

# Invest in Real Estate Tax-free or Tax-deferred.



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## No One is Immune to Defaults

For anyone lending in real estate development, defaults will always be a possibility. It does not matter how savvy a private lender is or the way they invest — private lending, crowdfunding platforms, fractionalized trust deeds — the risk is always there. The only way an investor could completely avoid defaults would be to not invest in real estate development. Defaults are an inherent risk of real estate investments. Like with any business, real estate developers are subject to an infinite number of variables that can cause them to default on a loan, such as national or regional market corrections, poor company leadership or practices, government obstacles, supply chain issues, subcontractor conflicts, or even issues with the property itself, and the list goes on.

When the default occurs, how the situation is handled can be detrimental to the return of the initial investment. When you invest in trust deeds 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 when default situations arise. Having worked through and grown from the downturn in 2008, Ignite Funding has a proven track record in default resolution that is backed by results to their investors. In this article, they discuss how the default process is handled at Ignite Funding when necessary.

### When is a loan considered to be in default?

A loan is considered in default when a borrower fails to make a scheduled interest payment within the payment's grace period, which is 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 missed payment. If a borrower fails to make their scheduled interest payment on time, Ignite Funding will then send a communication to investors on or before the 15th of the month. At 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?

After exhaustive borrower communication and evaluation of the status of the subject property, Ignite Funding will present investors with the most viable courses of action. For example, the most viable options could be to negotiate a loan modification or forbearance with the borrower. This could 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 investor's best interest to delay foreclosure to allow the borrower time to pay back principle on the loan. This would avoid costs that are incurred to foreclose on a property, as well as those associated with carrying costs to maintain and market the property until sold. Another example, it could be in the investor's best interest to immediately start the foreclosure process in order to take back the property and sell it to recoup as much of the outstanding investor principle as possible.

Investors will have time to take the options into consideration and vote via ballot. 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. The 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 as directed by the investor majority and will keep investors apprised of the progress and status of the 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 or LLC) is created by Ignite Funding 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 which entails handling everything, from property maintenance and expense management to individual property concerns on behalf of the investor owners. In conjunction with property maintenance functions performed as asset manager, Ignite Funding 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 updates and proposal communications.

Ignite Funding always works to negotiate and present investors with proposals in an attempt to help recoup as much investor principle as possible. Real estate will always have some sort of intrinsic value associated with it which means that the risk of an investor losing their entire original investment is unlikely. It is just a matter of how long it will take to sell the property and at what price, which is subject to the current market.

### Are there expenses associated with a default or foreclosure?

The default process can be overwhelming for investors that have never taken property back through foreclosure. There are intrinsic costs associated with the foreclosure process. These costs are the responsibility of the investor or investors 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 Funding, upon the sale of the property. If Ignite Funding elects not to front the expenses, they will request a capital call from the investor or investors to complete the foreclosure process. Should an investor not be able to meet the requirements of a capital call, Ignite Funding will present the investor or investors 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.

To learn more about trust deed investments with Ignite Funding, schedule a consultation at

# 702.761.0000



Ignite Funding, LLC | 6700 Via Austi Parkway, Suite 300, Las Vegas, NV 89119 | P 702.739.9053 | T 877.739.9094 | F 702.922.6700 | NVMBL #311 | AZ CMB-0932150 | Money invested through a mortgage broker is not guaranteed to earn any interest