

MORTGAGE/TRUST DEED INFORMATION

Date of Mortgage:

It is important for the Note Investor to the date the mortgage as created, which usually corresponds to the date of the sale. This indicates the age, or seasoning of the note: the more *seasoning* the note has, the lower the risk.

Loan Amount: To accurately price a note, the Note Investor needs to know all of the terms of the note, including the original principal balance.

Term in Months: Most calculators use months (rather than years) in their calculations. You should get in the same habit. The term indicates how many payments were originally associated with the note. The shorter the term, the sooner the Investor gets his money back and the higher the yield. It's that *Time Value of Money* thing again.

Interest Rate: Obviously, this is an integral part of the note, directly affecting the amount of the monthly payment. The higher the interest rate, the more the note is worth. In fact, the closer the interest rate is to the Investor's required yield, the smaller the discount.

Payment Amount:

Payment is very important; Note Investors are buying a series of payments (cash flow) that directly affects their yield. Most sellers will know this amount, though occasionally, the buyers will round out their payment to a different number (\$497 payment; payer pays \$500 month). Though this messes up the calculations, it is easily fixed –get a copy of the note itself.

GAME HINT: When you are filling out the worksheet, get a copy of the note whenever possible. This accomplishes two things: **1)** You will always submit accurate information to the Investor, and **2)** It helps you quickly determine whether the seller is really serious about selling his note, or if he is just looking. If he balks at letting you see the note, he, in effect, is asking you to make him an offer on his car before you have even seen it!

Balloon Date: If the note is due sooner than the amortization term indicates, there is a balloon in the note. It is imperative the Investor knows when this large payment is due: it determines how many payments remain for the Investor to purchase.

Example: Suppose a note has a 360-month term over which it is amortized, with a balloon due in 60 months. Even though they used a long term to determine the amortization (this keeps the payments smaller), there are actually only 61 payments in this note. There are 60 regular payments, and 1 large, balloon payment.

Balloon Amount: By now, you should know that Future Value determines the balloon amount. (What is the above note worth 60 months into the future from the start date?) This is very important: Investors want to make sure that the payor can pay this large payment through refinancing or selling his home when the note (balloon) comes due.

Payments Made: If the payers haven't made all of their payments, the note is considered to be *delinquent*. Because the risks are so high, most

Investors do not invest in delinquent paper. Sometimes, this line may reflect that 49 payments have been made to date, when, in reality, 53 *should* have been paid.

Pmts. Remaining: An Investor is purchasing Cash Flow. In other words, when Sellers want to sell their entire note, the first question you/Note Investor should ask is, "*How many possible remaining payments are there to buy?*"

Current Balance: All fully amortized notes decline in principal each month. In other words, each payment includes some interest in it, as well as some principal. If the payer were to refinance today, how much would he owe? *This* is the current balance.