

“Small” Deal Financing

*Heritage Ohio
October 6, 2015*



Commercial Real Estate Lending Underwriting Considerations

- Evaluate market demand and cash flow
- Underwrite pro forma cash flow with adequate vacancy, reserves, and operating expenses
- Developer experience
- Loan sized to DSC, ranging from 1.20-1.35x
- Loan-to-Value (LTV): 70-80%
 - Means equity (cash, seller note, tax credit equity) of 20-30%
- Vacancy factor-varies based on product, market
- Evaluate historical operating expense to establish pro forma
- Construction Loans: -
Preleasing level: target is close to break even

Evaluating Historic Projects

- Assess the team
 - Developer
 - Accountant
 - Preservation Consultant
 - Attorney
 - Contractor
 - Architect
- Closely Review the Plan
 - Budget-adequate contingency?
 - Sources and Uses
 - Timing of equity, investor funds?
 - Key: When and who will “bridge” credit equity?
 - Developer cash equity always invested first and no less than ~10% of TPC
 - Developer Fee?

Assessing Mixed Use: Multi-story with Storefront

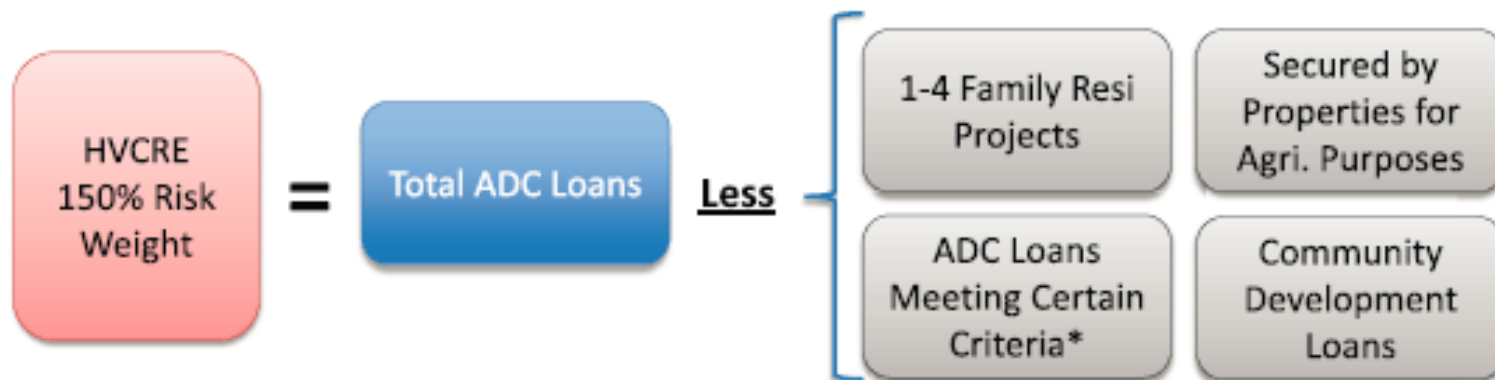
- Compatibility of uses
- Parking to support-separate to avoid conflicts
- Emphasis on historical performance: has this worked here before?
- How are expenses, e.g. utilities handled?
- Can 2nd level space support debt service by itself?

PERIOD	2013 Proforma	\$/Unit
INCOME:		
Base Rent	\$ 2,359,540	\$19.45
Tenant Reimbursements	\$ 12,000	\$0.10
Other Income		\$0.00
Total Gross Potential Income	\$ 2,371,540	\$19.55
Less Vacancies/Concessions	-\$237,154	-\$1.95
EFFECTIVE GROSS INCOME (EGI)	\$ 2,134,386	\$17.59
OPERATING EXPENSES:		
Management Fee	\$ 85,375	\$0.70
Operating Expenses (R E Taxes)	\$ 175,000	\$1.44
Operating Expenses (Utilities)	\$ 300,339	\$2.48
Operating Exps (Repairs & Maint)	\$ 271,297	\$2.24
Insurance	\$ 199,165	\$1.64
Operating Expenses (Other)	\$ 150,000	\$1.24
TOTAL EXPENSES	\$ 1,181,176	\$9.74
Expense Ratio (% EGI)		55.3%
NET OPERATING INCOME (NOI)	\$ 953,210	7.86
Non Operating Expenses	\$ -	
Replacement Reserve	\$ -	
Cash Available for Debt Service	\$ 953,210	
Proposed Debt Service	\$ 761,244	
Annual Debt Service	\$ 761,244	
NET CASH FLOW AFTER DS	\$ 191,966	
Annual Debt Service Coverage	1.25	

High Volatility Commercial Real Estate (“HVCRE”)

*Its Impact on
Construction Lending*

High Volatility CRE (HVCRE)

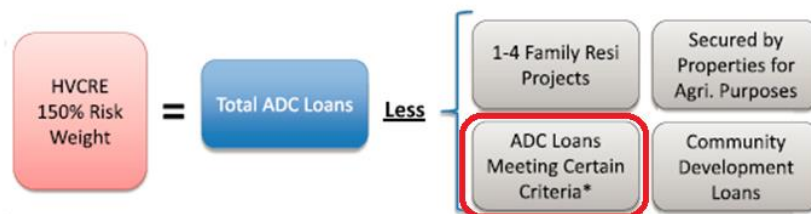


*ADC loans meeting certain criteria are **not HVCRE**:

- LTV is at or below maximum supervisory LTV; **and**
- Borrower has contributed at least 15% of "as completed" appraised value in cash or unencumbered readily marketable assets; **and**
- Borrower contributed capital is contractually required to remain throughout the project life

Source: FDIC

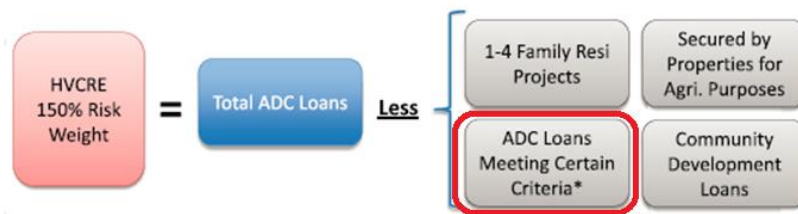
Equity Requirements



In order to achieve the ADC exclusion, the Borrower must contribute at least 15% of “as completed” appraised value in cash or unencumbered readily marketable assets.

- The 15% must be cash contributed or spent on out-of-pocket development costs prior to any loan advances. Additional pledged collateral (other than marketables) does not count toward this test.
- The cash cost used to purchase land (regardless of the date purchased) is included, rather than the land value.

Equity Requirements



In order to achieve the ADC Exclusion, the Borrower contributed capital is *contractually required* to remain throughout the Project life. “Contractually required” means that

- The 15% equity requirement **must be stipulated within the loan documents** (ie. no distributions to the Borrower from the Project) until permanent loan conversion, payoff, or sale.
- Guidance has been provided in the Underwriting Manual, page 11-17, to define permanent loan conversion: Bank considers conversion to mean i) no further loan advances, ii) property meets the as-complete appraised value qualifications, and iii) qualifies for the permanent loan extension option, or in the event of no permanent loan option is offered, it qualifies for a permanent loan under the Bank’s normal underwriting criteria .

QUESTIONS?



Senior Vice President

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