Lender due diligence and underwriting checklist

Lender Capital · lendercapital.co/lender-due-diligence-checklist

The checklist

Work through each section before you commit to fund, or before you send a file to a capital partner. Every item says why it matters.

1. Borrower and guarantor

Who you are lending to, whether they can do what the plan needs, and who stands behind the loan.

- [ ] **Government ID for every signer and guarantor** · Confirms the people signing are who they say they are, the first defense against identity and impersonation fraud.
- [ ] **OFAC sanctions screening of borrower, owners and guarantors** · U.S. persons are generally prohibited from dealing with sanctioned parties, so screen every name against OFAC's lists.
- [ ] **Credit report and explanation of derogatory items** · Shows how the borrower has handled debt, including past foreclosures, judgments and late payments.
- [ ] **Experience and track record (completed projects)** · A borrower who has finished similar projects is more likely to finish this one; verify with deeds, HUDs or photos.
- [ ] **Liquidity: bank statements for down payment and reserves** · Confirms the borrower can fund its equity, closing costs, interest and overruns without new borrowing.
- [ ] **Background check: litigation, liens, bankruptcy** · Open lawsuits, tax liens or a recent bankruptcy can affect repayment and the borrower's ability to close.
- [ ] **Personal guarantee and guarantor financials** · A guarantee is only as useful as the guarantor's verified net worth and liquidity.

2. Entity documents

Most business-purpose loans are made to an LLC or corporation. Confirm it exists, is in good standing and has authorized the loan.

- [ ] **Articles of organization or incorporation** · Proves the borrowing entity legally exists and shows the state it was formed in.
- [ ] **Certificate of good standing (current)** · An entity that is not in good standing may not be able to enter into or enforce contracts.
- [ ] **Operating agreement or bylaws, with amendments** · Shows who owns and manages the entity and whether anyone else must approve borrowing.
- [ ] **Borrowing resolution or consent naming signers** · Confirms the entity authorized this loan and the people signing have authority to bind it.
- [ ] **EIN confirmation letter (IRS)** · Ties the entity to its tax identity for closing, reporting and payoff records.
- [ ] **Beneficial owners list, with ID and OFAC for each** · Shows who really controls the borrower, so you can screen and guarantee the right people.
- [ ] **Foreign registration if the property is in another state** · An entity doing business outside its home state may need to register there.

3. Property

What secures the loan, how it will be used and what could reduce its value.

- [ ] **Full address, legal description and APN** · The mortgage, title, appraisal and insurance must all describe the same parcel.
- [ ] **Occupancy and business-purpose statement** · Confirms the loan is not for an owner-occupied home, which can bring consumer lending rules into play.
- [ ] **Condition: photos, inspection or site visit** · Confirms the property exists and matches the appraisal and the borrower's plan.
- [ ] **FEMA flood zone determination** · Property in a special flood hazard area usually needs flood insurance before you fund.
- [ ] **Hazard or builder's risk insurance quote** · The collateral must be insured from day one, with the lender named on the policy.
- [ ] **Environmental screen; Phase I ESA if warranted** · Contamination can make a property hard to sell or finance and costly to clean up.
- [ ] **Purchase contract and any assignment fees** · Shows the real price, who the seller is and whether a wholesaler is in the chain.

4. Title

Make sure the borrower owns, or will own, the property and that your loan will be a first lien.

- [ ] **Title commitment from a title insurer** · Lists what must happen before the policy issues and what the policy will not cover.
- [ ] **Existing liens, judgments and taxes to pay off** · Every prior lien must be paid or subordinated for your loan to sit in first position.
- [ ] **Vesting matches the borrowing entity** · If title vests in someone other than the borrower, the mortgage may not attach as intended.
- [ ] **Schedule B exceptions reviewed and cleared** · Easements, restrictions and other exceptions can limit use, value or your coverage.
- [ ] **Survey where needed (new build, land, CRE)** · Shows boundaries, encroachments and easements that a title policy may otherwise except.
- [ ] **Chain of title and recent transfers** · Quick flips and unusual transfers can signal inflated value or seller impersonation.
- [ ] **Lender's title policy (ALTA loan policy) and endorsements** · Insures the validity and priority of your lien, the coverage capital partners expect.

5. Valuation

Your leverage is only as sound as the value behind it.

- [ ] **Appraisal by a licensed or certified appraiser** · An independent opinion of value prepared under USPAP is the basis for LTV and ARV.
- [ ] **As-is value and after-repair value (ARV)** · As-is value sizes the purchase advance; ARV tests whether the finished project supports the loan.
- [ ] **Appraisal review (desk or field)** · A second look catches weak comparables, errors and value that doesn't fit the market.
- [ ] **Comparable sales: recency, distance, similarity** · Value is only as good as its comps; check they are recent, nearby and truly similar.
- [ ] **BPO vs appraisal: know which you have** · A broker price opinion is not an appraisal, and many capital partners will not lend on one alone.
- [ ] **Appraiser engaged by the lender, not the borrower** · Protects the appraiser's independence and the credibility of the value.
- [ ] **Scope matches the plan (rehab, land, income)** · A fix-and-flip needs an ARV; an income property needs an income approach.

6. Rehab and construction budget

For fix-and-flip and ground-up loans, the budget and the plan are part of the collateral.

- [ ] **Line-item budget by trade or phase** · Lets you test each cost and release draws against work actually completed.
- [ ] **Scope of work, plans and specifications** · Ties the budget to what will be built and to what the appraiser valued.
- [ ] **Contractor license, insurance and contract** · An unlicensed or uninsured contractor puts the project and the collateral at risk.
- [ ] **Permits issued or a realistic path to them** · Work that can't be permitted can't be finished, sold or refinanced as planned.
- [ ] **Draw schedule and inspection process** · Funds released only after inspection keep loan dollars tied to value in place.
- [ ] **Contingency line in the budget** · Overruns are common; a contingency shows whether the budget can absorb them.
- [ ] **Loan-to-cost (LTC) within your limits** · LTC shows how much of the total project cost the loan funds, and so how much the borrower must.

7. Exit and terms

How the loan will be repaid, and whether the terms give the plan room to work.

- [ ] **Written exit plan: sale or refinance** · Every short-term loan needs a credible way out; test it against the appraisal and market.
- [ ] **Refinance exit tested against DSCR terms** · A rental refinance only works if rents support the new loan on today's terms.
- [ ] **Signed term sheet matching the file** · Rate, points, term, leverage and conditions must agree everywhere in the file.
- [ ] **Interest reserve sized to the timeline** · A reserve keeps payments current during construction, if it is sized realistically.
- [ ] **Extension terms, fees and conditions** · Projects run late; clear extension terms avoid a forced default or a rushed sale.
- [ ] **Prepayment, default and late-fee terms** · These terms protect the lender and must be lawful in the property's state.

8. Closing

Most problems at the table are ordinary and avoidable: missing endorsements, unsigned documents and wire fraud.

- [ ] **Written closing instructions to the title or escrow agent** · Tell the agent exactly what must be true before funds are released.
- [ ] **Escrow or title agent vetted, with closing protection letter** · A closing protection letter can cover certain losses caused by the closing agent.
- [ ] **Loan documents: note, mortgage or deed of trust, guarantee** · Documents drafted by counsel for the state and loan type are what make the loan enforceable.
- [ ] **Insurance with mortgagee and loss payee endorsements** · Names the lender so insurance proceeds protect the loan if the property is damaged.
- [ ] **Wire instructions verified by phone, known number** · Email instructions can be spoofed; call back on a number from a source you already trust.
- [ ] **Funding conditions all cleared before release** · Every condition on the commitment and title must be met before money moves.
- [ ] **Recorded mortgage and final title policy collected** · Confirms the lien is of record and the policy issued as committed.
- [ ] **Complete post-closing file assembled** · Capital partners, auditors and servicers rely on one complete, organized file.

9. Commercial real estate (CRE)

For income-producing commercial property, repayment depends on the tenants and the income, so the file goes further.

- [ ] **Certified rent roll** · Lists every tenant, rent, term and deposit: the starting point for underwriting income.
- [ ] **T-12 operating statement and prior years** · Shows actual income and expenses, not projections, so you can test the rent roll.
- [ ] **Leases, with all amendments** · The leases, not the summary, set rent, term, options and who pays which costs.
- [ ] **Tenant estoppel certificates** · Tenants confirm rent, defaults and side deals the landlord may not have disclosed.
- [ ] **SNDAs for major tenants** · Set out how tenants and the lender's lien relate if the lender forecloses.
- [ ] **DSCR and debt yield calculations** · Show whether net operating income covers the debt, independent of the appraised value.
- [ ] **Phase I ESA to ASTM E1527-21** · The standard environmental review for commercial property, and often a lender requirement.
- [ ] **Zoning report or letter** · Confirms the current use is legal and the building could be rebuilt if destroyed.
- [ ] **Property condition report and tenant concentration** · Flags deferred maintenance and income that depends on one or two tenants.

General information, not legal advice. Requirements vary by lender, loan type, property and state.