

The listing, read properly

Chapters 1 and 6. What is being offered, and the three numbers it is quoted in. The fourth number, time, is not on the listing: it is on page 7.

Note / loan		Analyst	
Property		Date	

What you would own	Answer	Evidence
The promissory note: original in the file? Endorsed through to the seller, or allonge?		
The security instrument: mortgage or deed of trust, recorded where?		
Chain of assignments, or MERS registration, ending with the seller?		
Lien position: first or second, and what sits ahead (taxes, senior)?		
Condition: performing, non-performing (months delinquent), reperforming?		
Origin: owner-financed or institutional; servicing history?		
Foreclosure regime where the house sits: judicial or non-judicial?		
Occupancy: owner, tenant or vacant, and the source		

The quantities	Amount	Ratio	Value
Unpaid principal balance (UPB)		$LTV = UPB / \text{value}$	
Accrued unpaid interest (months x rate / 12 x UPB)		Total debt / value	
Advances (taxes, insurance) by the prior servicer		Total debt / UPB	
TOTAL DEBT today		$ITV = \text{price} / \text{value}$	
Value: BPO or appraisal, date, interior seen?		Price as % of UPB (a result, not a method)	
Asking price		Price as % of total debt	

Before any price	Answer	Who confirmed
What does the debt cap, and what does it not? (It caps what the borrower or a bidder can pay you; if you take the house, you keep what it nets.)		
Who reimburses the prior advances: inside the price, or on top of it at transfer?		
How long does foreclosure actually take where the house is, from someone who does it there?		

Harlow Street: UPB \$165,619.06, interest \$16,389.39, advances \$8,075.00, total debt \$190,083.45 (114.77% of UPB, 89.66% of value). LTV 78.12%; at the floor, ITV 32.90%.

Pricing a performing note

Chapter 2. Write down the cash flows, including your own costs; choose the yield you require; compute the price; only then express it as a percentage of UPB.

Note / loan		Analyst	
Property		Date	

Cash flow	Month(s)	Amount	Note
Price	0		the unknown when solving for price
Acquisition and diligence (title or O&E, BPO, file review, recording)	0		fixed per loan
Boarding	0		
Monthly payment received	1 to N		
less servicing, a month	1 to N		performing rate
Balloon, or payoff balance	N		balance on the amortisation schedule
Required NET yield (annual, compounded monthly)			written down before you see the ask

At the asking price	Value	At your required yield	Value
Asking price and % of UPB		Price (PV of the net flows less the costs)	
Gross yield (no costs, no servicing)		Price as % of UPB	
Net yield (costs and servicing in)		ITV (price / value)	
Cost drag, basis points		Gap to the ask, in dollars	

Net yield	Price	% of UPB	ITV	Step from the row above

Checks before you talk	Answer	Note
Par test: at the UPB with no costs, does your model return exactly the note rate?		
Round trip: the price at your yield, fed back in, returns your yield?		
Counter: the price, the yield it earns, and the one sentence that explains it to the seller		

Mesquite Lane: ask 92% = \$128,599.83, 11.19% gross, 10.63% net; at 11% net the price is \$126,802.91, 90.71% of UPB, ITV 72.05%, \$1,797 below the ask.

The speed test, the balloon and the partial

Chapter 3. Compute the price on the contract schedule, then the yield at that price when the borrower pays faster and slower. If the slow yield is one you cannot accept, the price comes down.

Note / loan		Analyst	
Property		Date	

Borrower pays off	Month	Net yield at your price	Against the base
Early: a refinance after one year			
Early: two years			
Early: three years			
At the balloon (the base case)			
Balloon extended five years on the same terms			
No balloon: full amortisation			

Can the borrower pay the balloon?	What you found	Reading
Equity at the balloon: balloon / value today, and at a value 20% lower		
Payment record: documented by a servicer? Estoppel signed?		
Credit and income: why owner financing in the first place?		
The property: maintained, taxes and insurance current?		
The lending market at the balloon date		
State law: advance written notice before the balloon? (counsel)		

The partial: contract terms	Answer	Clause
If the borrower pays off the whole balance during the partial: what does the partial buyer receive?		
If the borrower stops paying: who decides between loss mitigation and foreclosure, who pays, who is repaid first?		
Who instructs the servicer?		
Fixed costs as a share of the partial's price, against the whole note's		

Mesquite at \$126,803: 17.88% if paid off at month 12, 13.53% at 24, 12.09% at 36, 11.00% at the balloon, 10.13% if extended 60 months, 9.71% with no balloon. Partial of 36 payments: \$32,583; the \$1,400 of costs is 4.30% of it, 1.10% of the whole note.

Costs, the minimum ticket and the missing escrow

Chapter 4. Costs are mostly fixed per loan; returns are proportional to the balance. Price net from the first look, protect the diligence, and know the smallest note your costs can carry.

Note / loan		Analyst	
Property		Date	

Your cost	Quote	Source	Per loan or a month
Title search or O&E report			
Broker price opinion or appraisal			
Collateral file and document review			
Recording the assignment			
Boarding with the servicer			
Servicing, performing, a month			
Servicing, non-performing, a month			
Tax and insurance tracking, a year			

Note	Balance	Price	Gross yield	Net yield	Drag (bp)

Minimum ticket	Value
Required net yield, and the terms of a typical note (rate, months left)	
Price the seller asks, as a share of UPB	
Smallest balance at which that price earns your yield (Case one)	
Below it: overpaid, or tuition? Say which, in dollars	

No escrow	Answer	Note
Escrow: does the servicer collect taxes and insurance? If not, who watches them, and at what cost?		
Are you named mortgagee on the insurance policy?		
If insurance lapses: the force-placed cover, its cost, what it does not cover; first notice at least 45 days before the charge, reminder at least 15 days before and 30 days after the first (where Regulation X applies)		
Unpaid taxes: the tax lien generally ranks ahead of the mortgage. Who advances, and how is it recovered?		

Oriole Court (\$31,500, 10%, 96 months) at 90%: 13.09% gross, 9.78% net, 331 bp of drag against 56 on Mesquite. At 11% net it is worth \$27,119, 86.09% of UPB.

When a performing note stops performing

Chapter 5. Put default into the price without predicting it: a few default rates, a fall in value, and survivors who cannot refinance the balloon. Then ask what the one note you own earns on its bad path.

Note / loan		Analyst	
Property		Date	

Overlay assumption	Your value	Overlay assumption	Your value
Filing, months after default		REO haircut to value	
Sale, months after default		Selling costs	
Possession after the sale		Repairs, % of value	
REO marketing to sale		Cash for keys	
Taxes and insurance advanced, a month		Legal (half at filing, half at sale)	
Servicing, non-performing, a month		REO upkeep, a month	

Annual default rate (CDR)	House value	At the balloon	Yield of expected cash flows
	BPO	refinanced	
	BPO	refinanced	
	BPO	refinanced	
	BPO	refinanced	
	BPO less 20%	refinanced	
	BPO less 20%	extended 60 months	
	BPO less 20%	refinanced	
	BPO less 20%	extended 60 months	

The protection test: a default in month 1	At the BPO	At 20% less
Recovery after every cost, undiscounted		
Balance (UPB)		
Price plus acquisition costs (what you invested)		
Recovery less what you invested		
Balloon as a share of the value		

Before you rely on the overlay	Answer	Note
The yield of expected cash flows describes a large, independent pool, not one note. What does THIS note earn on its foreclosure path, at this price?		
Are the defaults and the value falls likely to arrive together here (same market, same regime)?		

Mesquite at \$126,803: 11.00%, 10.41%, 9.86% and 9.17% at CDR 0, 3, 6, 10; with value 20% lower 9.87% and 7.41% (9.09% and 6.82% if survivors are extended). A month-1 default recovers \$127,545 against \$128,203 invested: the ITV protects, not the LTV.

Total debt, the house and four ways out

Chapter 6. The debt caps what the borrower or a bidder can pay; the house's net value is what you collect if you take it. Three of the four modelled exits belong to the borrower.

Note / loan		Analyst	
Property		Date	

Total debt	Today	At the assumed sale
UPB		
Accrued interest at the note rate (simple, months delinquent + months held)		
Taxes and insurance advanced by the prior servicer		
Your own advances (taxes, insurance)		
Legal costs of the foreclosure		
TOTAL DEBT		
Other items the documents and the law allow (servicer, attorney confirm)		

What the house nets	Amount
Value (BPO), date, interior seen?	
less REO haircut	
less selling costs = NET PROCEEDS	
Repairs and clean-out, and cash for keys (paid before the sale)	
Could a third party pay the debt at the sale? (net less repairs and keys, against the debt)	

Way out	Month resolved	What you receive	Needs the borrower?	Value alone at your yield
Reinstatement (arrears, then resale as reperforming)			yes	
Modification (capitalised, new rate and term, resale)			yes	
Deed in lieu (keys for release, REO sale)			yes	
Foreclosure to REO: THE FLOOR			no	

Not in the model	Answer	Note
Short sale, repayment plan, forbearance, sale of the note: none is priced, none changes the floor		
Is a full payoff realistic? (Total debt against what a retail sale would net)		

Harlow Street: total debt \$235,211 at the month-30 sale against \$177,444 of net proceeds. Reinstatement month 9 (\$46,182 of arrears), modification month 6 (\$201,059 capitalised), deed in lieu month 10 (REO month 14), foreclosure month 30 (REO month 37).

Time is the price: the timeline, the costs and the thresholds

Chapter 7. Build the cost schedule, run the price against the month of sale, then turn any price into a deadline. Ask your attorney how confident they are that the sale happens by that month.

Note / loan		Analyst	
Property		Date	

Cost	Judicial	Non-judicial	Timing
Acquisition and boarding			month 0
Taxes and insurance advanced, a month			to the REO sale
Non-performing servicing, a month			to the REO sale
Foreclosure legal			half at filing, half at sale
Cash for keys; repairs and clean-out			at possession
REO utilities and upkeep, a month			sale to REO sale
First filing month (120 days where Regulation X applies)			
Sale month; possession; REO sale			

Foreclosure sale month	Maximum bid at your yield	% of UPB	Change from the row above

Price you might pay	% of UPB	Sale must happen by month	Attorney: confident? (yes / no / why)

The calendar after the sale	Answer	Months added
Is the sale final when it happens: confirmation or redemption period?		
What survives the foreclosure: senior liens, tax, municipal or association charges?		
Who lives in the house: owner, tenant (at least 90 days' notice under the federal act), vacant?		
Is a loss mitigation application open, and how long does a review take here?		

Harlow Street at 20%: \$111,205 at month 10 (judicial costs), \$92,966 at 18, \$80,785 at 24, \$69,754 at 30, \$59,765 at 36, \$50,719 at 42. At 40, 50 and 60% of UPB the sale must happen by months 32, 22 and 15. The regimes are \$45,080 apart, \$3,630 of it the lawsuit.

The floor, and the paths you do not pay for

Chapter 8. Lay out the foreclosure path month by month, discount it, and bid it. Value the other paths alone so you know the upside; never put them in the price.

Note / loan		Analyst	
Property		Date	

The floor column	Months	Undiscounted	Present value
Acquisition and boarding			
Taxes, insurance and servicing to the sale			
Legal: half at filing, half at the sale			
Carry plus REO upkeep, sale to REO sale			
Repairs and cash for keys at possession			
REO proceeds, net			
FLOOR = PV of proceeds less PV of costs			

Stated four ways and one screen	Value
Floor as % of UPB / of value / of total debt	
Back-of-envelope: proceeds x discount factor, less the costs UNDISCOUNTED (screen only; always low)	
Floor at value x 0.80 / 0.90 / 1.00 / 1.10	

Path, valued alone	Cash back (months)	Max bid at your yield	IRR at the floor bid	Probability (an assumption)
Reinstatement, then resale				
Modification, then resale				
Deed in lieu				
Foreclosure to REO (the floor)				
Blend of expected flows				

The two mistakes	Bid the floor	Bid the blend
Loan goes to foreclosure on schedule: return		
Paths arrive in the assumed proportions: return		
Price paid for behaviour you cannot enforce		

Below the floor	Answer	Months
Bankruptcy, contested case, repeated loss mitigation, mediation, dismissal and refiling, redemption, title or file defect: which could apply, and how many months?		

Harlow Street: floor \$69,754 (42.12% of UPB); reinstatement \$128,979, deed in lieu \$120,278, modification \$94,487 alone; blend \$90,675. At the blend, foreclosure on schedule earns 12.64%; at the floor the blend earns 32.19%.

Designing the modification

Chapter 9. A modification the borrower can keep paying and a buyer will pay for. The budget sets the ceiling; the rate within it is where keeping the family in the house is paid.

Note / loan		Analyst	
Property		Date	

Capitalised balance	Amount
UPB	
Accrued interest to the modification month	
Prior servicer's advances	
Your advances since purchase	
Legal cost incurred (only if the servicer's procedures and the rules allow)	
NEW BALANCE, against the value (equity left?)	

The budget test	Value
Documented budget for principal and interest, a month	
Full payment with escrow against documented income: fits?	
Trial payments: how many, at what amount	

Rate and term	Monthly P&I	Within budget? Margin	Resale, % of balance	Path value at your yield	IRR at your price

Resale buyer's yield	Sale price	Path value at purchase	Payments before sale	Sale price	IRR at your price

For counsel and for the file	Answer	Note
Do junior liens keep behind the capitalised first lien? (law and documentation)		
Must the modification be recorded; does the title insurer need an endorsement?		
Chance of re-default at the ceiling rate against the rate with a margin (Case two)		
Levers not modelled: deferred balance, stepped rate		

Harlow Street: \$201,059 at 5%/480 pays \$969.50 and is worth \$94,487; at 5.595% the payment is exactly \$1,050 and the path \$103,003; the deed in lieu is \$120,278. Holding 24 payments instead of 12 pays only if the resale yield falls from 9% to 6.10% or less.

Deed in lieu, cash for keys and the REO

Chapter 10. The deed delivers the house faster than any court; it does not clear junior liens. Cash for keys is an agreement, never pressure. The REO months are the part of the timeline you control.

Note / loan		Analyst	
Property		Date	

Item	Done / n.a. / open	Evidence / note
Before accepting a deed		
Current title search: junior liens, judgments, charges (a deed generally does not clear them)		
Title insurer's requirements: estoppel affidavit, non-merger language		
Pending foreclosure case: dismissal, when and how (attorney)		
The borrower told of the release, tax and credit consequences, and free to take advice		
The cash-for-keys offer, in writing		
Amount, move-out date, condition expected, when paid (usually at handover)		
A date that allows a real move: housing, schooling, packing		
Stated as optional, with no effect on any loss mitigation evaluation		
Nobody overstates the foreclosure timeline or visits uninvited to press the point		
The REO		
Insured from the day it is empty (vacancy clauses)		
Re-valued from the inside at the first visit; repair budget and sale price confirmed		
Nothing survives the foreclosure to delay a clean resale; redemption or confirmation period		
Priced to sell, not to hold out for the broker's number		

Third-party test at the sale	Amount
Total debt at the sale	
House net of haircut and selling costs, less repairs and cash for keys	
Could a bidder pay the debt? If yes: value of the cash at the sale, against the REO route	
Floor uses the WORSE of the two	

Harlow Street: the deed in lieu path (deed month 10, \$2,000 of transaction costs, REO sale month 14) is worth \$120,278, more than the same loan's non-judicial foreclosure (\$114,835). C-1 and C-5: a stranger's cash would be worth \$89,472 and \$156,159; the floors use \$79,277 and \$142,056.

Second liens: the residual, the route and the threshold

Chapter 11. Price a second from what reaches it, never from the house. Where nothing reaches it, the right bid is \$0 or none, and any price is a bet on the borrower, sized as a bet.

Note / loan		Analyst	
Property		Date	

What reaches the second	Amount
Value, date and type	
less haircut, selling costs, repairs, cash for keys	
less the senior balance (confirmed from a source other than the tape)	
less the cost of carrying the senior from the junior's sale to the REO sale	
= RESIDUAL for the junior, against what the junior is owed at its sale	

Route	Value at your yield	Chosen?
A bidder pays the junior's debt at its sale (only if the residual exceeds it)		
Junior takes title under the senior, carries it, sells as REO		
Stop: service a year, then write off or sell (the floor value is negative)		

Price	Settlement: share of total debt, month	Fallback after the wait	Share of borrowers who must settle	Would you bet on it?

What the tape does not tell you	Answer	Counsel
Senior: balance, status, servicer; who watches for its default and foreclosure notices?		
Due-on-sale: will the senior accept payments from you as owner, or accelerate?		
Charge-off, periodic statements: what interest and fees can lawfully be charged?		
Limitation period; treatment in the borrower's bankruptcy		

C-7: floor \$6,943 against an ask of \$21,840; a year's wait lowers the fallback to \$4,363. C-8: junior route -\$30,686, stopping -\$2,726. At \$7,200 a 30% settlement at month 12 needs 82.50% of borrowers; at \$3,600, 52.58%.

Reading a tape and bidding it loan by loan

Chapter 12. One percentage across a pool sells some loans far below their floor and others far above. Screen, floor every loan, find what the pool rests on, and bid loan by loan.

Note / loan		Analyst	
Property		Date	

Item	Done / n.a. / open	Evidence / note
Fields, and what each can hide		
Paid-to and next-due dates; months delinquent computed yourself		
UPB, and any deferred balance; suspense or unapplied funds		
Escrow and corporate advances: who reimburses them at transfer?		
Value: date and type; occupancy and its source		
Foreclosure milestones and costs spent; bankruptcy detail; lien search date; MERS flag		
Regime, loss mitigation status; loan program, prior discharge, probate, custodian exceptions		

Loan	Lien, regime, occupancy	UPB	Value	Floor route	Floor at your yield	Ask	Ask / floor	Bid

The pool	Value
Sum of floor values, negative ones included: the most the pool is worth	
Pool floor IRR at the ask	
The same without the two loans that carry it	
Bid: lower of floor and ask per loan, negative floors removed; its IRR	

Conditions sent with the bid	Agreed?	Note
Allocation by floor, loan by loan, written into the agreement		
Dropped or reinstated loan comes out at its own price; substitutions priced on their own floor		
Tax status of every first lien confirmed before funding		

Calloway: ask \$435,240 against floors of \$413,483; 17.66% at the ask, 5.56% without C-1 and C-5. The book's bid: \$333,499 for seven loans (39.84% of UPB), 30.21%; with C-8 at \$0, 29.84%.

Before you wire the money

Appendix C and Chapters 13 to 15, condensed. Mark each item done, not applicable or open. An open item is a reason to lower the price or to pass, decided before the wire.

Note / loan		Analyst	
Property		Date	

Item	Done / n.a. / open	Evidence / note
The paper and the title		
Original note (or custodian confirmation); endorsements or allonge through to the seller; assignment chain or MERS status		
Your assignment prepared in recordable form, and who records it; lost note priced as a red flag, or pass		
O&E or title: your lien position; what is ahead (taxes, municipal, senior) and behind; tax status confirmed		
The house and the borrower		
Value: date, type, interior seen? Floor run at a lower value		
Occupancy confirmed; tenant timeline; vacant house secured and insured		
Pay history; total debt rebuilt; bankruptcy search; servicemember check; litigation; open loss mitigation application		
Owner-financed performing note: borrower's estoppel; balloon notice rule (counsel)		
Servicing, compliance, tax		
Licensed or exempt servicer; boarding data list; transfer notices; owner's notice of the sale		
Regulation X reach for this loan and servicer; 120-day rule; debt collection practices		
Licensing for you as buyer (category); market discount and interest income with your tax adviser		
Price and closing		
Bid at or below the floor, or one sentence naming the behaviour you are paying for		
Timeline threshold and your honest view of it; if borrowing, the delay at which leverage turns		
Seller owns the note; wire instructions confirmed by a channel you found; funds only via escrow or under a bailee letter		
Loan sale agreement: representations, repurchase, exceptions; trailing documents listed		

Delay (months)	REO sale month	Unlevered IRR	Levered IRR	Cash at risk	Partner split: operator's share

Harlow at the floor: 20.00% unlevered and 25.63% levered (60% at 11%) on time; 16.42/19.76 six months late; 13.72/15.37 at twelve; 9.91/9.27 at twenty-four. Leverage turns at 21 months of delay, where the asset's return falls below the 11% the money costs.