

“How to Be Prepared When the Banks Start Lending” - #202
“Walking Precedes Running: How to Get your First Deals Approved”
October 27, 2009

Talking Points for Crittenden Real Estate Conference
Marjorie Knitter, The Moote Group

Banks getting ready to lend?

Hundreds of partially completed projects are becoming available. From blue topped pads to finished lots; some with standing inventory, some with incomplete infrastructure some with completed condominiums with no certificate of occupancy.

Many of these partially completed projects are great deals if you can clarify and confirm the completed and uncompleted improvements to the banks. The more you understand about the project in real-time dollars and cents and all related issues, the better you can negotiate a good price from the bank or qualify for a construction loan

What kind of borrower are they willing to lend to today?

- Cash rich borrower
 - Must have liquidity –more equity partners
 - They will give you money as long as you don't need it
- First source of repayment
- Second source of repayment (personal guarantee – yet there is no net worth now)
- Complete and comprehensive package
- A borrower that can produce information quickly
- They want to know if you have contingent liability on other deals.

What are they requiring of the borrower?

- Fully Entitled Projects
- Risk Assessment
- Due Diligence – Complete Comprehensive Package
- Third Party Verification – Fourth Party Verification
- Valuation – Secondary Backup
- Ability to phase the project – smaller draw requests – smaller exposure
- Third Party Construction Verification and Reimbursement Recommendation
(the past cycle – many banks (all of them) seemed not to require a third party cost verification or construction verification - guess we did not learn enough from the 1984 and 1991 cycle – we are working out 2 projects where the construction funds for Project A & B went to the builders salary and to Project C.

With this kind of backup you may be able to achieve a higher loan to value.

Handouts

- A. Master Diligence Checklist – Existing Project
- B. Project Feasibility Checklist – Land
- C. Comprehensive Checklist - Land

OPENING COMMENTS -

- Moote Group's core service - due diligence and risk assessment support – cost estimating/verification and construction management/verification.
- 35 years – over 4800 projects – 15 states – 5 countries.
- Moote due diligence work for builders/developers/investors during this past up cycle peaked in 2005 – stopped July 2007. Today our clients are banks and receivers who need to know the cost to complete.
- It will be 2011 / 2013 before banks are lack again – before this current down cycle the last time Moote worked for a lender verifying costs and or construction was 2001.
- Private builders/developers are still working out their problems with the banks.
- Public builders/developers have an edge – they have money and bank lines. We are seeing a real surge in the public builders picking up finished lots throughout the western states.
- We are just starting to hear (October 2009) from large investment firms looking for large portfolios.

WORKING WITH YOUR LENDER –

- Banks are practicing “Responsible Lending”.
- Look at the process through the eyes of your lender.
 - They are scared to death of the regulators.
 - “If they don't make a loan, they won't have to provide capital against it.”
 - They do not know what the regulators will be asking for as far as underwriting.
 - You can not afford to make a mistake and neither can the banks.
 - If you do not have experience in a particular type of project or location, you need to buy it – what Ken in Brooklyn calls “rebbe gelt”. You would be well advised to partner up with someone who does have the expertise and reputation (and deep pockets) in order to acquire the necessary reputation for yourself. 50% of a deal that gets done is better than 100% of a deal that never happens.
- Due Diligence – Complete and Comprehensive
- Be proactive – find the weakness – address them
 - Disclose all issues you are aware of.
 - Alert them when a new issue arises.
 - Let them know how you will remedy them.
- Be sure the lender does not discover an issue you either overlooked, missed or just flat out did not disclose.
 - It is a very small industry and you will lose your credibility quickly throughout this tight small lending community.
- Fully entitled – Banks are more likely to lend on a fully entitled project this next cycle.
- Expose past bankruptcies.

RISK ASSESSMENT:

- Typically done long before you are going to the bank for a loan.
 - Risk Assessment is the discovery period of areas that can be remedied.

DUE DILIGENCE:

- Goal is to get more loan to value ratio and a solid complete package can add value.
- Cross the “t’s” and dot the “i’s”
- Know all the issues
- Enlighten bank on all issues and your remedies
- Cost to Complete in real time dollars – today’s dollars.
- Third Party Verification / Audit
- Work with a trusted broker.
- Meet with the City/Public Agencies (they are proactive).
- Meet with the consultants and subcontractors who were on the job (if they are still in business).
- Entitlements – status – are they all in place – expiration dates.
- Bonds that are in place or not.
- Fees – paid and unpaid.
- Special Finance Districts.
- Code compliance – age of the plans.
- Conditions of Approval / Development Agreements – status of obligations.
- Goal is to get more loan to value ratio.

DUE DILIGENCE CHECK-LIST:

- A. Master Diligence Checklist – Existing Project
- B. Project Feasibility Checklist – Land
- C. Comprehensive Checklist - Land