

DEFAULTED PAPER
DUE DILIGENCE CHECKLIST
(for Pools and One-Offs)

The due diligence for defaulted paper is relatively simple. The steps are as follows:

1. **Determine the true value of the property** through independent sources. Do not accept the value that the lender gives you! This is the most important step. You'll want to spot-check using your own values, as provided by www.eppraisal.com or some comparable online valuation engine.
2. **Check the title of the property** to make sure that the lien that you are purchasing is accurately represented. If you are buying a first lien, you obviously want the note to be in first lien position! If your county is online, you can check the deed records and determine what is filed on the property or if you have a relationship with a title company, they can pull a preliminary report for you.
3. **Determine your exit strategy.** If your strategy is to modify the note and keep the homeowner in the property, make sure there are no other liens or judgments behind your lien that would have to be foreclosed to clean up the title. Otherwise, if you're buying pools, your exit strategy will be to flip the entire pool.
4. **Check that the property taxes are paid.** Property taxes cannot be foreclosed out so you must take unpaid taxes into consideration when purchasing a defaulted note. Either have the seller of the note pay them or lower your pay price to compensate for the taxes that you will have to pay.
5. **Buy Based on the Value of the PROPERTY.** Because these are defaulted notes, you'll want to assume that you or your buyer may have to foreclose on the property. That's okay as long as you base your buy-price on the VALUE OF THE PROPERTY and NOT the UPB. Check with your buyer (www.EquiCapitalSource.com) to see what the going rates are for your particular product in a specific area of the country.