My due diligence checklist

More details are at: <https://www.therealestatecrowdfundingreview.com/hard-money-loan-roulette3>

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# The Make Or Break Questions

* *Who are your borrowers and what kind of properties are they buying (and where)?*
* *Does your PPM (Private Placement Memorandum which is the legal agreement) allow leverage? If so how much?*
* *What is your maximum allowed loan-to-value in the PPM? Also what’s the current maximum loan-to-value and current weighted LTV?*
* *What is your withdrawal policy?*
* *Do you loan in any states without a non-judicial process?*
* *Do you loan to any owner-occupied properties?*
* *Do you loan in anything but the first position?*
* *How aggressively do you foreclose on delinquent borrowers?*
* *What’s your minimum investment?*
* *Are your financials audited? If so, for how many years, and who is your current auditor?*
* *What is your current and past performance?*

# Phase 2: operations and details

* *Do you calculate loan-to-value based on cost or after repair value?*  
  + *If after repair value, then what is the maximum allowed loan-to-cost in the PPM? Also what’s your current maximum loan-to-cost, and weighted average loan to cost?  
      
    This gives me more* ***additional information*** *to feel comfortable or not with how they handle after repair value.*
* *Do you do construction/rehab draws? How do you verify the work was done correctly before releasing money?*  
  + *How do you handle the reserves for construction draws?*
* *Default resolution*  
  + *Do you charge penalty interest and if so how much? Does the investor or the sponsor received this income?*
  + *What’s your definition of when a loan becomes overdue, defaults, and becomes an uncured default? What percent of your loans are currently overdue, defaulted, uncured default, completed foreclosure, REO?*​​
* *What’s the average recovery rate on foreclosures?*
* *What are your current REO LTV's, and as a percentage of assets under management?*

* *What percentage of loans are extended because they can't be collected on in the initial term? What's the average extension length?*

# Nice to Haves

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* *Do all properties have a second opinion done on them by an independent third party appraiser?*

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* *How much money do the principals have invested in the fund? Did they invest with cash and at the same price and terms as regular investors?*
* *What’s your performance in the last recession?*

* *What are your management fees?*
* *How long before newly accepted capital is deployed?*
* *How long has the fund been in business? What is your current assets under management and how many properties?*