

Investor Requirements

Offers given from investors to purchase notes will usually be guided by certain requirements. These requirements will be based on the various qualities of the notes (see article, "[What Makes Good Paper?](#)"), with emphasis on certain items over others, such as the strength of the Payor. Investors will follow certain minimums and maximums on which their offers will not surpass. One such maximum is the Investment To Value (ITV) and one minimum is the yield requirement. To make an offer, both will be calculated for a given note and the lower of the two will be the offer.

Investment To Value

ITV works much the same as Loan To Value (LTV) except that the percentage is calculated from the amount of money the investor will pay for a note rather than the current balance. For example, a note with a current balance of \$90k and a property value of \$100k would have an LTV equal 90%. If an investor were to offer \$80k to purchase the note, the investor's ITV would be 80%. In the same example, if the investor determined the perceived risk of the note to dictate a max ITV of 75% his offer would be \$75k, even if his yield requirement would allow for a higher offer.

Yield Requirement

Most investors will base their offer on a given "yield", or return of investment. The yield is calculated similarly to interest, except it is based on the amount of money paid for a note, much like ITV. The discount creates a yield that is higher than the interest rate on the note. For example:

	<u>Face Value</u>	<u>Interest</u>	<u>Term</u>	<u>Payment</u>
Note:	\$150,000	8%	180 months	\$1,433.48

If an investor wanted to receive a 12% yield on this note, the offer would be determined by changing the "interest" to 12% and calculating for the value of 180 monthly payments of \$1433.48.

	<u>Offer</u>	<u>Yield</u>	<u>Term</u>	<u>Payment</u>
	\$119,439	12%	180 months	\$1,433.48

The interest rate of the note is a large factor in determining the discount required to meet the desired yield. On notes with low interest rates, the discount necessary to reach a given yield is much greater than notes with higher interest rates. Following with the examples above, you can see how much lower the offer would be for a note with the same face value and term and a lower interest rate:

	<u>Face Value</u>	<u>Interest</u>	<u>Term</u>	<u>Payment</u>
Note:	\$150,000	4%	180 months	\$1,109.53

<u>Offer</u>	<u>Yield</u>	<u>Term</u>	<u>Payment</u>
\$92,448	12%	180 months	\$1,109.53

Combined Effect

Both the maximum ITV and the yield requirement will be calculated, and the lower of the two will determine the offer. Continuing with the examples above, let's say the property is valued at \$160,000, and let's assume these notes are new (no seasoning). Due to multiple factors, the investor determines his maximum ITV for this note is 70%, which calculates to \$112,000. In the example with a 4% interest rate, the offer would be based on yield requirements, which would be \$92,448. If the investor was making an offer on the 8% interest note, he would offer the maximum ITV amount of \$112,000, since the offer based on yield (\$119,439) is above his maximum ITV.

As stated previously, the yield requirement and maximum ITV for any given note is based on many factors. The level of risk is determined by weighing various positive and negative traits of the note, and the guidelines for offers are followed according to the perceived risk.

Panther Investments, Inc.

service@pantherinvestments.net