



OVERVIEW

Many borrowers - especially those new to working with private lenders - think that due diligence is the exclusive domain of the lender. While any lender worth their salt has a process to vet borrowers and deals, due diligence is also the responsibility of the borrower.

You must complete your own vetting to ensure that you:

- Have found a reputable private lender.
- Can afford the loan.
- Understand the contract terms.

From your first contact with a lender through to closing, you should watch for practices that put you on alert. If you question why something is necessary, ask - and then verify that what the lender says is in fact true. In general, the following are red flags that may signify predatory practices:

- **Excessive or unexplained fees, interest rates, and/or points.** This can include fees for the application, processing, due diligence, underwriting and more.
- **Interest rates or any loan terms that seem too good to be true.** In combination with excessive fees, it may signify a case of bait and switch. Victims of this tactic typically find they will not receive what was advertised only after they have sunk enough money into the process that they don't want to back out.
- **Pressure to act quickly.** Not having enough time to complete due diligence may mean the borrower doesn't vet the lender properly or agrees to less-than-savory loan terms.



HOW TO PROTECT YOURSELF

Completing your own due diligence is your safeguard even with trustworthy lenders. We recommend that you:

- **Research your lender.** Look through reviews to ensure previous customers have had positive experiences. You may also want to ask for references of current and past customers.
- **Contact the American Association of Private Lenders.** We can verify the lender and check for any unresolved Code of Ethics complaints.
- **Take your time with due diligence and shop around.** Beyond loan terms often differing from lend to lender, private lending is relationship-based: you should also feel comfortable working with the lender.
- **Join an approved industry association like AAPL.** For borrowers who regularly work with private lenders, trusted lending resources are the secret sauce to better and more profitable transactions.



| LOAN CHECKLIST

Knowing what common documentation lenders will both require from and provide to you will help you:

- **Prepare.** Being prepared and knowledgeable can help you get approved and earn more favorable loan terms.
- **Avoid costly delays.** While you shouldn't feel rushed into a decision, efficient loan progress saves you money.
- **Protect yourself.** Knowing what's commonly required enables you to research and review anything unusual.

Check off each of the items below after you have provided them to the lender or, if from the lender, reviewed and/or completed them.

STEP 1: HAVE YOU COMPLETED THE LOAN APPLICATION PACKAGE?

- | | |
|---|---|
| <input type="checkbox"/> Loan application | <input type="checkbox"/> Client/borrower questionnaire |
| <input type="checkbox"/> Copy of driver's license | <input type="checkbox"/> Builder/general contractor resume (if available) |
| <input type="checkbox"/> Loan disclosures | <input type="checkbox"/> Proof of funds (if requested) |

STEP 2: DID YOU OUTLINE THE PROJECT?

- Construction budget with complete details/specifications in a budget template provided by the lender
- Plans (for new construction projects and for renovations where additions will be created)
- Permits (if applicable and available at the time of the loan request)

STEP 3: CAN YOU PROVIDE EXPERIENCE VALIDATION?

- Preferred: Executed ALTA/HUD settlement statements from sale of real estate investments, **OR**
- Executed construction contracts from previous renovations/builds, **OR**
- Builder/general contractor's resume

STEP 4: DID YOU VERIFY YOUR ENTITY?

- | LLCs | Corporations | Other (no DBAs) |
|---|---|---|
| <input type="checkbox"/> IRS EIN on IRS issuance | <input type="checkbox"/> IRS EIN on IRS issuance | <input type="checkbox"/> Lender will provide guidance on necessary documentation. |
| <input type="checkbox"/> Stamped Certificate of Formation | <input type="checkbox"/> Stamped Certificate of Incorporation | |
| <input type="checkbox"/> Operating or Company Agreement | <input type="checkbox"/> Incumbency Certificate | |

STEP 5: HAVE YOU REVIEWED THE SALES CONTRACT/SETTLEMENT STATEMENT?

- Executed sales contract for property purchase, **OR**
- Executed settlement statement or purchase agreement (if refinance)
- Executed assignment contracts (if applicable)
- Executed sales contract extension (if applicable)