Financing for a Poorly Performing Apartment

Transaction Summary

Date: January 2013

Property Description: A 68 unit, Class C apartment built in 1980 in average condition.

Owner: The owner was financially strong with excellent real estate experience.

Estimated Value: $4,000,000

Requested Loan Amount: $2,500,000 (62.5% LTV)

Financing Issues: The property had experienced vacancy in the 11 to 13% range for the past couple of years. Market vacancy had been 5% or less during the same time period. A soft hearted on-site manager and ambiguous operating statements (vacancy wasn't shown as a line item) were likely the cause of the higher than normal vacancy at the property.

Several lenders were contacted but only two were willing to finance a property with vacancy in excess of 10%.

Shown on the subsequent pages are two different loan quotes from both lenders.

68 Unit Apartment
Loan Quote Comparison

January 2013	Lender #1a	Lender #1b	Lender #2a	Lender #2b
Loan Amount:	**$2,500,000**	**$2,500,000**	**$2,200,000**	**$2,200,000**
Estimated Value:	$4,000,000	$4,000,000	$4,000,000	$4,000,000
Loan To Value:	**62.5%**	**62.5%**	**55.0%**	**55.0%**
Index Used:	SWAP 5 Yr	SWAP 7 Yr	N/A	N/A
Interest Rate Spread	2.750%	1.310%	N/A	N/A
Index Rate	0.860%	2.750%	N/A	N/A
Indicated Interest Rate	**3.610%**	**4.060%**	**4.052%**	**4.625%**
Interest Rate Floor	**3.600%**	**4.250%**	**4.052%**	**4.625%**
Interest Rate Calculation:	30/360	30/360	30/360	30/360
Underwriting Criteria:				
Maximum LTV:	75%	75%	75%	75%
Minimum DSCR:	1.20	1.20	1.20	1.20
Loan Term:	**5 Yr + 25 Yr**	**7 Yr + 23 Yr**	**7 Yr + 23 Yr**	**10 Yr. + 20 Yr.**
Amortization Period:	30	30	30	30
Rate Lock:	Yes	Yes	Yes	Yes
Length of rate lock:	60 Days	60 Days	90 Days	90 Days
When:	At application	At application	At Application	At Application
Deposit:	1.000%	1.000%	0.25%	0.25%
Monthly Loan Constant:	0.4552%	0.4809%	0.4804%	0.5141%
Total Loan Fees (Lender/Mtg Broker):	1.0%	1.0%	1.0%	1.0%
Application Deposit	$3,000	$3,000	$6,000	$6,000
Are costs capped?	Yes	Yes	Yes @ $2,500	Yes @ $2,500
To be used for:	3rd Party Reports	3rd Party Reports	3rd Party Reports	3rd Party Reports
Third Party Reports Required				
Appraisal	Yes	Yes	Yes	Yes
Environmental	Yes	Yes	Yes	Yes
Property Condition Report	No	No	No	No
Survey	No	No	No	No
Other Costs				
Processing Fee/Site Visit	Yes	Yes	Yes	Yes
Lender's Legal Cost Estimate	No	No	No	No
Escrow Impounds				
Property Taxes	No	No	Yes	Yes
Insurance	No	No	No	No
Replacement Reserves	No	No	No	No
Prepayment Penalty				
Lock-Out Period	None	None	None	None
Method of Prepayment	**4, 3, 2, 1%**	**5, 4, 3, 2, 1%**	**4, 3, 2, 1%**	**5, 4, 3, 2, 1%**
Open Period	**Last 26 years**	**Last 25 years**	**Last 26 years**	**Last 25 years**
Recourse/Non-Recourse	**Recourse**	**Recourse**	**Recourse**	**Recourse**

For a no obligation loan quote for your property contact Doug Marshall at (503) 614-1808 or doug@marshallcf.com

68 Unit Apartment
ESTIMATED SOURCES AND USES STATEMENT

	Lender #1a	Lender #1b	Lender #2a	Lender #2b
SOURCES				
Loan Amount	2,500,000	2,500,000	2,200,000	2,200,000
Cash From Borrower	0	0	0	0
Total Sources	**$2,500,000**	**$2,500,000**	**$2,200,000**	**$2,200,000**
USES				
Cash To Borrower	**516,976**	**516,976**	**221,125**	**221,125**
Pay off existing mortgage	1,948,000	1,948,000	1,948,000	1,948,000
Prorated Property Taxes	0	0	0	0
Financing Charges				
Financing Fee	25,000	25,000	22,000	22,000
Appraisal	0	0	0	0
Environmental Report	0	0	0	0
Inspection Fee	0	0	0	0
Realty Tax Service Fee	0	0	0	0
Processing Fee	3,094	3,094	2,500	2,500
Lender's Legal Fees	0	0	0	0
Lender's Miscellaneous Costs	0	0	0	0
Title Policy Insurance	5,430	5,430	4,875	4,875
Escrow	1,000	1,000	1,000	1,000
Miscellaneous Closing Costs	500	500	500	500
Total Financing Charges	**35,024**	**35,024**	**30,875**	**30,875**
Total Uses	**$2,500,000**	**$2,500,000**	**$2,200,000**	**$2,200,000**

68 Unit Apartment
MONTHLY CASH FLOW AFTER DEBT SERVICE

No. of Units: 68	Lender #1a	Lender #1b	Lender #2a	Lender #2b
INCOME				
1. Rental Income	$560,772	$560,772	$560,772	$560,772
2. Vacancy & Credit Loss	($60,003)	($60,003)	($60,003)	($60,003)
3. Net Rental Income	500,769	500,769	500,769	500,769
4. Parking Income	0	0	0	0
5. Other Income	2,018	2,018	2,018	2,018
6. EFFECTIVE GROSS INCOME	**$502,787**	**$502,787**	**$502,787**	**$502,787**
EXPENSES				
7. Property Taxes	66,911	66,911	66,911	66,911
8. Insurance	10,500	10,500	10,500	10,500
9. Repairs & Maintenance	52,500	52,500	52,500	52,500
10. Turnover Expenses	10,500	10,500	10,500	10,500
11. Payroll	28,088	28,088	28,088	28,088
12. Water/Sewer	31,290	31,290	31,290	31,290
13. Electric & Gas	2,927	2,927	2,927	2,927
14. Trash Removal	13,719	13,719	13,719	13,719
15. Landscape Maintenance	10,000	10,000	10,000	10,000
16. General & Administrative	9,269	9,269	9,269	9,269
17. Management Fee	20,111	20,111	20,111	20,111
18. Cable TV	29,937	29,937	29,937	29,937
19. Replacement Reserves	17,500	17,500	17,500	17,500
20. TOTAL OPERATING EXPENSES	**$303,252**	**$303,252**	**$303,252**	**$303,252**
21. % Expense/Effective Gross Income	60.3%	60.3%	60.3%	60.3%
22. Expense Per Unit or Square Feet	$4,460	$4,460	$4,460	$4,460
23. CASH FLOW BEFORE DEBT SERVICE	**$199,535**	**$199,535**	**$199,535**	**$199,535**
24. Monthly Net Income	$16,628	$16,628	$16,628	$16,628
25. Loan Amount	$2,500,000	$2,500,000	$2,200,000	$2,200,000
26. Index Used	n/a	n/a	n/a	n/a
27. Spread	n/a	n/a	n/a	n/a
28. Index Rate	n/a	n/a	n/a	n/a
29. Interest Rate	3.610%	4.250%	4.052%	4.625%
30. Amortization	30	30	30	30
31. Less: Mortgage Payment	**$11,380**	**$12,298**	**$10,569**	**$11,311**
32. CASH FLOW AFTER DEBT SERVICE	**$5,248**	**$4,329**	**$6,059**	**$5,317**

68 Unit Apartment
BEFORE & AFTER TAX RETURN ON EQUITY

	Lender #1a	Lender #1b	Lender #2a	Lender #2b
PROJECTED TAXABLE INCOME				
NET CASH FLOW BEFORE DEBT SERVICE	$199,535	$199,535	$199,535	$199,535
Annual Interest Expense	89,999	105,955	88,896	101,467
Cost Recovery (Depreciation)	109,080	109,080	109,080	109,080
TAXABLE INCOME	$456	($15,500)	$1,559	($11,012)
CASH FLOW BEFORE & AFTER TAXES				
Net Operating Income	$199,535	$199,535	$199,535	$199,535
Annual Debt Debt Service	136,562	147,582	126,830	135,733
CASH FLOW BEFORE TAXES	**$62,973**	**$51,953**	**$72,705**	**$63,802**
Tax Liability @ 30%	137	(4,650)	468	(3,304)
CASH FLOW AFTER TAXES	$62,836	$56,603	$72,237	$67,106
RETURN ON EQUITY				
BEFORE TAX	**4.2%**	**3.5%**	**4.0%**	**3.5%**
AFTER TAX	4.2%	3.8%	4.0%	3.7%

DEPRECIATION AND TAX ASSUMPTIONS	
Estimated Value	$4,000,000
Building Value as % of Total Value	75%
Depreciation Schedule	
Apartments	3.636%
Commercial Buildings	2.564%
Ordinary Income Tax Rate:	30%