EquiGrowth CAPITAL

amassing equity through strategic real estate investments

Non-Performing Note Case Study

Loan Modification Example

Granview, MS (Kansas City)

Background:

Ms. X purchased a single family property in Granview, Missouri in 2011 for $45,000 from a hedge fund who provided a seller financed mortgage for $40,000 to the borrower. Ms. X stopped paying the mortgage in 2015 and the non-performing mortgage was available to purchase from the hedge fund. Details as follows:

Date of mortgage	11-Sept	Date that the mortgage was taken out
Property purchase price	$40,700	Borrower paid in 2011
Original loan	$40,000	30 year amortization @ 10%
Monthly Payment (P&I)	$351.03	Principal and interest payment
Outstanding loan (UPB)	$39,064	UPB - Unpaid Balance - loan amount outstanding at purchase
Assessed value (BPO)	$45,000	Broker Price Opinion - current assessed value of the property
Note Purchase Date	16-April	
Offer price	$14,500	The mortgage note was offered at 32% of BPO
Property status	Occupied	The property "owner" is still believed to be in residence
Property taxes owed	$817	Back taxes unpaid by borrower and outstanding
Loan Mod Date	16-Nov	Date when a loan modification agreed to with Borrower
Down Payment received	$4000	Down Payment received as part of the Loan Mod
New Monthly Payment	$525.32	New P&I including "catch up" amount
Note Sold Date	18-Jan	

Comments:

This non-performing mortgage note cost $14,500 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:

- 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.
- Engaged a local realtor to do a drive-by of the property, and have them provide their opinion of as-is value, otherwise known as a Broker Price Opinion (BPO)
- Determined whether property is vacant or occupied. Upon checking with local utility companies, the utilities were still on so it appeared occupied.
- 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 as it had not yet been started.

With an occupied property, there's generally a better chance that the borrower wishes to remain in the home and workout a solution to their accrued debt problem. In this case, our loss mitigation legal team reached out to the borrower who expressed not only her desire to remain in the property, but that she had saved the majority of the missed payments due to a dispute she was having with the previous loan servicer. She also expressed the desire to pay the mortgage off faster, since her son had moved in with her and they had more income to contribute to mortgage payments. After agreeing to the terms in September 2016, they put down $4,000 and we modified their loan payments and underwrote a new mortgage contract at $36,000 to amortize their loan over 10 years instead of 30 at an interest rate of 10%.

However, after several months of payments, the borrower fell ill and stopped making payments again. We once again had our legal team resolve this by modifying the contract once more, and the borrower agreed to increase their monthly payment to catch up on their missed payments. As well, the contract was amended that they automatically forfeit the property back to us in the event of one missed payment.

We subsequently purchased the note out of the joint venture we had on this deal and still have in our portfolio which is yielding 24.2% or an annualized percentage rate (APR) of 19.2%. This purchase included half of the profit paid out to the JV partner. Had this Note 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 $30,000 which would boost the returns as indicated below.

Summary

		3rd Party Sale
Note cost	$14,500	
Legal Fees	$3,273	
Holding/Servicing costs	$848	
Outstanding Taxes	$817	
Total expenditure	$19,438	
Note/Property Sale Price	$26,000	$30,000
P&I Income	$7,085	$7,085
Selling/Closing Costs	$900	$900
Net return	$32,185	$36,185
Expenditure/Investment	$19,438	$19,438
Profit	**$12,747**	**$16,747**
Return on Investment	65.6%	86.2%
Annualized ROI *	37.6%	49.4%

*** Return on investment over 21 months**