attached to the property after foreclosure. If any other superior liens to this first charge are discovered, then would generally pass on the purchase
- Offered to purchase at the asking price based upon our own BPO.
- After the purchase, immediately boarded the loan with a Mortgage Servicer and instructed legal to commence the foreclosure process since it had not started yet.

An unoccupied or vacant property generally goes down the route of either Deed in Lieu or foreclosure and an absent borrower normally means a speedier progress through the courts. Our loss mitigation team of attorneys utilize skip tracing and private investigator services to find the borrower. In this case, the borrower was found and offered to cancel the mortgage contract which provided a Deed in Lieu of foreclosure giving us an unencumbered title to the property, subject to the outstanding taxes.
Once we got possession of the property, it was in a state of poor disrepair but we immediately had it trashed out and had our local realtor, also an investor himself, decide to purchase this property from us. We agreed to sell it to him for $30,000 with a 10% down payment and carry a mortgage for the $27,000 balance at 10% for 10 years. He then rehabbed the property with his own funds and contracting crew, then was able to resell the property on a “rent to own” basis to an owner occupant/tenant, essentially creating a wrap mortgage. This is a very secured loan, as not only did the Realtor Buyer force appreciation by fixing up the property, he now has a tenant buyer paying more in payments than his monthly dues to us.

We subsequently purchased the note out of the joint venture we had on this deal for $20,000 and still have in our portfolio which is yielding 21.4% or an annualized percentage rate (APR) of 17.1%. This purchase included half of the profit paid out to the JV partner. Had this been sold outright to a 3rd party investor, we could have obtained a sale price of about 85% of the Unpaid Principal Balance (UPB) or approximately $23,000 which would boost the returns as indicated below. If the Realtor Investor pays off our mortgage note within the next 12 months, as we expect him to do, our subsequent projected ROI will be 41%.

Summary

		3rd Party Sale
Note cost	$13,500	
Legal/Foreclosure Fees	$501	
Holding/Servicing costs	$2,455	
Taxes (paid at closing)	$0	
Total expenditure	$16,456	
Note/Property Sale Price	$20,000	$23,000
P&I Income	$5,498	$5,498
Selling/Closing Costs	$4,273	$4,273
Net return	$21,224	$24,224
Expenditure/Investment	$16,456	$16,456
Profit	**$4,768**	**$7,768**
Return on Investment	29.0%	47.2%
Annualized ROI *	22.3%	36.3%

*** Return on investment over 15 months**