



## Real Estate Property Services, LLC

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#### SPOTLIGHT ITEM: Know Your Collateral

With our focus in October being fundamentals we wanted to focus attention on your collateral. See the spotlight column on page 2 for more.

Check out our FAQs in investor portal for more helpful information.

As always, to review items on the portal or to Contact Us:

#### Link to portal

[www.Reprosvcs.com/investorportal](http://www.Reprosvcs.com/investorportal)

#### Link to portal training video

[www.reprosvcs.com/files/repsinvestorportal.avi](http://www.reprosvcs.com/files/repsinvestorportal.avi)

### From Your REPS Team:

It's October and football season is in full swing and our local boys, the University of South Carolina Gamecocks, are not doing so well and, of course, there's a lot of talk on the radio about why, what and who is to blame. Those radio pundits have pinpointed what they perceive as deficiencies in the fundamentals of the game. To be successful, you must have not only an understanding of the fundamentals but the ability to perform well at those "basics" before moving on to more skilled play. This has our REPS team focusing on the fundamentals of our industry and what basic knowledge is necessary for success? We will share some thoughts on that with you in this newsletter.

### Servicing Fundamental: Customer Contact and Having Those Difficult Default Conversations

#### From Derek Dutcher, NAM's Servicing Manager:

*"One of our strongest fundamentals is making sure we make the most of each contact with the customer. The problem with accounts that roll seriously delinquent is often a lack of contact with the customer. When they can't pay or tell us what they think we want to hear they disconnect or push our calls to voice mail. We make every effort to establish a rapport that we're here to help them through their hardship; having skilled staff that has established that rapport enables us to successfully navigate those difficult conversations. Sometimes they aren't ready for the solution. If they have had legitimate hardships that have come up that have put them in the position that they can no longer afford the property, such as divorce/separation, job loss or illness which are frequent issues, sometimes the call turns into a conversation of "I understand you have had an unforeseen hardship and your situation is much different than when you took on the note....maybe the best solution is to do a mutual release or cash for keys". Many customers are not ready for this message and they become very defensive about even making the suggestion. It's a difficult conversation but options are always presented to them; in those situations, we are hopeful they may accept one of the options for surrender."*

## WHAT IS YOUR COLLATERAL?

Collateral is a property or other asset that a borrower offers as a way for a lender to secure a loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses. In the case of an Agreement for Deed, while the owner maintains ownership of the property, the buyer has equitable interest by virtue of the collateral instrument.

Collateral Instruments means notes, land contracts or agreements for deed, bills of exchange, certificates of deposit and other non-negotiable guarantees, indemnities and assurances against financial loss, and any other documents which contain evidence of an obligation to pay, discharge or be responsible directly or indirectly for any indebtedness or liabilities of any person and includes any documents creating or evidencing a Security Interest.

Collateral documents include any documents in a secured loan transaction which secure the borrower's obligations to the lender. Under the loan agreement, these documents grant a security interest in stated collateral by a borrower, or subsidiary, in favor of the lender. Documents included in a collateral file are commonly referred to as "instruments". Collateral files should include details of the loan and the repayment of the loan that was issued in exchange for the real property (collateral). Necessary details such as beginning loan amount, interest rate, payment frequency and amount, beginning payment date and last payment or maturity date should be included in any promissory note or loan repayment plan. Any account modification or forbearance agreements that have been agreed upon are also considered part of the loan agreement. Loan agreement is another term used for a document that spells out the details of a loan's repayment plan. Copies of the original collateral file can be maintained and transmitted digitally for most needs. When a note/loan is sold from one party to another, the original documents need to be verified, and once finalized, sent to the new note/loan holder or appointed custodian. Copies of the collateral file need to be provided to the servicer, as well as any previous pay histories that exist on the consumer account. Knowing the details of any loan you own is imperative for your success.

## October Focus: Fundamentals:



Some fundamental questions for an investor: What are the fundamentals of success in the note business? How does your servicer fit into your success model? Where are you getting your support, knowledge and feedback to increase your proficiency in the industry?

Some fundamental questions for a servicer: What is needed to set a note up for success? What are key elements to establishing and keeping contact with consumers?

Let's dig into the foundation of success – the note, contract, mortgage or whatever instrument you originated or purchased is the foundation of your success. The agreement between your consumer and you, as the lender, is the governing document upon which all subsequent actions are based. Creating or buying strong paper is the beginning. Selecting a licensed origination company that can assist with ensuring your contract is regulatorily compliant and legally enforceable and/or performing proper due diligence when purchasing a note is necessary to success.

Choosing a servicer with specific knowledge basis in your paper is necessary to your success. Placing an owner finance contract for deed with a traditional servicer that's never handled one will prove challenging to your success.

There are *tons* of websites, meet-ups, podcasts and seminars geared toward the owner finance and note industry. Just as with an investment portfolio, be sure to diversify your knowledge basis. Listen to podcasts, join in conversations by attending a local REI meeting, and begin to develop your own knowledge basis using data and information from multiple, credible, expert sources – it's basically another form of due diligence. You must qualify information you receive by checking the source and validating it by finding supporting information. Know that real estate investing is not a one size fits all - if you are in Missouri and you're taking legal recovery advice from your friend in Alabama, be aware that legal recovery is state and county specific and the details/process may not be the same.

From a servicer's perspective, having proper collateral files is a regulatory requirement. Contact information provided at boarding is essential to establishing contact with the consumer which is the basis of a servicer's success. Ask what the on-boarding process is from the consumer perspective. Is a welcome call made? What is the frequency of outreach? Paramount to successful collections is creating and maintaining a strong relationship with consumers so that, if/when they experience a hardship they are comfortable discussing it with their customer service representative. A servicer must be willing to assign and maintain a single point of contact for your consumer to create the rapport necessary to maintain currency. A servicer that provides your consumer multiple payment options, including an on-line payment portal is key as well. You've heard the old adage: real estate is all about location, location. Servicing is all about customer contact, customer contact, customer contact!

We are dedicated to focusing on the fundamentals, as well as the skills necessary for your success. We are here to support you in your investment goals!