

The thirty-minute screen

Chapter 2 and Appendix A, section 1. Six questions, answerable from a summary and a rent roll. Most enquiries should be declined here, in an hour rather than a week.

Loan / borrower		Analyst	
Asset		Date	

Screen question	Answer	Flag
Mandate fit: asset class, jurisdiction, size, product, term. If it does not fit, decline today.		
Attachment point: loan against cost and against value		
Genuine cash equity: amount, form, timing. Cash at closing, or a written-up value contribution?		
Coverage TODAY at a stressed rate, on contracted income only		
Debt yield on contracted income		
Repayment route and date: sale or refinance, and what the property must look like then		
Sponsor: what have they completed, through what conditions, how did they behave when it went wrong?		
Why us? Price (an auction), or speed, certainty, structure, complexity (an edge worth pricing)?		
Where else has it been, and why did the others decline?		

Quick numbers	Value	Quick numbers	Value
Loan requested		Net operating income, contracted	
Market value		Price paid	
Costs and capex		Cash equity at closing	
Stressed rate		Interest at the stressed rate	
LTV / LTC		Cover / debt yield	

Decision: decline / proceed to underwriting. The one issue that defines the deal:

Chapter 2: when you win a competitive process by a wide margin, treat it as a warning and go back through the analysis looking for what the underbidders saw.

The income that exists, and the three values

Chapter 3 and Appendix A, sections 2 to 4. Start from the contracted income today, apply the three deductions, then state market value, price paid and recovery value separately.

Loan / borrower		Analyst	
Asset		Date	

Occupier	Passing rent	Break / expiry	Before maturity?	Covenant would support a loan alone?	Rent-free or stepped?	Income you can rely on

Concentration	Share of income	Property question	Answer
Largest occupier		Lettable if the occupier leaves? Months to re-let comparable space	
Largest three		Cost to hold it empty, per month	
Largest five		Capital needed within the term, and who funds it	
Expiries within the term		Performance standard: below it during the term?	
Breaks within the term		Exit market: who buys it, how deep is that buyer pool?	

The three values	Amount	Source and date	Loan as a share
Market value (an opinion)			
Price paid (a fact)			
Recovery value: lender-run sale, weak market, compressed timetable			
Gap between market value and recovery value, per cent			

The four stresses go together, not one at a time: rent on space to be re-let, void beyond the sponsor's assumption, exit yield, capital and non-recoverable costs. Then the only question: at that combined stress, does the loan repay at maturity?

The sponsor

Chapter 4 and Appendix A, section 5. Capability, capital, character, alignment. Capital and character do more work in a downturn than capability, the reverse of how most papers weight them.

Loan / borrower		Analyst	
Asset		Date	

Test	What you found	Evidence	Weight
Capability: has it done what this plan needs?			
Capital: liquidity beyond this deal, turnable into cash in ninety days			
Character: what did it do when things went wrong?			
Alignment: its own cash in the deal, at what value, when			

Transaction (verified sample)	Bought, price	Financed how	Held	Sold, price	Verified against

Lender reference: who	Through a difficult period?	How the sponsor behaved	Would lend again?

Reading the negotiation	Answer	Structural response
What did they fight hardest for in the negotiation, and what does that tell you?		
Do they know their own numbers without turning to an adviser?		
Weakness to structure around (not price): cash equity, reserves, trap and sweep, guarantees for behaviours, step-in, information		

Sizing: five metrics, the exit test and the gap

Chapter 5 and Appendix A, section 6. Size on all five and take the lowest, with debt yield primary. Then size to the exit: what would a lender advance at maturity, on EVERY test, not on one?

Loan / borrower		Analyst	
Asset		Date	

Metric	Base	Stressed	Your limit	Loan it allows	Binds?
Loan to value					
Loan to cost (with capex)					
Interest cover (stressed rate)					
Debt service cover					
Debt yield					

The exit test, at maturity	Good case	Bad case
Projected net operating income		
Exit yield and value		
Loan on debt yield		
Loan on interest cover, at the refinancing rate		
Loan on loan to value		
Refinancing available: the LOWEST of the tests		
Balance at maturity, after amortisation or sweep		
GAP, and who fills it (sponsor, extension, sweep)		

Then	Answer	Note
Which input is the loan most sensitive to (rate, income, value)? Build the covenants around it.		
Amortisation or cash sweep: trigger, start date, balance it reaches by maturity		
Exit yield above which the value test binds before the debt yield (LTV limit x debt yield)		

Chapter 5's own example: on debt yield alone the bad case refinances 60, exactly the loan; on the chapter's 2.0x cover at 5 per cent it refinances 54. A refinancing lender sizes on every test, so the exit test must too.

Structure: each feature and the risk it addresses

Chapters 6, 9 and 10, Appendix A section 7. A structure section that lists covenants without saying what each is for has not been thought through.

Loan / borrower		Analyst	
Asset		Date	

Feature	Level / terms	The specific risk it addresses
Cash trap trigger (above the covenant)		
Cash sweep trigger and start date		
Reserves funded at closing		
Amortisation		
Covenant staircase: trap / sweep / default		
Information undertakings, frequency		
Hedge: proportion, strike, tenor, ranking		
Extension option and conditions		
Security: what it achieves, in days		

Subordinated position: the intercreditor is the credit	Term	Adequate?
Attachment and detachment points		
Payment blockage: triggers and duration		
Standstill period before the subordinated lender may enforce		
Cure rights: how, how many times, capped?		
Purchase option at par on senior default, and the capital to use it		
Whole loan: share retained after back-leverage, and how the rest is financed		
Preferred equity: consent, removal and step-in rights (no security, no forced sale)		

Chapter 6: a mezzanine position with weak cure rights, a long standstill and no purchase option is a high-yield instrument whose outcome is in someone else's hands. Price it as such or decline.

The credit paper, and the five questions

Chapter 8. Two pages plus appendices. The recommendation first, the downside at the centre, and a named break-even.

Loan / borrower		Analyst	
Asset		Date	

Item	Answer	Evidence / note
The paper, in this order		
Recommendation: loan, amount, term, pricing, key structure, recommendation, in one paragraph		
Transaction: what, by whom, for what, uses of funds		
Property, with the three values and how fast it re-lets		
Sponsor: verified record, liquidity, alignment, what the references said (or that none were taken)		
Sizing: five metrics base and stressed, binding constraint, refinancing gap at maturity		
Structure: each feature and the risk it addresses		
Risks: the five most likely causes of loss, mitigant, honest residual		
Return: margin, fees, return on capital after funding and expected loss, against the book		
Downside case		
Variables stressed together: rent, void, yield, cost		
Recovery, not value: lender-run sale, less enforcement costs and accrued interest		
Break-even: at a value decline of ___ per cent, or an income decline of ___ per cent, the loan is not repaid		
The five questions, answered in writing before the meeting		
If the largest occupier leaves: income, cover, time to re-let, value, repaid?		
How much cash equity is actually in this?		
What did the other lenders say, and why did they decline?		
Refinancing position at maturity: projected income and what a lender would advance		
Default in year two: who we appoint, how long, what it realises, cash burn meanwhile		

Condition precedent (specific and testable)	Threshold	Satisfied / date

Poor conditions: "satisfactory legal due diligence", "the property in good condition". They transfer the decision to whoever later decides what satisfactory means.

Term sheet skeleton

Appendix B. Every line should be a commercial decision, not a default. Fill the column on the right with the reason.

Loan / borrower		Analyst	
Asset		Date	

Line	Term agreed	Why this level (the decision)
Borrower / obligors and guarantors		
Facility: amount, currency, purpose, type		
Term and extension option, with its conditions		
Margin and step-ups		
Reference rate and floor		
Fees: arrangement, non-utilisation, exit, extension		
Prepayment: lock-out, declining fee or make-whole		
Repayment: bullet or amortising, profile		
Cash sweep: trigger, share applied, start date		
Financial covenants: level, frequency, historic or projected, cure rights and cap		
Cash trap: trigger above the covenant, release after two consecutive periods		
Reserves: interest, capex, leasing; amount and funding date		
Security: property, shares, rents, accounts, contracts, duty of care		
Hedging: proportion, instrument, strike, tenor, ranking		
Information undertakings		
General undertakings		
Permitted payments; affiliate fees subordinated		
Consent thresholds: leases, capital projects		
Events of default and grace periods		
Conditions precedent		
Governing law and jurisdiction		

Reading the facility agreement and the mark-up

Chapter 9. The commercial deal lives in the cash management, the information undertakings and the events of default. Read the borrower's mark-up yourself.

Loan / borrower		Analyst	
Asset		Date	

Cash waterfall, in order	Paid from the controlled account	Note
1. Property costs and taxes		
2. Interest		
3. Scheduled amortisation		
4. Reserve funding		
5. Anything else the lender requires		
6. Release to the borrower		

Provision	As drafted	Changed in the mark-up?
Cash trap: trigger level, and its distance above the covenant		
Cash sweep: trigger, and share of surplus applied		
Release condition: one test period or two consecutive?		
Representations: given at signing only, or repeated at each interest date?		
Information: frequency; any materiality qualifier added in the mark-up?		
Grace periods: administrative vs payment		
Consent: leases above a size / below a rent; disposals		
Permitted payments: sponsor fees subordinated to debt service?		

Security	Held?	Control of the income in (days)	Ability to sell in (days)
Property			
Shares in the owning entity			
Rents and leases			
Accounts			
Contracts, insurance, warranties			
Duty of care: property manager			

Chapter 9's example: the trigger moved closer to the covenant and release became one period, both in the last week. One engineered quarter released the trapped cash.

Development facility: sizing and the drawdown test

Chapter 11. Size on cost, spend the sponsor's equity first, and at every drawdown test that the remaining facility plus the remaining equity still completes the building.

Loan / borrower		Analyst	
Asset		Date	

Sizing	Value	Stress	Value
Total development cost		Cost overrun that eliminates the profit	
Sponsor equity		Value decline that eliminates the profit	
Facility, and loan to cost		Both together: profit left	
Gross development value, and loan to GDV		Value decline at which completed value < debt + next injection	
Profit on cost		Sponsor liquidity to fund an overrun	

Drawdown	Date	Certified work to date	Equity spent	Facility drawn	Cost to complete (surveyor)	Facility + equity remaining	Pass?

Item	Answer	Evidence / note
The six controls		
Equity first: spent before the facility draws		
Fixed-price contract; contractor able to absorb a loss		
Independent monitoring surveyor, certifying before each drawdown		
Drawdown against certified work done, never in advance		
Contingency only the lender can release; retention in the contract		
Step-in: collateral warranties or third-party rights from contractor and consultants		
The exit		
Term reaches stabilisation, not practical completion		
Pre-let or pre-sale conditions; purchaser funding committed?		

Quarterly monitoring

Chapter 13 and Appendix C. An hour a loan, and the highest-yield hour in the servicing calendar. Monitor for deterioration, not for compliance.

Loan / borrower		Analyst	
Asset		Date	

Item	Answer	Evidence / note
Verify rather than accept		
Covenant recalculated from the underlying figures		
Income used matches the rent roll; no one-off receipts, no rent-free occupiers		
Non-recoverable costs fully deducted		
Basis: historic or projected, as the agreement requires		

Occupier	Rent last quarter	Rent this quarter	Term / break last	Term / break now	Change: variation, assignment, rolling	Arrears, ageing

Look forward	Now	Distance / status
Lease events in the next 24 months, and their resolution		
Capital requirement in the next 12 months, and its funding		
Cover against the trap trigger and the covenant		
Debt yield against its covenant		
Refinancing position at maturity on current income		
Sponsor: payment behaviour, requests for consent or waiver, wider position		

Decide	Answer and reason	Owner and date
Risk rating: confirmed / changed		
Watchlist: added / retained / removed		
Actions		

Hedging, and the maturity eighteen months out

Chapters 14 and 16. Hedge requirements are credit protections. Maturity management begins eighteen months before the date, when options still exist.

Loan / borrower		Analyst	
Asset		Date	

Hedge test	Answer	Pass?
Instrument: cap, swap or collar; proportion hedged		
Cover at the strike (or fixed rate), against the covenant		
Rate above the strike at which the covenant breaks once the hedge ends		
Hedge tenor against the loan term: any gap?		
Swap counterparty: ranks pari passu or behind the lender?		
Swap mark-to-market today, and after a 1 and 2 point fall		
In-the-money hedge on enforcement: whose asset is it?		

Eighteen months out	Answer	Decision
Borrower's intention: sale or refinance, and the evidence (conversations, not intentions)		
Lease events to resolve before maturity		
What can be raised against what is owed: the gap		
Extension: conditional on covenants, minimum debt yield, hedge, fee?		
What we take for an extension: amortisation, repayment, security, sweep, covenants, fee		
Gap mechanism chosen: equity, disposal, amortisation, subordinated capital, lender risk		
A performing borrower refinancing: do we compete to keep it?		

Chapter 14: an out-of-the-money swap is a reason for the borrower not to sell or refinance; a pari passu swap is a competing creditor whose claim grows as rates fall.

Workout: the first fortnight and the decision

Chapter 17 and Appendix D, with Chapter 15's recovery. Delay is a decision; take it consciously.

Loan / borrower		Analyst	
Asset		Date	

First fortnight	Done (date)	Note
1. Reserve rights in writing, same week		
2. Secure information: rent roll, arrears, bank statements, capex, notices, insurance		
3. Secure cash: exercise account control		
4. Independent valuation; asset management adviser if complex		
5. Choose the objective: repayment, restructuring or control		

Three-variable test	Time helps	Time hurts	This loan
Asset	cash-generative, sound	burning cash, deteriorating	
Market	stable or improving	declining	
Sponsor	capable, contributing	absent, extracting	
Loan to value	improving month by month	worsening month by month	

Recovery (Chapter 15)	Low	High
Realistic value in a lender-run sale		
less enforcement and professional costs		
less holding cost over the enforcement period		
less prior-ranking claims (swap, senior)		
less accrued interest, or discount for time (not both)		
Net recovery against the balance: SHORTFALL		

Before enforcing	Answer	Note
Who manages the asset from day one, and the monthly cash burn?		
How long and how much is enforcement here?		
Is the net result better than the best consensual outcome?		
Subordinated lender: will it cure, buy out, agree an objective?		

The book, and what investors should be told

Chapters 12 and 15. Measure concentration by the dimensions that correlate in a downturn, compare the margin with stressed expected loss, and report distributions rather than averages.

Loan / borrower		Analyst	
Asset		Date	

Concentration	Largest single exposure	Share of the book	Limit
Sponsor (across all loans)			
Asset class			
Geography: country, city, submarket			
Vintage: originated in one twelve-month period			
Maturity: within one eighteen-month window			

Expected loss against the margin	Historic	Stressed
Probability of default		
Loss given default (attachment, asset quality)		
Expected loss, bp		
Margin less funding, capital and operating cost, bp		
Expected loss as a share of margin		

Leverage and reporting	Answer	Note
Leverage: amount, provider, term against the loans		
Mark-to-market mechanics, margin call triggers, cure periods		
What a 10 per cent fall in values would require, and when		
Currency hedge collateral on a 10 per cent adverse move		
Report: loan by loan (attachment, asset, geography, vintage, maturity, margin, LTV, debt yield)		
Watchlist, impairments and movement since the last report		
Impairment decided by people who do not originate?		