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HOW TO RUN YOUR **NON-PERFORMING NOTE** DUE DILIGENCE

THE ANALYSIS WATERFALL

ELIMINATE UNCERTAINTY WHEN YOU BUY



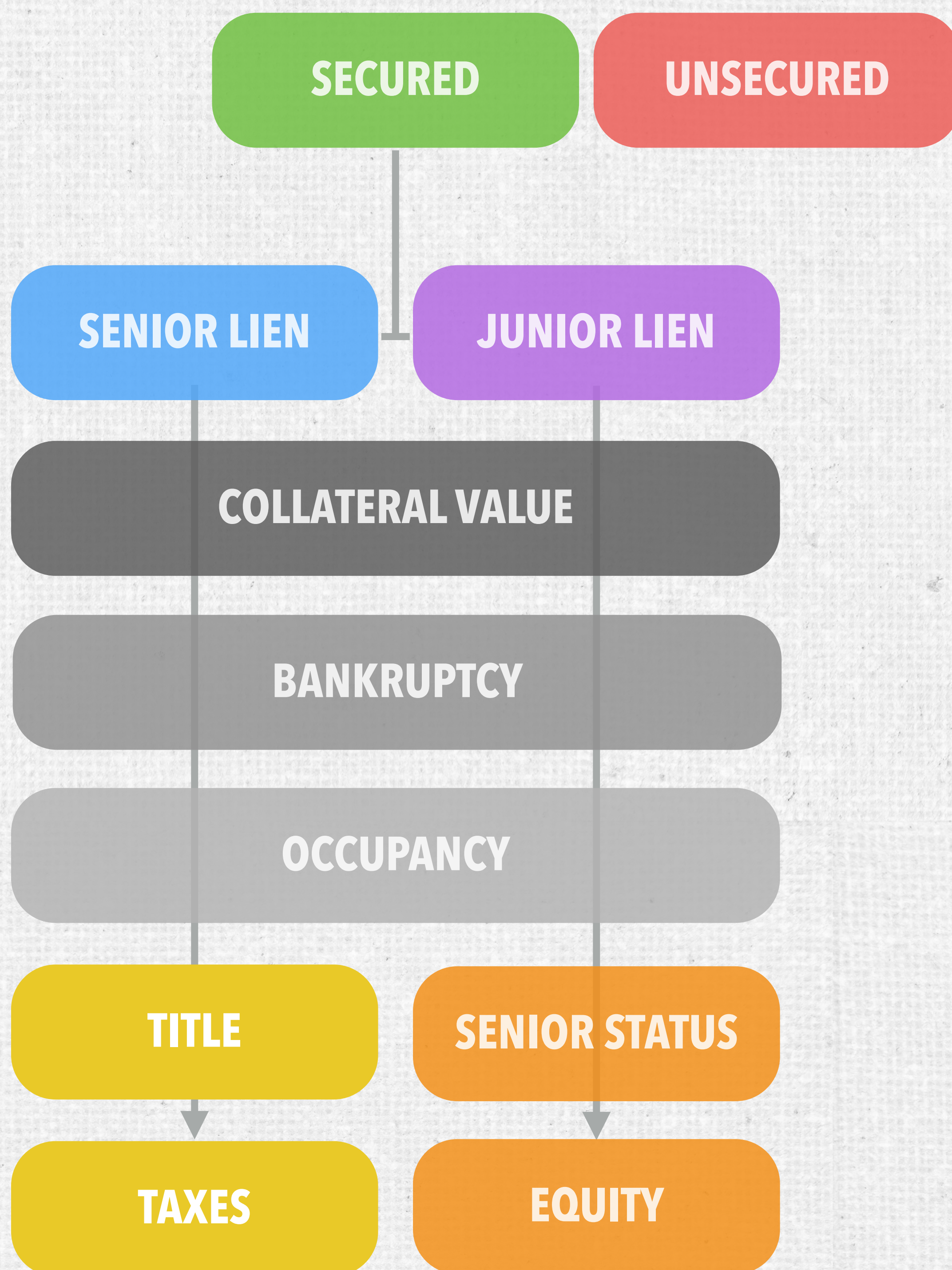
FIXnotes

by **Rob Hytha**

THE DD WATERFALL

HIGH-LEVEL OVERVIEW

Use the **Due Diligence Waterfall** approach to keep your research expenses down. Progressively analyzing assets based on the characteristics of each phase.



Not sure what
this is all about?

Click to watch on
YouTube: [What is a
Mortgage Note?](#)

1. SECURED SCRUB

SECURED

OR

UNSECURED

This single factor can make a **100x difference** when pricing a note: we're talking about a value (based on the UPB) of **~50%** versus **~50 basis points**.

When a loan is **Secured**, the lender has leverage - the option to enforce their lien through the foreclosure process. **Unsecured** - foreclosure is no longer an option and remaining research on this account is not necessary.

How do you know it's secured?

The property owner matches the borrower's name found on the seller's data tape (slightly oversimplified)

FIXnotes Pro Tip: Search the Property Zip code in the **Pro Member Portal** & use the **County Database** to quickly pull up the local property ownership records to research.



Watch a YouTube video about
secured vs unsecured [[click here](#)]

2. TITLE STATUS

SENIOR LIEN

OR

JUNIOR LIEN

Determining lien position is the next most important factor. The asset seller will likely give you this information so your job is to “trust but verify”.

In order of accuracy/cost, you can determine title by:

- Looking at County Public Records yourself
- Ordering an Ownership & Encumbrances report
- Investing in a complete (insurable) Title Report

The higher the value of the loan, the more you’ll want to spend in your due diligence research.

FIXnotes Pro Tip: Use our **Vendor Rolodex** for trusted vendors for title research and due diligence services.



Watch a YouTube video about
1st & 2nd liens [[click here](#)]

3. PROPERTY VALUE

COLLATERAL VALUE

The value of the underlying collateral (the property securing the subject lien) is typically referred to as **FMV: fair market value**.

There is a spectrum of available sources:

- Free Automated Valuation Models (**AVMs**) like the Zillow Zestimate
- Paid **AVMs** from First American, CoreLogic, etc
- Manual **Desktop Appraisal** using recently sold comps
- Broker Price Opinion (**BPO**) from a realtor
- Full Appraisal from a local professional

Again - the higher the value of the loan, the more you'll want to spend in your due diligence research.



Watch a YouTube video about researching FMVs [[click here](#)]

4. VOLUNTARY PETITION

BANKRUPTCY

Most loans sold on the secondary market are free from active bankruptcies but from time to time, you will need to review the **Voluntary Petition** from the [PACER.gov](https://www.pacer.gov) docket.

Begin your review with **Schedule D - Secured Claims**. In this part of the filing, you will find the borrower's opinion of the property **FMV** & the balance(s) of any other secured claims.

Make sure that there is equity available to the subject lien or risk a **lien strip** (in a Chapter 13 bankruptcy)

FIXnotes Pro Tip: To keep tabs on loans in your existing portfolio, inquire about our **Bankruptcy Monitoring** service to stay on top of filing your Proof of Claim.



Watch a YouTube video about
bankruptcy [[click here](#)]

5. WHO LIVES HERE?

OCCUPANCY

As a non-performing note investor, your odds of a successful resolution (via loan modification, payoff, etc) increase when the borrower lives in the subject property.

We triangulate a number of different sources:

- Skip Trace
- Credit Report
- Property Tax Records
- Seller Provided Data
- Bankruptcy Records

FIXnotes Pro Tip: Exclusive loan sales on the **Insider's Trade Desk** include links to data & reports on the tape.



Watch a YouTube video about
occupancy [\[click here\]](#)

6. SENIOR SPECIFIC

TITLE



TAXES

Junior lien investors often take Title & Taxes for granted. Of course, this research is very useful to have... but for senior lien investors - **Taxes & Title are critical.**

Taxes in particular will give you an idea of the borrower's intentions. If they are paying their property taxes, more than likely you will have a **straightforward loan resolution.**

If they are delinquent, you need to adjust your pricing to take this into consideration. Not only will you need to **reinstate unpaid property taxes**, but you'll also want to have your loan servicer escrow them going forward.

FIXnotes Pro Tip: Lesson 5 & 6 from our **Advanced Due Diligence Playbook** include the step by step to reading a title report & researching property taxes



Watch a YouTube video about
title research [[click here](#)]

7. JUNIOR SPECIFIC

SENIOR STATUS



EQUITY

Once you know you're looking at a secured, junior lien - the #1 driver of price is the **senior status & equity**.

Senior status gives us an important glimpse into the borrower's intentions: if they are paying their 1st mortgage but not their 2nd, you know they intend to stay in the property and an **easier loan resolution** is likely.

Current Senior Status (making their payments) also means that they are likely paying their taxes and insurance (since 95%+ of Seniors pay them with escrow).

We get this information from the **Credit Report**.

FIXnotes Pro Tip: Every exclusive loan sale on the **Insider's Trade Desk** comes with a fresh Credit Report PDF so you can review the borrower's current status.

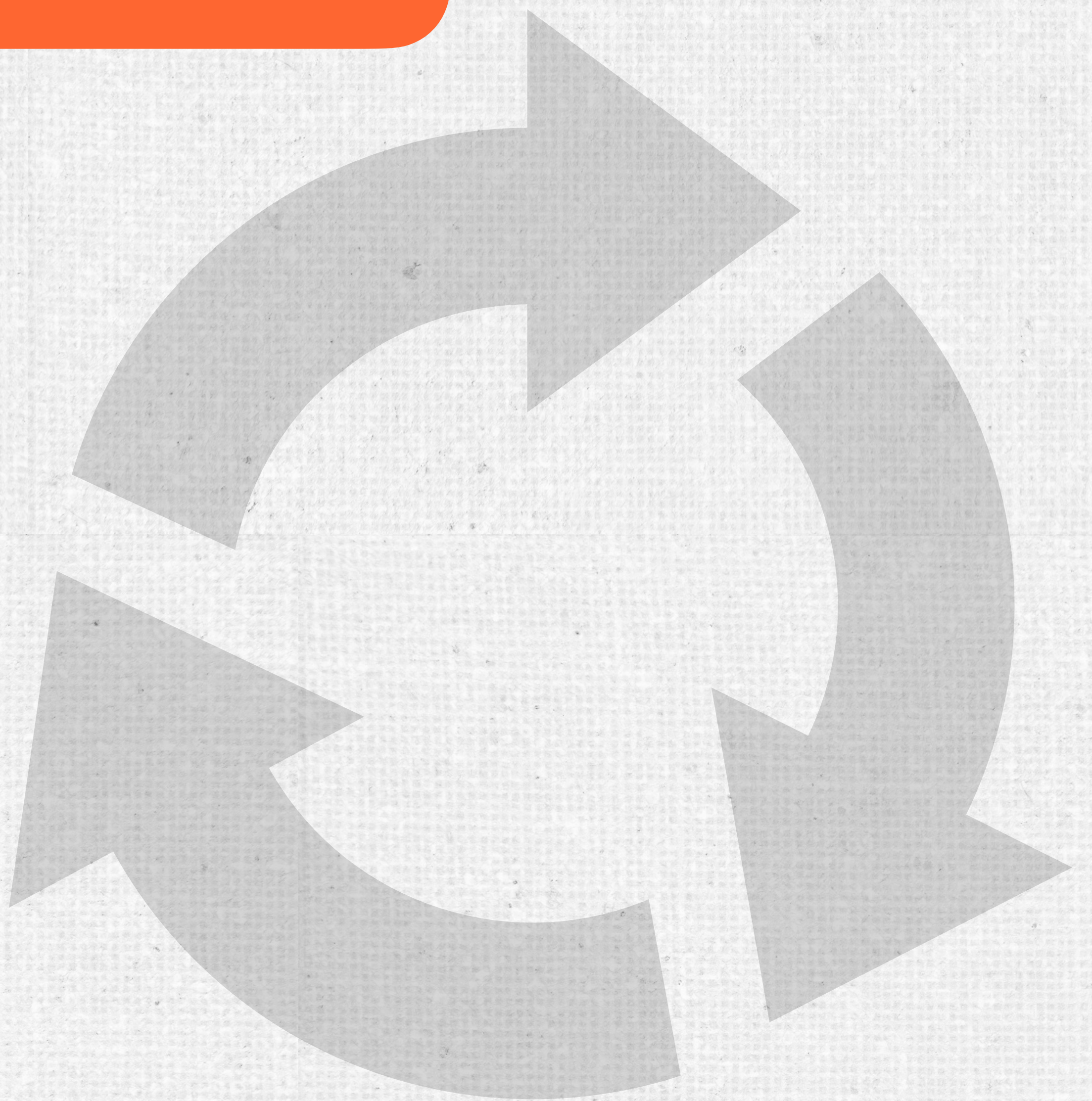


Watch a YouTube video about
credit & senior status [[click here](#)]



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