

PROPERTY INFORMATION

Type: The property is the collateral for the note, and the investors need to know what their security is. Obviously, their risk is different with a single-family home as collateral than it is with a commercial piece of land. Different answers to this question determine different yields required by your investor.

Owner Occupied: This is, again, a risk-based question from the note investor. The risk is less if the buyer occupies the property, rather than if they are purchasing it for rental property. The rental income (if applicable) should be high enough to offset the payment on the note.

Location: While most investors invest all over the country, some areas have actually *depreciated* over the last several years. Giving your investor the zip code of a property helps them make a more educated decision on how much to invest in the note.

NEEDS & COMMENTS

The comment lines are for you to give your investor any supplemental information about the property. The seller's needs are very important. Either this is a line neglected by most brokers, or they put in "as much as possible." You and I both know that this is never really the case. *This is probably the most important line on the entire form.* The information on this line will allow you, or your note investor, to creatively structure your note and your offer.

Asking the right questions...

There are several ways to get information from the seller to fill out the worksheet. Don't be bashful; just be yourself. You may decide to tell the seller that you need

certain information in order to *"give him a fair and accurate price"* for his note, and that you have a list of questions. Then you won't feel so bad about just going from one line to the next on the worksheet.

On the other hand, you can ask conversational questions. I have listed some possible questions and scenarios that will help you in getting the information.

Property Type

What type of property is it? Don't just ask that question without clarifying it. Very often they may say, "Oh, it's 10 acres in Williamson County." Ask further: Does it have a building on it? Is there a house on that property? They may answer, "Oh yes, the folks live in it." Now you know it's a single-family, owner occupied property. If you had just accepted their first answer, you would have believed it was 10 acres of raw land. Again, take the time to ask questions to qualify the answers they give you so that you have complete information.

Sales Price and Down Payment

How much was the sale for? It's very common that note holders will misunderstand this question and instead tell you the original balance of the note. Make sure that you follow up *"How much was the sale for?"* with *"How much was the down payment when they bought the property from you?"*

Example:

You: "How much was the sale for?"
Note Holder: "Oh, the sale was \$30,000.00."
You: "How much did the buyers put down?"
Note Holder: "\$5,000.00."
You: "So you took back a note for \$25,000.00?"
Note Holder: "Oh no, we took back a note for \$30,000.00! So I guess they paid me \$35,000.00 for the property."

This is not an uncommon conversation. When you ask them about the down payment, take the time to review the numbers with them (as in the previous example) to make sure that they add up. Sometimes they'll tell you "*They put down \$5,000.00*" and when you run back through it, you may find that the buyers actually put down \$3,000.00 (or some amount other than \$5,000.00). Again, take the time to ask qualifying questions to verify the information they're giving you. This doesn't need to be confrontational - you can do it in a very friendly, conversational way.

Note Amount

What was the amount of the note they took back? By asking how much the sale was for and how much the down payment was, you should be able to determine the note amount. Again, ask the question. The answer they give you may be different and will help you to uncover incorrect information in the first two answers.

Terms of the Note

Talk to the seller about the terms of the note. Ask them how much the monthly payment is. Occasionally, the seller won't know the exact figure. When this happens, it is up to you to extrapolate the answer. Start by asking them whether the payment amount includes just principal and interest, or principal, interest, taxes and insurance. Ask the interest rate of the note. With this information, you should be able to calculate the amortization. Now that you have a good idea of the structure of the note, ask the seller the term of the amortization. If your figures show a 30-year amortization and you say, "So this note was to be paid over 30 years?" and they respond, "No, it was to be paid over 15 years", you know that you've got to do some more digging.

Repeat the questions (though in a different way) regarding the interest rate and what is included in the payment. Is there a balloon payment – maybe in fifteen years? Play around with the numbers and find out if perhaps a different interest

rate and different amortization would produce the correct payment with that mortgage amount. Keep asking questions until you get to the bottom of it. Very often there will be a simple misunderstanding or a lapse of memory that caused the numbers to be different.

Again, asking the right questions in a conversational format will usually produce the answers you need. However, if you are unable to make sense of the numbers they have given you, then you must ask them to see a copy of the **closing statement** and the **note**. Those two documents will give you the definitive information that you need.

Date of Sale

The date of the sale is really not as important as the date of the first payment. By asking for the date of the sale, you create an opportunity to cross-reference the date of the first payment. Note sellers often need help in remembering the date of the first payment. The following exchange is usually successful:

You: "Do you remember what year you sold the property?"
Note Holder: "I think it was three years ago."
You: "So it was in 1999?"
Note Holder: "No, that's not right. My cat died in 1998, and that was just after I sold the house."
You: "Do you remember what month that was?"
Note Holder: "Yes, it was June. I remember now because Fluffy died in July. Fluffy was my cat."
You: "Let me clarify, the buyers made the first payment to you on July 1, 1998?"
Note Holder: "No, they make their payments on the 12th of the month, but now that I think of it, it was July 12th of 1998."
You: "I'm sorry to hear about Fluffy – did you get another cat?"
Note Holder: "Of course!"

You just verified that the date of the first payment was July 12, 1998, and you did it without pressuring the seller for information. Once you have obtained all of the information on the note, make sure that the seller understands that these are the numbers you are working with, and that any differences could result in a change to your offer. Don't make a big deal out of it; simply make sure that you don't leave yourself open to the problems later on if the numbers change.

Taking the next step...

Tell the sellers that you have several investors that you are going to check with, because you want to get them the best possible price for their note. You will contact them within a day or two to let them know what the price is. Thank them for their time and move on to the next prospect.

