

MBA's Nonprime and Specialty Lending Conference

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08

Gene O'Bannon
EVP of Business
Development
Loan Level Due Diligence



Subprime Loan Level Due Diligence

Don't get caught with Fools Gold!

Focus: Scratch and Dent/ Kick Outs

Gene O'Bannon, CMB
eMortgage Logic
EVP of Business Development
8317 Whitley Road
Fort Worth, Texas 76148
Direct: 817-788-4418
Fax: 817-788-4427
gobannon@emortgagelogic.com
www.emortgagelogic.com

Due Diligence Key Elements

- ✓ Purpose of Loan
- ✓ Property Type
- ✓ Original and Current Values
- ✓ Pay History
- ✓ Default information
- ✓ Custodial Documents
- ✓ Due Diligence Worksheet

Purpose of Loan

Refinance:

- Was cash pocketed?
- How much?
- Debt Consolidation
- What went on?
- Who is the prior lender? Focus on Subprime
- How long since the last refinance?
- Private Lender or some type of Loan to Facilitate/Contract for Deed

Purchase:

- Who was the seller of the property?
 - Builder/Rehabber Contract for Deed or Lease Purchase?
 - Was the sale tied to a relationship or was it clearly an arms length transaction?

Sales Contract

- We expect to have the contract on each purchase. Emphasis is placed on the deposit on hand with the contract and the amount shown on the HUD I at the closing.
- No large amounts at contract signing or indicated as a deposit at the closing.
- Prefer to see all funds that relate to the buyer creating equity in the property flow through the closing at the title company. Insuring cash exchanges hands between the buyer and seller and not a transaction created by paperwork.

Misc:

Credit Bureau Report:

- For refinances we focus on the CBR for the prior lenders pay history. Based on the profile, we may need to focus on number of refinances, cash out and length of time with one lender.
- Secondary basis we will look at installment and revolving debt. However, this is Subprime. You probably won't like what you see.

Property Type

Single Family Residence:

- If anything other than a SFR emphasis will be given to the type of residence we have.
- A SFR in the “Real World” holds the best long term value

Condo/Townhome:

- Homeowners dues?
- What type of condo is this?
- Real deal or condo conversion
- Occupancy status?
- High Risk are non-owner occupied or bulk of project is NOO

Duplex/4 Plex/Mixed Use

- Higher Risk
- Hard to establish value
- Quality of property and quality of neighborhood tied to quality of mortgagor
- Good Luck finding value in cash flow

Modular/Panelization

- Opportunity with risk and reward
- Know the company who built the home
- Special instructions to your BPO/CMA vendor to consider unit type.

Original and Current Values

Original appraisal:

“This is okay, but folks this is subprime”

- We will review the original appraisal for completeness, test of accuracy and a focus on sales and comps.
 - This will be used to compare the current value we receive from our vendor.
- Large variances in the LTV of 15% or more will be reviewed for accuracy. This may require us to go back to our vendor for clarification of value issues.
 - 6 months max on comps. Some areas 90 days
- Non-owner occupied, other than SFR and loans with large balances will be given special attention.

Broker Price Opinion:

- Property Data
 - Lot size
 - Acreage
 - Age of property for sale
 - Occupancy
 - Conditions
 - Comments

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Original and Current Values

Neighborhood Data:

- Supply of homes
- Trend of neighborhood
- Crime/ Vandalism risk

Sales / Listing Comparables:

- Proximity to subject
- Days on market

Sales Price:

- As is and repaired
- Quick sale to 180 day sale
- Tell your vendor of any special instructions to the realtor. This will impact value assumptions.

* A major focus is given to real estate broker comments

Pay History

Monthly Payments:

- Pay history confirms the manner in which the mortgagor has made their monthly payment.
- If serviced by a mortgage banker, a standard pay history will be available.
- If loan is a private mortgage or from a builder, we will work with seller regarding pay history. We may accept cancelled checks or another form of receipt.
- Does the payment include escrow?
 - Tax~ can be past due and that can be BIG BUCKS
 - Insurance~ is it in force? Is it force placed? You will need to substitute, again BIG BUCKS

Default Information

Collection Memo Comments:

- These memo's are used to insure that the borrower has not had any life changing events and/or default issues such as:
 - loss of job
 - spouse moving out
 - complaints regarding property
 - lost payment (maybe due to transfer)
 - disregard for debt (lack of contacts)

Default Timeline:

- If sub/non-performing is the servicer promptly moving towards foreclosure? If not, why not?
- Remember equity in the property can/will mean a stop in BK, time is important.

Custodial Documents

Collateral Documents:

- These documents include originals of the note, mortgage/ deed of trust, title policy and assignment of liens.
- Original documents are normally kept separate from the servicing file and are housed with a custodian.
- Mandatory documents that must be completed:
 - Mortgage note with a complete endorsement chain
 - Assignment of liens with complete assignment chain
- Careful focus should be given to any unrecorded assignment of liens in the chain.

**Be aggressive in capturing all original documents including the mortgage and assignments. In addition, highly recommend all seasoned loans have original title policy. If you leave gaps, good luck on the reps and warrants.*