


BEYOND THE 5 DATA POINTS:

HOW TO NAVIGATE AROUND ANY SPEEDBUMPS ON YOUR WAY TO CLOSING

How To Bid The Deal

Sponsor and Asset Qualification

	LIKELY SCENARIO(S)	HOW TO VALUE: PRICE PER POUND	HOW TO BID: BASIS AT BUY	LOCATION	DESIRABILITY OF ASSET / COLLATERAL	QUALITY OF SPONSOR / OPERATOR
COMMERCIAL REO & VALUE ADDED	Bank doesn't have any financial records or is not managing the asset. Asset could be vacant.	Check to see what similar assets are "trading" at; meaning what they have sold for. This is usually explained as a "price per door" or "price per key" (hotels). A market is a market! Foreclosures and tax deed sales count.  Pay no attention to "listed" comps, appraisals, the Unpaid Principal Balance ("UPB") , or the proforma.	Treat REOs as a value added play. Back of the Envelope Approach: Take the lowest CMA and discount it by the \$ amount of repairs, then discount 20%. If condo-izing is the strategy or "key event", the basis at buy should be treated as a rental. Therefore, use CMA cap rates of recent trades to back into an NOI for a bid at a value added cap rate.	Is the location desirable, marketable? Reference the "USAToday Weather Map" strategy.	Moving vs Storage Co.'s: Many times banks lent on assets that were marginal, just to make fees. Hard Money Lenders are famous for overvaluing and lending on raw land that was essentially worthless. Is the asset or underlying collateral deemed marketable and in demand? Are there other factors to deal with?	Is your borrower qualified? Or will you risk your "reputational capital" by bring s/he to your capital partner? Guilty until proven innocent. Have they done these types of deals before? Prove it. Are the local to the asset? Experience is more important than capital in these instances.
DEFAULTED NOTE	Lender hasn't foreclosed yet, or Bank has filed NOD, or Bank has filed NOD and borrower has filed Bankruptcy (bad for lender).	Investment-To-Value ("ITV") reflect risk. Use the Five Data Points – Current NOI to assess current value. If 5 Data Points Aren't Available, use above price per pound approach.	Take the Unpaid Principal Balance ("UPB") and divide it by the Value. The lower the number the better. If NOD has been filed, that is good for Note Buyer. Risk is borrower can file Bankruptcy ("BK") anytime. If BK has been filed, discount bid deeply to reflect long holding time before you realize control and ability to generate value (profit)	Is the location desirable, marketable? Reference the "USAToday Weather Map" strategy.	Just like in residential, many defaulted notes may not have been foreclosed on because the lender is scared that borrower will file BK or doesn't have the money to file and complete the foreclosure. Has this note been traded or resold? Why hasn't the borrower filed BK yet? Have there been any verbal promises made to borrower from lender?	Has your borrower purchased a defaulted note before. What is their plan for realizing value and profit? Does it make sense? Its often helpful to bring the capital partner in early to help the borrower bid. Defaulted notes are very risky to the inexperienced investor.
DISCOUNTED PAY OFF ("DPO")	Borrower is current. Needs "take out" lender. Hard money lender wants out because "key event" didn't happen or isn't likely to happen. Document deficiency causes "lender liability".	Use Five Data Points. If asset is performing, this should be easy to get. You'll need this to see if the asset can support a new bridge loan at higher interest rates. If not, you could inadvertently stress the asset. If "key event" is not happening, what is the Plan B and what will that asset be valued at under that situation.	Function of borrower's financial strength and ability of asset to handle higher interest debt at a lower LTV. Inverse bid: Stress test the numbers using Excel Model to see at what basis the note would have to be financed at using a 12% interest rate to comfortably still throw off cash flow. The higher the interest rate, the lower the loan amount.	Is the location desirable, marketable? Reference the "USAToday Weather Map" strategy.	Easier to close if the bank has sent a "Term Sheet" to the borrower stating the accepted pay off amount. Usually has a fuse. Asset desirability will drive the DPO. Often times, if the discount isn't enough, equity may have to be brought to the table by either the borrower or another capital provider.	Is this the same sponsor that who is buying their note back? Or is this a new sponsor stepping into the shoes of the old sponsor? Why is the bank selling at a discount? Ask the hard questions: What is the payment history? Were any payments missed, slow? Why is the bank selling at a discount? Any verbal promises made by lender to borrower?
STABILIZED ASSET	Loan is not "co-terminous" with the lease and is coming due. Can be a NNN retail center with 30 years left on the lease but the loan has a short fuse on it. Bank will not want to re-lend or extend because of their own internal or regulatory issues.	If Stabilized, you must get The 5 Data Points the value. Nothing else is acceptable. Not a good candidate for bridge loan financing unless it is short term to bridge to permanent debt. Be careful of "FHA" takeout strategies and plans.	Valued at the same cap rate that similar assets are trading at. Use the cap to back into a dollar figure.	Is the location desirable, marketable? Reference the "USAToday Weather Map" strategy.	Leases and the duration of leases will drive the value here. NNN's should have about 10 years left on average to be marketable. Sometimes the lender will require the tenants to sign Estoppel Letters .	Who is buying this? Most sponsors will assume a loan or want to buy a stabilized asset with all debt. Where is the equity coming from? Is it syndicated from less sophisticated "retail investors" ? Or is it insitutional?
DEFAULTED / STRESSED CAPITAL STRUCTURE (PREFERRED EQUITY, MEZZANINE)	How do the Operating Agreement (Equity) and Intercreditor Agreement (Mezz) "docs" read? Can be a huge wealth creator.	Typically a partnership blows up, and there are many aspects that need to be cleaned up.	Often called "LP Secondaries" , these pieces can often be purchased for pennies on the dollar. Need to check if there is / was a recent "capital call"	Is the location desirable, marketable? Reference the "USAToday Weather Map" strategy.	Does this development exist in a region where it has strong desirability? Or is it just a legacy of loose lending from yesteryear?	If GP: Experience critical to drive toward value creation. If LP: What is their overall strategy? Buying majority interests?

TIPS, TRICKS AND TRAPS

THE GUT CHECK

Good Operators And Sponsors Turn Bad Deals Into Good Ones, Bad Operators And Sponsors Turn Good Deals Into Bad Ones.

When looking at any deal, it's the operator that will do the heavy lifting required to create value.

ASK YOURSELF:
 "Do I trust this person with my wallet?"
 "Are they strong or weak?"
 "Will they make the right decisions to make me money?"

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