# No One is Immune to Defaults

Defaults are always a possibility for anyone lending or investing in “crowdfunded” real estate development. How the default situation is handled can be detrimental to the return of your initial principal investment. As a loan servicer for First Trust Deed real estate investments, Ignite Funding stands behind each and every loan that it originates, often wearing many different hats in order to protect and return investor capital when default situations arise. Ignite utilizes its real estate expertise to act on behalf of its investors as Default Coordinator, and an Asset Manager if a default is to be resolved through foreclosure. At Ignite Funding, we can say we have a proven track record in default resolution that is backed by results to our investors, having worked through and grown from the downturn in 2008.

**When is a loan considered to be in Default?**

A loan is categorized as being “[in Default](https://ignitefunding.com/default-situation/)” when a Borrower fails to make a scheduled interest payment within the payment’s grace period (10 days following payment due date). In this situation, Ignite Funding will already be in contact with the Borrower to determine the timing of the outstanding payment and extract a reasonable explanation for the lack of payment. Ignite Funding will then send a communication to investors on or before the 15th of the month if a borrower fails to make their scheduled interest payment on time. During this time, Ignite Funding will transition from Loan Servicer to Default Coordinator on behalf of the investors on the defaulted loan.

**What are investor options at the time of Borrower Default?**

Through Borrower communication and evaluating the status of the property, and with the investor’s best interest in mind, Ignite Funding will present investors with the most viable courses of action to take into consideration and vote on via ballot. For example, the most viable options could be to negotiate a loan modification or forbearance with the borrower. It could potentially mean negotiating anything from a lesser interest payment (modification) or delaying foreclosure proceedings and foregoing interest for a certain period of time (forbearance). It can often be in an investors best interest to delay foreclosure to allow the borrower time to pay back principle on the loan, avoiding costs that are incurred to foreclose on a property and associated carrying costs to maintain and market the property until sold. The most viable options to investors could also be to immediately start the foreclosure process, or, if the borrower is willing, to execute a Deed in Lieu of foreclosure in order to take back the property to sell and recoup as much of the outstanding principle as possible.

The weight of an investor’s ballot vote is the investor’s remaining principal balance divided by the total remaining principal balance on the property. Majority ballot decision on how to proceed on the property is based on the 51% loan balance majority vote made by all investors on the loan.

**What happens after a 51% investor majority decision is made?**

Ignite Funding will take action on the property as directed by the investor majority. Depending on the situation, that could mean coordinating with the Borrower in executing a loan modification or forbearance. It could mean coordinating with the Title company to record a Notice of Default, putting into motion foreclosure proceedings, or to record a Deed in Lieu of foreclosure. Ignite Funding will communicate with investors either via email and/or through the creation of a website portal, keeping them appraised of the progress and status of these proceedings.

**What happens if investors choose to take a property back through foreclosure?**

When a Notice of Default is recorded on the property, the Borrower is given a specific “cure period” (typically 90 or 120 days based upon the state in which the property is located) during which to make payments current and/or pay off the balance owed on the property. The Borrower has until the Trustee’s Sale Date (the foreclosure date) to cure the debt or the Borrower’s claim to the property will be eliminated. Investors will then transition from lenders to owners of an asset. To facilitate property ownership, a special purpose entity (a Limited Liability Company—LLC) is created by Ignite and is recorded on title as the owner of the property.

Ignite Funding is not the property owner nor a shareholder in the LLC. This is when Ignite Funding puts on the “hat” of Asset Manager, managing anything from property maintenance, expense management, to individual property concerns on behalf of the investor owners. In conjunction with property maintenance functions performed as Asset Manager, Ignite coordinates the following in an effort to identify a feasible resolution for the subject property: property marketing and listing agent agreements, solicitation of developer and/or builders as potential joint venture partners, property sale or joint venture negotiation, investor property update and proposal communications.

**Are there expenses associated with a Default and/or foreclosure?**

The default process can be overwhelming for Investors that have never taken property back through foreclosure. When a Borrower defaults on a loan, and the Investor(s) request Ignite Funding to take protective action there are intrinsic costs associated with the foreclosure process. These costs are the responsibility of the Investor(s) of the property.

At its discretion, Ignite Funding may front the costs to take back a property through foreclosure. These expenses will be reimbursed to Ignite, upon the sale of the property. If Ignite Funding elects not to front the expenses, Ignite will request a capital call from the investor(s) to complete the foreclosure process. Should an investor not be able to meet the requirements of a capital call, Ignite will present the investor(s) with the option of borrowing the funds from Ignite Funding at an accrued interest rate to be paid back upon the sale of the property.

**Can an investor avoid defaults?**

The only way an investor could completely avoid defaults would be to not invest in real estate development. Defaults are the inherent risk of real estate investments. Understanding this risk and your tolerance for risk is important to take into consideration before making a commitment to this type of an investment strategy.

When you invest in [Trust Deeds](https://ignitefunding.com/category/available-investments/) with Ignite Funding, you not only have property as collateral to back your investment. You have an experienced loan servicer, Default Coordinator and Asset Manager working in your best interest to return as much of that investment as possible.

For more information about Trust Deed investments or if you wish to schedule a FREE consultation with an Investment Representative, please [click here](https://info.ignitefunding.com/abq-sponsoredcontent-consultation).

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