INCOME OVER WEALTH

The Private Note Due-Diligence Checklist

Ten questions to answer before a dollar moves — in order. If any layer fails, there is no deal.

LAYER 1 · VET THE OPERATOR

☐ **1. Can I verify their track record independently?**
Closed deals and references from title companies and past lenders — not their own highlight reel. Run a background and litigation check (county records, state courts). A legitimate operator expects this.

☐ **2. What keeps this operator committed if things get hard?**
Skin in the game matters most when the property produces no income (construction, hard-money) and walking away is cheap. On a cashflowing, amortizing deal, the operator builds equity with every payment — that structure itself is the alignment. Know which kind of deal you are in.

LAYER 2 · VET THE DEAL

☐ **3. Do I know what the property is worth — from evidence I trust?**
An independent appraisal or BPO, or your own comps if you genuinely know how to run them. The only wrong answer is the borrower's number taken on faith: a bad valuation is a fake cushion.

☐ **4. What position am I in — and what sits ahead of me?**
Second position behind a bank loan is common in private lending. It is not automatically disqualifying, but it is a different risk: know every senior lien, and understand that a senior foreclosure can wipe a junior claim off the property.

☐ **5. How is this loan actually being paid back?**
The biggest question on this page. Where does the monthly payment come from — rent already in place, the operator's pocket, or hope? If construction: has this operator done this scale of work in this market? If rental or lease-option: what is market rent against ALL expenses, who covers vacancy, and who manages — the operator or a property manager, and with what track record?

☐ **6. What is my cushion — and which way is it moving?**
Loan-to-value against a stressed value and real selling costs. Then check the direction: on an interest-only note the cushion only moves if the value does; on an amortizing note it grows with every payment.

☐ **7. What state is the property in — and what does foreclosure look like there?**
Timelines and costs vary enormously by state. Understand the process where the property sits before you lend, not after.

LAYER 3 · VET THE PAPERWORK & TERMS

☐ **8. Is every document in place?**
Promissory note, recorded mortgage or deed of trust, closing through a licensed title company with a title search, and hazard insurance naming you. Ask whether a lender's title policy is available for extra protection. The documents are the deal — everything else is conversation.

☐ **9. How will I see proof the property's bills stay paid?**
Payments tracked, and receipts showing taxes and insurance stay current through the life of the loan. A loan servicer is optional in private lending — verification is not.

☐ **10. What is my exit?**
Private notes are illiquid: money is committed for the term, so never lend money you might need back sooner. Prefer notes with no balloon. If there is one, know exactly how it gets paid — sale? refinance? — and what the backup plan is.

IF THE DEAL FOUND YOU FIRST

An unsolicited pitch from a stranger — social media, a cold message, “guaranteed returns” — fails this checklist at Question 1. Legitimate private deals either cannot be marketed to strangers at all, or must rigorously verify an investor's finances before accepting a dollar. No qualification process means walk away. When in doubt, check the person and the deal with your state securities regulator before any money moves.