

Document Preparation Tips for Hard Money Loans

By Weston A. Jones, Principal Broker, *Mentor Financial Group*

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Several readers have written me recently asking for tips on loan document preparation. Loan document sets are as unique as individuals, and typically lenders drive the process. In fact, more active lenders will prepare their own loan documents, while passive investors will rely more heavily on brokers, escrow, attorneys or other trusted advisors.

Before starting to prepare loan documents, some basic questions need to be answered: Should a long form, short form or customized deed of trust be prepared? What type of note should be used for the loan? Once the basic questions are answered about the types of loan documents to be prepared, then a complete list of facts needs to be gathered.

In order to streamline the preparation and reduce delays, phone calls and other follow-up steps, up-front preparation is essential. The information required to prepare loan documents will need to be adjusted based on the loan type (purchase, refinance, development, construction, etc.). However,

I recommend that a checklist of items, similar to the following, be used to ensure that the necessary information is gathered:

- Borrower's name (whether individual, corporate or other) including vesting, title of signor, address, phone, fax, income, asset liabilities, schedule of assets, completed 1003 or similar application
- Borrower's personal guarantee—yes or no
- Borrower's down payment or cash-in (if applicable)
- Seller's carry amount (if applicable)
- Address, APN and legal description of the subject property
- Other collateral: cross collateralized property address, APN and legal description
- Collateral owner-occupied—yes or no
- Loan amount
- Date of loan documents
- Market value of subject property
- Appraiser's name, address and date of appraisal (if applicable)
- Loan-to-Value
- Loan term
- Lien position
- Interest rate
- Late charge percentage or fee
- Prepayment penalty triggering percentage and amount
- Payment terms: fully amortized, partially amortized or interest-only
- Payment frequency: monthly, quarterly, etc.
- Due date of payments

“More active lenders will prepare their own loan documents.”

- Approximate payment due date
- Amount of payments
- Balloon payment—yes or no—and amount
- Due date of balloon payment
- Subordination provision—yes or no
- Escrow company's address, phone, contact and escrow number
- Title company's address, phone, contact and title number
- Anticipated due date
- Estimated closing costs
- Loan servicing provisions—yes or no (if yes, name, address, phone and contact, fee amounts and payment frequency)
- Lender's name (individual or company) including vesting, title of signor, address, phone and fax
- Listing of other liens on property, lien priority, amount, beneficiary, interest rate, original loan amount, approximate principal balance, monthly payment, maturity date, balloon payment, balloon amount, late payments, judgments, foreclosure status, etc. (if applicable)

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- Good faith estimate information:
 - a) items payable in connection with loan (lender origination fees, broker origination fees, processing fee, underwriting fee, wire transfer fees, etc.);
 - b) items required by lenders to be paid in advance (interest, hazard insurance, etc.);
 - c) reserves deposited with lender (mortgage insurance, county property taxes, etc.);
 - d) title charges (escrow fee, notary fee, title insurance, etc.);
 - e) government recording and transfer charges (recording fees, tax/stamps, etc.);
 - f) additional settlement charges (pest inspection, flood certificate, etc.)
- Broker's name, license number, address, phone
- Trustee's name and address (if applicable)
- Schedule of use of funds

Using this checklist or one similar will help to maximize your efficiency. Good luck in all of your loan document preparations and have a successful 2005!

Weston A. Jones is the Principal Broker at Mentor Financial Group ("MFG"), a private Hard Money commercial real estate lending and investment company. Founded in San Diego, California, MFG specializes exclusively in fast Hard Money trust deed investments primarily in Arizona, California and select opportunities nationwide. Mr. Jones received his MBA with a concentration in Finance and Real Estate at the Harvard Business School. Mr. Jones is a licensed California Real Estate Broker and has received his CPA designation. For more information, contact Mr. Jones at: 619-987-9433; e-mail him at: weston@mentorfg.com, or visit the company's Web site: www.mentorfg.com. ♦