Thanks for your interest in buying notes and/or being a private lender. Both concepts are almost identical although people often know them by one term or the other. Throughout this document I may use the terms interchangeably, but it includes both concepts.

I like to speak with everyone individually. However, there is so much demand for notes, I no longer have time to do all the initial calls individually. If I don't scare you off here, we'll schedule time for us to discuss details and answer any other questions you may have. In the meantime, I'll cover the basics of note investing and answer the most frequent questions here. I'm assuming you're new to note investing. If you're experienced, you'll already be familiar with most of the information here.

WHY NOTES?

First and foremost, as a note buyer, you are funding someone's real estate deal in exchange for interest income. In short, you are the bank, and your funds are secured by the real estate.

People invest in Notes for many reasons. Obviously, receiving interest payments is a great attraction. It also avoids tenants and toilets, contractors, and property managers, and it's pretty easy to do from anywhere in the world. From a market perspective, a note is most similar to owning a bond with added bonus of good info on the collateral.

Notes are not all worry free though. Despite all precautions, sometimes a note will go bad. When it does, the servicer must try to get the borrower back on track or persuade them to deed the property to the Note holder. If the borrower can't, or won't, it will have to be foreclosed to legally take the property.

OVERVIEW and TERMINOLOGY

In the pages that follow I'll give you an overview of what we do, and for those of you who are new to Notes, I'll do my best to cover the major points and the most common terms used. If I missed something important, let me know.

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This Guide has the following sections

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WHAT DOES DAYTON CAPITAL PARTNERS DO?

Dayton Capital Partners lends to real estate investors. We do not lend to someone who intends to occupy the property.

Borrowers come to us to fund their real estate projects. Dayton Capital Partners goes through multiple steps to validate each deal and borrower before funding it. We'll get into those details later. These are the same steps any lender does (or should do) making loan. Additionally, we use our personal real estate investing experience to further analyze the deal.

If the deal meets the right criteria, we make the loan and fund the deal. The borrower signs a Note with the loan terms, and a Mortgage to pledge the property as collateral. As an individual, you (or your IRA) can buy the Note to receive interest from the borrower.

We are here to help you throughout the entire process.

We make sure the correct paperwork is done to protect your interest as well as the borrower's interest. If you ask around it's not hard to find someone who lost money because they didn't get the paperwork right.

You are always the ultimate decision maker. We'll educate you in what to expect, and what the market wants. We'll never recommend that you should, or should not, buy a specific Note, but we will give you the information you need to make an informed decision. Once you're familiar with the process and comfortable working together, you can decide if you want a specific Note in just a few minutes.

WHAT DOES IT COST?

The borrower pays for almost everything when the loan is originated. The only expense to the note buyer is the wire fee if you fund the loan that way. Keep in mind, we are specifically structured to keep costs low. Other originators will have their own cost structure.

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SERVICING THE NOTE

Dayton Capital Partners services the Notes we originate and will manage it through its entire term. That includes: tracking payments, calculating payoffs, send the notices, getting the Release of Mortgage prepared and recorded, getting the borrower back on track if needed, or even foreclosing. Other tasks may come up during the life of the Note.

If it's a Hard Money Loan with draws, the Servicer also takes care of property inspections and releases construction funds for completed work.

We do charge you for this service, it comes out of the borrower's payments. We'll take care of everything, except for a couple signatures.

Notes originated from other sources may require you to service the Note or there may be an additional fee for the service.

FUNDING THE NOTE

You can use funds from any account that allows you to direct your funds or investments. All the interest and the original principal must go back to the same account. A checking or savings account is easy. An IRA, 401(k), CESA, HSA etc. can also buy notes. Those accounts do have to be with a Self-Directed custodian to buy notes. Your employer's 401(k) or big-name stock brokerage typically won't allow you to buy individual notes.

> **COMBINING ACCOUNTS** Since a note buyer can fund all or part of a specific note we can have a little fun. You can combine smaller accounts to buy a single note. We often help people combine an IRAs, 401(k)s and other accounts to purchase a full note, and "keep it in the family" so to speak. For example, we did a note recently that was funded from three accounts, an IRA, a spouse's IRA, and an HSA. The HSA only had a couple thousand in it, but it will receive its share of the interest from the note.

WHAT WORKS FOR YOU?

You get to decide which notes interest you, and what factors are important. Some people only look at the interest rate, LTV and Note Term, but don't care much about any other factors. Some people only want Notes in their geographic area, or for certain types of real estate. For every variable, you can decide what works for you, or whether that variable even matters to you. It's up to you to decide which is the best fit for your investment.

There is one standard we never veer from. We'll never fund a deal that we wouldn't keep for the duration. The only reason we sell Notes is because the demand outstrips our available funds.

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OVERVIEW

Every note goes through a process to be approved and funded. At its simplest level, we are really seeking answers to two basic questions and then putting together the paperwork.

IS THE DEAL GOOD ENOUGH TO FUND?

IS THE BORROWER GOOD ENOUGH TO FUND?

Those two questions generate a lot of effort to get the right answers and then do all the paperwork.

We consider several factors deciding whether to fund a deal. These details impact the Terms offered to the borrower and recommended to the lender.

1. Loan Type
2. Property Value
3. Borrower Experience
4. Borrower Reputation
5. Down Payment
6. Cash reserves
7. Credit

NOTE TYPES

Dayton Capital Partners originates two types of loans which generate Notes: Hard Money Loans and Rental Loans. Each type has different criteria.

Hard Money Loans are for people rehabbing properties, and then reselling them at retail or refinancing them to keep as rentals. These Notes are usually for up to 12 months, and usually pay off around 7 months. Then it's time for a new Note.

Rental Loans are for landlords holding property long term and collecting rent. These notes are usually for 5-20 years.

PROPERTY VALUE

An appraisal is a professional opinion of value, and fully documented by a licensed appraiser. Most appraisals are pretty good, but I see the occasional one that's not. Appraisals cost $450-$600 for a single-family home.

A BPO or Broker's Price Opinion is a professional opinion of value, documented by a licensed real estate agent. A BPO costs around $75.

A CMA is a Comparative Market Analysis, that shows real estate sales and other activity, but does not assign a specific value to the property.

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My wife is a Real Estate Broker, so it's easy to get a CMA in some areas. In areas where prices are consistent, or that I know well, sometimes I'll use my own opinion of value.

The Zestimate (and any Automated Value tool) and Tax Assessed Value are right as often as a stopped clock. Never use them for the value on a specific property.

We use some or all the above to determine property's market value.

BORROWER EXPERIENCE

This is a bit more ambiguous and harder to quantify. Obviously, if they have an established good track record that helps. Sometimes lowering the LTV or higher down payment for new(er) investors will help make everyone comfortable with the deal. Sometimes it's factoring in the scope of the work. Major foundation repairs are not recommended for a first-time borrower but may be fine for an experienced rehabber.

BORROWER REPUTATION

Scumbag check.

DOWN PAYMENT

Required. (except in rare cases). The typical target is 70% LTV or less for the property from the day they buy it, until the day they sell it.

CASH RESERVES

After the purchase, will they have enough funds for working capital and interest payments?

CREDIT

We look. There is no set minimum. The requirement can flex based on LTV, down payment, and experience. Payment history is more important than the actual number.

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BORROWER'S DOCUMENTATION

We collect all the documents relevant to the borrower and the project. These may include all the following, or sometimes more.

- Operating Agreement
- Bank Statements
- Driver's license
- Credit Report
- Background check
- Comps/CMA
- Rehab Scope of Work
- Property Photos
- Anything else we feel is necessary

LENDER'S DOCUMENTATION

We coordinate all the documentation relevant to the Note, and make sure it's complete. These include the following, and sometimes more.

- Note
- Mortgage
- Lender's title insurance
- Property Insurance; lender as additionally insured

NOTE AMOUNTS

This is the first thing everyone wants to know. The most common loans we originate for individual Note buyers are between $25,000 and $150,000. The smallest one we've done to date is $10,000. Technically, we can do a note for any amount.

The way we structure the Notes, you can buy all or part of the note.

INTEREST RATES

This the second thing everyone wants to know. The interest rate varies with the type of loan, market rate, and the strength of the deal. In general, the more secure the deal appears, the lower the interest rate. Every loan and borrower are different.

For reference, as used in this document, the interest rate is the amount the borrower is paying on the Note. The yield is what you collect and want to base your decision on.

Hard Money Loans have higher rates, but they pay off sooner. The money is returned to you and the interest payments stop. At least they stop until you get a new note.

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Rental Loans have lower rates but go for a longer period of time before being paid off. You'll have fewer gaps with no interest with Rental Loans.

Currently, the most common expected Note yields are in these ranges:

- Expected yields on a Hard Money Loan are usually in the 8-10% range.
- Expected yields on Rental Loans are usually in the 5-7% range.

Remember, every Note is different, and expected yields for any specific Note could be higher or lower the common yields listed above.

Interest is calculated based on an annual interest rate, and typically due monthly. If you have a $100,000 Note at 10% yield, you would expect $833.33 per month. If the loan was paid off after exactly 9 months, you would collect $7,500 total over the 9 months. That's far more than your typical savings account or CD.

You can decide if you want to invest in long term or short-term notes, or a combination of both.

Honestly, while I could originate more Notes with even higher expected yields, that also means higher risk of default, which in turn brings down the yield. I like the balance here, good yield, lower risk of default.

SUMMARY

I look at every deal as if I am the one holding the Note for the entire term of the Note. If I don't like it for me, I'm not funding it, and I'm not going to try to pawn it off on someone else.

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USING PERSONAL PROPERTY TRUSTS

We refer to buying a Note in general, but with us, you're really buying part of the Personal Property Trust that owns the Note.

We create a dedicated Personal Property Trust to hold each the Note and Mortgage seperately. If you're familiar with a Land Trust, they're very similar. A Land Trust holds real estate, a Personal Property Trust holds a mortgage/note (or other personal property).

The Note owner(s) are the Beneficiaries of the Trust. The Trustee is the public face for the Trust and does everything for the Beneficiaries. I am personally the Trustee for every Note we originate (there may be a rare exception, but I can't think of one right now).

The Trust structure greatly simplifies things and provides several benefits. Using the Personal Property Trust:

1. Gives anonymity to who the beneficiaries are.
2. Simplifies having multiple accounts or people on a single note.
3. When there is more than one beneficiary, they are all in the same position. There isn't a 1st position, 2nd position, etc.
4. An Assignment of Mortgage does not need to be recorded for each partial. ($$ saved)
5. The Borrower doesn't need to change their payments or insurance.
6. The Trustee is the loan servicer
7. The Trustee signs all documents over the life of the Note. Hands off for you.

Using the Personal Property Trust reduces the burden on the Note owner and allows us to do all the work for you.

A word of warning. You must trust your Trustee. The Trustee is doing everything on your behalf. If they were untrustworthy, they could literally take your money. Then you'd have to sue them. Not any fun.

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RISKS

Notes are not a guaranteed investment. They are not FDIC insured like a bank account or a CD. If any risk of loss would keep you awake at night, this is not for you. As a lender, we do everything we can to mitigate risk up front, but when you do enough notes, inevitably some will go bad. We've had a few Notes go bad in the past, and I promise it will happen again.

Over time, we've changed our standards based on the past Notes that went bad. The last one that went bad was originated in Mar 2017[1]. We haven't had one go into default since, but I will reiterate. We do enough Notes **I promise some WILL go bad**.

WHEN NOTES GO BAD

Despite all the checking that's done on the property and the borrower, inevitably, some notes will have past due payments or worse, go into default. When we are servicing the note and that happens, we take steps to try to get things worked out and back on track quickly.

1. We'll reach out to the borrower and see if it was just an oversight. Often this is the case, and it's an easy fix. When this happens it's usually the first payment on the note. Let's just say that, real estate investors aren't the most paperwork-oriented people we know.
2. If they've run into a problem, we'll see what we can do to help. As real estate investors, we've run into most issues, and can often help them find a solution.
3. If it's a problem they can't solve, or one that prevents them from completing the project, we'll ask them to deed the house back.
4. If they refuse, we'll start the foreclosure process. The Note Owner pays for the attorney and court costs. The budget number for this cost is $3500. The actual cost will vary.

If a deed comes back on a property, the Trust now owns the property instead of the Note. Now it's up to the beneficiaries (you) to guide the Trustee on what to do with the property. The three most common options are to:

1. Sell it "As-is", usually to another investor. Aka, wholesale it.
2. Keep it, often as a rental.
3. Bring in a crew to complete the project and sell it for full retail.

If there are multiple beneficiaries, and they are not able to agree on what to do with the property, it will be sold "as-is". Of course, any of the beneficiaries are welcome to purchase the property, and apply their Note proceeds to the purchase.

After taking the property back, there may be an additional profit, or there may be a loss to be divided among the beneficiaries. As the Trustee, we'll take the best route to maximize the return for all beneficiaries.

[1] As of Jan 2021

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Getting Approved to Buy a Note from Dayton Capital Partners

We don't work with everyone. We need make sure we're a good fit for each other. Before you can buy a Note from us, there are a few steps to go through:

- Interview with us.
- Understand note concepts.
- Understand the process and expectations.
- Understand the Risks, Notes are NOT guaranteed, or FDIC insured. Is this an appropriate investment for you?

If you're already an experienced Note investor those steps can go very quickly.

Once you're approved, we'll send you a link so you can get on the Note email list.

We email everyone on the list as groups of Notes become available. You can review the Notes and the information to choose the Notes you are interested in.

In the future, we'll have a "shopping cart" online to automate more of the process.

Note Buying Process

Review Available Notes
We send out an email with a summary of each Note available. The summary includes:

- specific numbers for that Note
- Property address & Property Photo
- A brief summary of the project and the borrower's intentions
- A brief summary of the borrower's experience
- A brief summary of the borrower's loan history with us.
- Any additional information about this specific Note that seems important. For example, we may know the term of the Note likely to be shorter or longer than normal. It may be a deal where we have a related interest in the deal in some way.

You can ask us any additional questions you may have about the Note, borrower, etc. We have a LOT more info than we put in the summary.

Review the list and decide which Notes fit your goals, timelines, and needs. Send us an email with the Note address, and the amount you want for each one. Include alternatives, the Notes do go quickly.

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Request a Specific Note
Respond to First come, first serve. We process emailed request in the order received. They do go fast.

Complete the paperwork
Of course, there is some paperwork involved. We'll need to get your account set up, get copies of documents to you, and transfer your portion of the Note. We'll prep most/all of it for you. If you have a custodian, we'll help you through their process.

Make the purchase
Once the paperwork is completed, you'll be able to transfer funds and acquire ownership.

Congratulations!

After the Purchase

Interest
Interest starts accruing once the purchase process is complete and your purchase is funded**.** A purchase is funded at midnight the day funds are in the checking account. For example, if we receive your funds electronically on the 17th, the last day for the current Note owner is the 17th, and your interest starts accruing on the 18th. Checks are considered received the business day after they arrive in the mail. (Mail comes late in the afternoon here, I can't deposit them the same day).

Payments
The borrower's payment are due on the 1st of each month, and are for the interest accrued in the previous month. So, March's interest is collected on April 1st. We pull the payments from the borrower on the first business day of the month, which could be anywhere from the 1st to the 4th, depending on weekends and holidays. We wait 7 calendar days just in case something bounces. It doesn't happen often, but it's a possibility.

7 days after we pull them from borrower, and they should show in your account the following day. If you are using a custodian like Equity Trust Company, they may need a couple days before the funds show in your account.

Proration example
Interest is collected for the previous month, so in this example, March.
Interest is always prorated the first and last month to match when it was funded.
For this example, funds were deposited on 3/11/21, and interest started accruing for you on 3/12/21

> $50,000 at 10% = $5,000 per year. $5,000/12 = $416.67 per month. This will be the amount for all full months.

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The first (and the last) month is prorated for the number of days.

$416.67 * 20/31 = $268.82. This is the amount that will be for March.

You would receive this about April 8th. If the 1st of the month is a non-banking day, the deposit will be later.

Note Payoff
When the Note is paid off, you'll receive the final interest payment and the principal.

Let's Do it Again!
Pick another Note and do it again.

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WHAT IS A NOTE AND A MORTGAGE?

A Note is the written agreement between a borrower and a lender. It details all the specifics of the loan. A Mortgage secures the Note to a specific piece of real estate as collateral for the loan.

THE NOTE

The Note has all the key details of the loan, and the terms for repayment, in addition to the usual legalese boiler plate. Some terms are very similar in most Notes, and others will vary with each Note. We'll cover all those terms below.

THE MORTGAGE

The Mortgage secures the Note to a specific piece of real estate. The real estate is the collateral for the loan. If the Borrower doesn't pay the Note, the Note owner has the right to take the collateral through foreclosure. The Mortgage document is recorded in the county where the property is located. Recording the mortgage gives public notice that the lender has a financial interest in the real estate.

LOAN AMOUNT

This the total amount due on the Note. Sometimes closing costs can are included in the Note. On Hard Money Loans, this is often divided into two parts. The initial loan for the purchase, and the construction escrow for the rehab. The borrower only get constructions funds after work is completed.

INTEREST RATES

The interest rate will vary with the type of loan, market rate, and the strength of the deal, which includes several factors. In general, the more secure the deal appears, the lower the interest rate. Every loan and borrower are different.

Hard Money Loans have higher rates, but they pay off sooner. The money is returned to you and the interest payments stop. At least they stop until you get a new note.

Rental Loans have lower rates but go for a longer period of time before being paid off. You'll have fewer gaps with no interest with Rental Loans.

PAYMENTS

Hard Money Loans usually have monthly, interest only payments.

Rental Loans also have monthly payments. They could be interest only, or they could be amortizing with the payment including both principal and interest.

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LOAN TERM (Length of Loan)

Hard Money loans are typically for 12 months and are often paid off in about 7 months when the property is sold. Sometimes, the borrower intends to keep the property and refinance it as a rental property after the renovations are complete. In those cases, we write the Note for 15 months, so they have time to meet the seasoning requirements required by most banks to refinance the property and pay off the hard money loan.

Rental Loans are often for 5-20 years but they can be for any duration. These are the properties a landlord holds to collect rent. Usually, we'll identify the note buyer before we originate the loan. Then we can work with both the note buyer and the borrower to create a note the works well for everyone.

AMORTIZATION

The length of time the payment amount is based on. On a fully amortizing loan the monthly payment is calculated so the last payment is paid in full. A 20 year Note has 240 equal payments, and the last payment fully pays off the loan.

BALLOONS

The Balloon is the amount due at the end of the loan term if the Note doesn't fully amortize to a payoff. A Note amortized over 20 years may have a 5 year balloon. In this case, the borrower's payments would be calculated as if it were a 20 year note. However, at the end of year 5, the entire remaining loan balance would be due.

For a Hard Money Loan, that's usually the original loan amount. For a Rental Loan, there may or may not be a balloon.

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ADDITIONAL DEFINITIONS

LTV – Loan to Value – The amount of the loan divided by the property value. 70% Loan-to-Value is common. This leaves equity in the property to give the borrower incentive to repay the note and provides a cushion if the Note Owner must foreclose.

LTC – Loan to Cost - The amount of the loan divided by the cash needed for the property. 80% or even 90% Loan-to-Cost is common. This reflects the borrower getting a good deal on the property, but still putting skin in the game as a down payment.

Personal Guarantee – Investors often own their properties through their company or Land Trust. We require them to also guarantee the Note with their personal assets.

Principal – The loan amount not including any accrued interest or other fees.

Seasoning – How long the note has existed.

Prepayment Penalty – If the loan is paid off early, does the borrower have to pay anything extra. Our notes typically include a minimum of 3 months interest.

Default – If the borrower has not complied with the terms of the note and mortgage, they are in default. The most common example is missed payments.

Assignment of Mortgage – Used to transfer ownership of the mortgage from one person/entity to another. Used together with an Allonge.

Allonge - Used to transfer ownership of the note from one person to another. Used together with the Assignment of Mortgage.

Release of Mortgage – Once the Note is paid off, this is recorded with the county to publicly remove the lender's interest in the property.

Land Trust – Holds real estate. Used to give the property owner some privacy. Does NOT provide asset protection. Trustee is responsible for the paperwork and trust assets.

Personal Property Trust – Holds notes and mortgage. Used to give the property owner some privacy. Does NOT provide asset protection. Trustee is responsible for the paperwork and trust assets.

Assignment of Beneficial Interest – Used to transfer the beneficial interest (aka "ownership") of the Trust from one person/entity to another.

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