EXISTING NOTE UNDERWRITING

The deal has been accepted and the broker turns the file into underwriting! What now?

By the time the file gets to underwriting, it should contain the following information:

1. Signed option to purchase agreement (signed by the seller). If not signed by the seller, there should be an assignment of the option to purchase agreement from the broker in the file.
2. Credit report on the borrower. There should be a bureau on every borrower that signed the note.
3. A file recap sheet showing the price we are selling the deal for and to what investor and a worksheet showing how many payments were made and what the balance of the note is at the time of purchase.
4. A copy of the note, recorded deed of trust or mortgage and warranty deed or in some cases, a contract for deed.
5. A verifiable pay history (cancelled checks or bank statements)
6. Copy of hazard insurance
7. Copy of the mortgagee title policy when property was sold
8. Copy of HUD-1
9. If a wholesale file, an original nationwide appraisal.

We all know that a file like this occurs only in a perfect world so we are going to break down some elements of the deal and explain why we do the things we do in the note business.

CREDIT REPORTS

Note investors are becoming lazy and have gone to credit scores for evaluating deals. If a deal comes in with less than a 570 credit score, forget you every saw it. Package it up and send it back!

Check carefully for judgments, tax liens and bankruptcies. Since we are buying ONLY purchase money mortgages (this means NO refinances), judgments and liens should be subordinate to the first mortgage. We can only buy deals where we are clearly in first lien position and the liens do not affect title.

Use common sense on judgments! Even if it does not affect title, if the judgment is so large that, even if the mortgage were paid down, the borrowers have no incentive to pay because they would never have clear title to the house. In a homestead state, such as Texas, judgments against a homestead are, for the most part, uncollectible. Check with the title company if there is any doubt about the affect of the lien.

Chapter 13 bankruptcies need to be examined thoroughly. A person currently in Chapter 13 cannot incur more debt, like buying a house, without the permission of the bankruptcy trustee. Even if we have an existing note with 4 years seasoning, make sure the permission letter is in the file.

<u>LEGAL DOCS</u>

The biggest mistake anyone can make in a note file is not reading the legal docs. READ the note and deed of trust or mortgage. There could be some adverse fine print in the mortgage that we would have to live with if we bought the note.

Make sure the note contains the following information:
1. Original principal amount
2. Payment amount and frequency
3. Date of the first payment
4. Maturity date
5. Interest rate
6. Balloon date (if applicable)

Beware of variable cash flows. Make sure the amortization is correct if the payment changes by running a schedule. Your amortization schedule should match the note terms exactly!

Check for recording stamps on the deed of trust or mortgage. We need a copy of the recorded documents to prepare closing documents and to verify the validity of the mortgage. If there are no recording stamps, call the title company or the courthouse in the county seat and request a certified copy.

The original note and deed of trust or mortgage will have to be surrendered at the closing table by the seller of the note. If the note is lost, we may have to re-execute with note with the borrowers or sometimes a lost note affidavit will suffice. You may want to check with the seller at the beginning of the transaction to make sure he has the originals so that there is time to correct the problem if there is one.