



STRUCTURED FINANCE LOAN PROGRAMS

Over the past two decades, from its roots on Wall Street, Structured Finance has developed as an alternative method of financing designed to address gaps in the lending landscape for commercial real estate that have been underserved by more traditional lending practices (such as those provided by life companies and conservative banks). Today, there are numerous non-conventional sources of capital available for a wide variety of property types, borrower profiles and project scenarios. In broad terms, the industry commonly refers to any loan that is not plain-vanilla as Structured Finance.

Below is a simple grid outlining several Structured Finance loan-types that can be originated through CMA. Following the chart is a brief description of each loan type (Click on the loan type for more information about that type. CMA has established strong relationships with a large number of lenders that are aggressively seeking to provide funds for the following Structured Finance opportunities (these sources range from private money to hedge funds to international institutions):

Loan Type	Priority	Leverage	Interest Rate	Term (yrs)	Points	Other Fees*
Acquisition	First	50% to 65%	12% to 18%	1 to 3	1% to 4%	B
Bridge	First	50% to 65%	10% to 18%	< 1 to 3	1% to 6%	B
Hard Money	First	50% to 65%	12% to 24%	1 to 3	2% to 8%	A, B
Mezzanine	Second	Up to 80%	14% to 20%	1 to 3	2% to 5%	A, B
Preferred Equity	Equity	Up to 95%	18% and up	1 to 3	2% to 8%	A,B, C
Joint Venture (JV)	Equity	Up to 98%	n/a	1 to 5	n/a	C
Debtor-In-Possession	First	n/a	9% to 18%	short term	0% to 5%	---
Troubled Assets	First	50% to 75%	15% and up	<1 to 3	2% to 8%	A, B, C

* Other Potential Fees: A = Prepayment Fee B = Exit Fee C = Back-end Profit Participation

While the following definitions are included as a guide to Structured Finance, it should be noted that every lender has their own definition of each of these loan-types. In many cases, loan names are used interchangeably with specific terms and conditions varying widely from one money source to another (some quite complicated).

Acquisition Loans: Short-term senior financing that can be used to fund the purchase of property that does not qualify for more traditional loan programs. In many cases, the property is either performing below its potential or may not be at its highest and best use. The buyer has identified the critical issues and created a business plan to maximize the value of the property after the acquisition. This type of scenario is commonly referred to as “value-add” and in some cases, the lender may build additional funds into the maximum loan amount (beyond those required to purchase the asset) to disburse according to the business plan in order for the buyer to implement any improvements and upgrades to the property, or the management thereof.

Bridge Loans: Short-term senior mortgage that is temporarily provided on a property until permanent financing can be placed or until the asset is sold. A Bridge Loan will typically provide time for the property owner to accomplish some near-term objective with the property, thus making permanent financing (or sale) more viable. Bridge Loans are often used in the following situations:

The existing mortgage on an investment property is maturing with a balloon and new long term loans are not available. Other than timing, the asset would not be described as distressed.

Additional time or funding is needed to fully implement a project’s business plan such as physical improvements, repositioning or the re-leasing of vacant space.

A partner in an investment group is looking to divest his interests in a project and the remaining partners (or entity) needs to buy-out his position.

Typically, Bridge Loans are paid off when permanent financing is placed on the property. Because of their short term nature, most bridge loans do not carry a prepayment penalty, but the note may contain a modest exit fee.

Continued on next page



Hard Money Loans: Short-term senior loan that is based primarily on the valuation of the underlying collateral with the lender looking to the property as the key source for repayment. Many in the industry will not differentiate between a Bridge Loan and Hard Money Loan. However, usually if a bridge loan involves a difficult situation, it is more apt to be referred to as a hard money loan. Hard Money Loans are utilized for acquisitions, turnaround situations, foreclosures and in bankruptcies; specific examples are shown below:

An investor needs to close quickly on a property and there is not adequate time to source more traditional forms of financing.

The credit or quality of the borrower may not be up to standards required by the major banks and lending institutions.

The property may be troubled or in some state of distress with issues relating to legal, operational or environmental problems.

The property type may be out of favor under current industry guidelines and traditional loans are not readily available.

Interest rates for Hard Money Loans are generally high (compared to traditional bank financing or stable bridge loans), but the costs are often less than taking on a financial partner or losing the real estate opportunity altogether. Leverage typically ranges from a 50% to 65% LTV.

Mezzanine Loans: Short-term financing that is most comparable in structure to a second mortgage. The Loan allows the borrower to increase the leverage on a property (or project) by adding a second piece of debt on top of the Senior Loan. In today's environment, this could take the full debt structure up to approximately 80% (significantly higher than the 50% to 65% currently being offered by Senior lenders). Mezzanine Loans can be used for almost any commercial real estate scenario, including acquisition, development and construction. Many Mezzanine lenders require a recorded second mortgage, while others will secure the debt by taking a pledge in the membership interest of the LLC (or stock, if the ownership entity is a corporation). If the borrower defaults, the Mezzanine lender will simply foreclose on the membership interest (or stock of the corporation) that owns the property. A Mezzanine Loan that does not require a second mortgage is often advantageous for the borrower as it will allow additional debt to be placed on top of the Senior Loan when standard second mortgages are forbidden. In all cases, an Intercreditor Agreement between the Senior and subordinate lenders will be negotiated prior to closing.

In a typical capital structure, the first mortgage (senior loan) will have priority, followed by the Mezzanine Loan, then followed by the sponsor's equity in the property. Due to the higher risk associated with the subordinate position, interest rates for Mezzanine Loans are usually much higher than those on the Senior Loan (ranging from 16% to 25%). However, developers often find that their projected Return-On-Investment (ROI) from the project using Mezzanine funds is higher than bringing an equity partner into the deal. Plus, the sponsor is able to maintain full control over the project (assuming there are no defaults, of course).

Preferred Equity: This short-term equity investment into a project is often used when a Mezzanine Loan is prohibited by the Senior lender (such as a conduit loan). A Preferred Equity investment sounds quite different than a Mezzanine Loan, but it accomplishes almost the exact same thing. The lender makes an investment of equity with a targeted preferred return in the LLC. If there is a default, the preferred member can throw out the original sponsor and take over the project. Generally, Preferred Equity is viewed as carrying more risk than a Mezzanine Loan and will typically require a greater return on the investors' money — frequently set up to include a periodic "preferred" interest payment, plus a share of the project's profit (often taken according to some sort of waterfall structure).

Joint Venture (JV): While not debt, a Joint Venture structure is often utilized as a method of bringing a financial partner into a project. In most cases, the developer has the project (or acquisition) ready to go but lacks adequate equity to move forward; and thus is unable to obtain the required debt financing. A JV might also be used to bring in a more experienced operator/developer to fulfill the lenders requirement. Typically, a new entity is formed between two or more parties to undertake a specific real estate project or (in some cases) create an ongoing business relationship for the purpose of developing a series of projects. Each party in the JV will contribute equity in some form or another. For example, a developer may contribute a piece of land he owns free and clear, while the JV Equity partner may step in with the required cash, thus creating a new entity. Based on a formal agreement, the JV partners then share in the revenues, expenses, and control of the enterprise.

Continued on next page



Commercial Mortgage Advisors

www.cmacapital.com

Debtor-In-Possession Loans (DIP Financing): This special form of financing is provided to borrowers in financial distress and usually in the process of Chapter 11 bankruptcy. The conditions of the loan are strictly dictated by the courts and such funds are intended to supply adequate resources for a project to be completed or at least finished to a point where maximum value can be obtained upon sale (or liquidation). In most cases, the DIP financing will carry a premium interest rate and is senior to all the other obligations in the existing capital stack for the project (including Equity, the Senior Loan and the Mezzanine Loan).

Troubled Asset Loans: This is a specialized form of finance available for real estate projects under some form of distress. Funds are available for the purchase of both hard real estate assets as well as the underlying mortgages. There is a variety of scenarios that can lead to a distressed situation. But investors are actively seeking opportunities to finance incomplete developments, busted condo projects, and under-performing properties of all types. Lenders will often partner with the existing developer in an effort to rescue the troubled property. In other cases, investors are looking to finance new sponsorship groups planning to take over the troubled asset.

Commercial Mortgage Advisors offers dynamic solutions for many complex, time sensitive or otherwise challenging real estate finance opportunities. Through the wide variety of loan scenarios available, CMA's Structured Finance lenders can locate debt and equity money where funding may not be available from traditional sources.