

# Loan Resolution Advisors, LLC



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## **REBNY - Building Issues: Before, During and After Insolvency**

- I) Owner Responsibilities versus Lender Responsibilities**
  - A) Non Monetary Defaults**
  - B) Property Maintenance**
- II) New Construction / Renovation / Base Building Work**
  - A) Legal Issues:**
  - B) Code Compliance**
  - C) Liens**
  - D) Monetary Defaults**
  - E) Tenant Improvement Allowances**
  - F) Brokerage Commissions**

**PRESENTED BY: JACK M. ROSENFELD & ROBERT S. MATHES**

## REBNY - Building Issues: Before, During and After Insolvency

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- **Robert Mathes – Loan Resolution Advisors, LLC**

Senior Real Estate Banking Executive with over twenty years of experience specializing in marketing, originations, structuring, syndication, workouts and management. Currently Head of Troubled Debt Restructurings at Flushing Bank; and previously as an SVP at HSH Nordbank and VP at Calyon Credit Agricole CIB. He has a demonstrated track record of forging strong relationships with developers, investors, brokers, and other lenders. Proven success in business development, deal closings and workout strategies. Expertise in managing a team, developing new businesses, strategic planning, financial modeling, data analysis and portfolio management. He is a licensed NYS Real Estate Broker.

- **Jack Rosenfield - Loan Resolution Advisors, LLC**

- Most recently has been advising Community Banks on workouts & restructuring of over \$200 MM of distressed CRE debt. He was SVP and Director of Asset Manager at The Athena Group and previously a Senior RTC Executive; substantial experience in directing and managing workouts on behalf of lenders and investors with extensive background in Asset and Portfolio Management, Experienced in Development and Operations of multifamily residential, condominium and retail properties. Particular knowledge of debt and equity financing of shopping centers, multifamily rentals, condominiums and office properties. He is an attorney licensed to practice in NYS and the federal courts and is a licensed NYS Real Estate Broker.

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      - a) Code Compliance**
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    - ii) Brokerage Commissions**
    - iii) Real Estate Taxes & Other Government Liens**

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- **Create a list of all necessary parties with their contact information:**
  - Borrower
  - Lenders
  - Guarantors
  - Contractors
  - Accountants
  - Lawyers
  - Title Company
  - Management & Leasing Companies
  - Local Taxing Authorities
  - Tenants

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- **Maintain working copies of Loan Documents including:**
  - Note
  - Mortgage
  - Intercreditor agreements
  - Any amendments or side agreements
  - Letter of Credit
  - Interest Rate Hedge Agreements
  - Pre-Workout Agreements
  - Default Notices
  - Borrower and Guarantor Financial Statements
  - Stipulation Agreements (Court Orders)
  - Key Leases

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- **Maintain working copies of Third Party Reports:**
  - **Environmental Condition Report**
    - Phase I
    - Phase II or III, if necessary
    - Remediation Plan, if any
  - **Property Condition/Inspection Report**
  - **Title Report**
    - UCC Search
    - Lien Search
    - Litigation Report
  - **Market Study/Appraisals**

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- **Owner Responsibilities:**
  - **Maintain the Property**
  - **Maintain Communications with Tenants**
  - **Lease the Property**
  - **Pay all Bills**
  - **Insure the Property**
  - **Provide Lender with Periodic Reports**
  - **Maintain Accurate and Complete Records**

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- **Lender Responsibilities:**
  - **Collect Debt Service and Distribute if Applicable**
  - **Maintain Communications with Borrower/Guarantors**
  - **Monitor Borrower Performance**
  - **Meet with Borrower**
  - **Periodically Inspect Property**
  - **Keep Other Lenders in the Lending Group Informed**
  - **Anticipate Changes In Property Cash Flow**
  - **Anticipate Changes In The Condition Of The Property**
  - **Re-underwrite the loan annually**

## Yesterday vs. Today

- **Lenders:**

- Whole Loan – Syndicated or Not
- Multi-Tiered Whole Loans
- Securitized Loans

- **Owners:**

- Family/Institutional Long Term Hold
- Fund Short to Medium Term Hold
- Merchant Builder/Opportunistic Investor

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## Yesterday versus Today: (150,000 sf B Building on Madison in 50's)

For the Years Ending	Dec-2006	Dec-2011	ASSUMPTIONS	Dec-2006	Dec-10	Dec-2011
Gross Revenue	\$8,400,000	\$8,500,000	Base Rent	\$53		\$57
Collection Loss/Vacancy	(\$420,000)	(\$850,000)	Credit Loss/Vacancy	5%		10%
<b>Effective Net Revenue</b>	<b>\$7,980,000</b>	<b>\$7,650,000</b>	Tenant Improvements	\$27		\$60
Operating Expenses	\$2,380,000	\$2,550,000	Cap Rate	6.0%		6.0%
<b>NET OPERATING INCOME</b>	<b>\$5,600,000</b>	<b>\$5,100,000</b>				
<b>Leasing Costs</b>			1 Year LIBOR	5.30%	1.20%	1.05%
Tenant Improvements	\$400,000	\$600,000	Floor	0.00%	3.00%	0.50%
Leasing Commissions	\$100,000	\$150,000	Credit Spread	1.00%	3.00%	2.50%
<b>TOTAL</b>	<b>\$500,000</b>	<b>\$750,000</b>	Amortization	0	25 Year	25 Year
			Amortization Factor	0.00%	0.62%	1.69%
<b>Cash Flow Before Debt Service</b>	<b>\$5,100,000</b>	<b>\$4,350,000</b>	<b>All In Rate</b>	<b>6.30%</b>	<b>6.62%</b>	<b>4.69%</b>
Interest	\$4,662,000	\$2,130,000	Coverage Factor	1.10	1.30	1.30
Amortization	\$0	\$1,201,879				
<b>Owner Cash Flow</b>	<b>\$438,000</b>	<b>\$1,018,121</b>	<b>Debt</b>	<b>\$74,000,000</b>	<b>\$59,000,000</b>	<b>\$71,000,000</b>

Debt Service, even with amortization is not an issue today for income producing properties and owner just has to come up with \$3,000,000 in equity to pay down the loan (versus \$15,000,000 a year ago).

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- **Lenders: Whole Loan – Syndicated or Not**
  - Typically issued by a Bank or Insurance Company.
  - May be sold/syndicated to other whole loan lenders, typically at par.
  - Originator typically retains a significant portion and acts as agent.

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- **Lenders: Multi Tiered Whole Loan – Syndicated or Not;**

**A property with a first mortgage loan and any or all of the following:**

- **Second, Third,... Mortgages**
- **Mezzanine Debt that also can be tranced**
- **Originator typically retains a significant portion of the first mortgage and/or all of one of the junior liens and acts as agent.**

- **Lenders: Securitized Loans**

**Properties with a first mortgage loan are the building blocks for all of the following:**

- **CMBS** – A loan against a property that is typically secured by a first mortgage lien or deed of trust. The debt instrument is then placed in a trust and certificates of ownership in that trust are tranced, rated by a third party agency and sold.  
CMBS – 2.0: How different or is it smoke and mirrors?
- **CDO** – The junior tranches of various CMBS issuances are combined into a new trust, new certificates are issued rated and sold.
- **CDO<sup>2</sup>** – A CDO made up of investments in other CDO certificates.

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## OWNERS

- **Family/Institutional Long Term Hold**
  - Owners that measure the age of their holdings across generations.
  - They almost never sell.
  - Typically do not use much leverage except maybe at acquisition, increasing debt with value but lowering leverage over time.
  - Look for steady income and no principal loss.
  - Typically never go bankrupt and support problem properties.
  - Examples: Yale, Milstein, Rudin and Litwin Families

## OWNERS

- **Fund Short to Medium Term Hold:  
Private Equity Funds**
  - Three to seven year hold of an existing asset typically trying to take advantage of both increased income and cap rate compression.
  - Usually use substantial leverage.
  - Limited additional capital to rectify problems.
  - May be forced to sell at inopportune times.
  - Managers typically an investor; has at least one stream of income but usually two.

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## OWNERS

- **Merchant Builder/Opportunistic Investor**
  - One To Three year hold of a new development or repositioning opportunity.
  - Exit is to sell to a REIT or other stable value hold player.
  - Utilizes as much leverage as possible; as high as 95% in the last cycle.
  - Most of the owner's return is in fees from developing, (re)leasing and managing the property.
  - Typically not liquid and resources stretched across multiple projects in various stages.

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## CONCLUSIONS

- Both Borrower and Lender must maintain complete records and documents.
- Before Insolvency the Borrower must maintain and operate the property and does so mostly independently from Lender.
- During Insolvency the Borrower must take steps to maintain the property and maintain the best possible relations with the lender as this is Borrower's best chance of achieving a successful workout and retaining the property (or some economic interest in the disposition of the property by Lender).
- During Insolvency proceedings the Lender must prepare to exercise his rights by doing a thorough file review, updating appraisals and other documents while both working with the Borrower to avert a foreclosure and hiring third party expertise to assist Lender in the event of a foreclosure.
- After Insolvency Lender must take control of the property and maintain it in a condition that will maximize its value.

# Loan Resolution Advisors, LLC

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Objectively Evaluates All Aspects Of  
Your Real Estate Loans And Provide  
You With The Strategic Advice  
Necessary To Maximize The Value Of  
Your Loan Portfolio.



### Engaging LRA for Asset Resolution will:

- Provide senior management with strategies for timely resolution of distressed and disputed loans;
- Create a uniform framework for the asset resolution function;
- Provide management with a review and analysis of “at risk” assets;
  1. Risk mitigation & disposition strategies for underperforming & OREO assets.
  2. An Analysis to address re-underwriting guidelines and pricing of all asset classes.
  3. Provide strategies for maximizing loan yields, while meeting the desired risk-return objectives of the institution.
- Enable the bank officer to efficiently manage the resolution process; and

LRA will implement an Action Plan that is designed to resolve distressed debt situations that will result in the most cost effective outcome for its clients.



### **LRA team members have extensive backgrounds in real estate, lending, and loan workouts:**

- The team brings a broad range of skills to loan workouts including portfolio management, underwriting and investment analysis, loan syndication, asset management, loan administration, real estate legal expertise, and third party vendor management.
- Team members successfully navigated through previous down real estate cycles;
- Restructured both corporate and asset-based real estate debt;
- Bring a unique perspective gained from acting on behalf of owners, investors and lenders in all levels of the capital structure; and

By harnessing these skills and expertise LRA empowers its clients to make informed decisions for asset resolutions.