

# Commercial Loan Workout Special Report

Your CRE Deal Gone Bad Doesn't Have to Ruin Your Life  
by Ben Pargman

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## Introduction

Commercial real estate (CRE) has been one of this country's greatest wealth creators. For years we saw thousands of investors become overnight millionaires through commercial real estate. But times are tough now as property values are dropping and cash flows are decreasing. There are literally tens of thousands of CRE investors just like you who are facing financial disaster due to the commercial properties they own. In the next three years \$3.5 trillion worth of commercial real estate in the U.S. will have to be refinanced.

And these people really are just like you. It doesn't matter whether you have decades of experience as a real estate investor or you're someone who excelled in another field and decided to take a leap into CRE investing.

These days many investors are worried about their family's financial security. Even though many of us are natural-born risk takers, the prospect of losing everything we worked so hard for is terrifying. **“What if the bank takes back the property from me and then goes after my home, my cars, my bank accounts and my children's college savings?”** It's a terrible feeling to worry about your family's peace and security. That feeling of doom is something I wouldn't wish on my worst enemies.

There's a silver lining on this cloud, though. I'm going to show how you can find a way out of a commercial real estate (CRE) deals that has gone bad and may be keeping you up at night. We can help you stop worrying and get that monkey off your back. What price tag would you put on peace of mind? How much is it worth to you to know that your one bad commercial real estate deal doesn't have to ruin your family's future?

The truth is that there really is a plan for fixing your commercial real estate headache!

A handwritten signature in black ink, appearing to read 'Ben', with a stylized flourish at the end.

Ben Pargman

## Michael's Story

I want to share with you a story about an investor named Michael (I had to change his name in order to protect his relationships with his lenders). Michael is a longtime friend of mine who I consider one of the nicest guys you'll ever meet. What happened to Michael could happen to ANYONE. Even the brightest and best-connected investors can run into problems. (Even Donald Trump has benefited from loan workouts.) Remember that sometimes it doesn't matter how skilled you are — when the markets suddenly turn bad, there's not much you can do.

The truth is that the investors who recover best from setbacks are the ones who think outside the box and find creative workouts that solve problems. I definitely think that describes Michael, which is why I'm going to let him tell you the story of one of his own CRE deals:

*"I'm a dentist, not a professional real estate guy. But over the years I've gotten to know a few people in the industry. Then a couple of years ago I decided I was sick of watching others become millionaires, and decided I wanted to get involved in investing for myself. Well after a bit of searching, I identified an industrial property that I just knew could be hugely profitable. In fact, I was so confident that I didn't even drive down to the property to see it in person.*

*I started going around to the banks looking for a lender. I had a little trouble structuring the deal myself, but then I found a partner who also wanted in. Once we had our share of the investment in place, we found a bank willing to lend us the rest of the money. I borrowed \$200,000 from my wife's father and with \$200,000 from my partner, we put \$400,000 down and a local bank loaned us \$3.6 million. Everyone assured me this was fairly standard stuff for an industrial property!*

*My plan was really to sit back and stay as much in the background as possible, but it didn't work that way! Eventually I got a feeling that something was very wrong. No one wanted to lease the building and after only eight months we had run*

*out of the money we set aside to cover payments during the lease period. We went back to the bank and asked to extend the note for another 12 to 18 months. The bank agreed, but we also had to increase the amount of cash we had in the deal to \$600,000. I put my last \$150,000 in and borrowed another \$50,000 from father-in-law.*

*It was at this point a year before the loan reached maturity that I realized I had to ask the tough questions. It was time to get involved in the deal and start looking at how we were marketing the property. I realized the deal was going badly and I realized I had a partner who was more used to the corporate lifestyle and didn't want to do the kind of work necessary to turn this deal around. My partner just wasn't getting it done! And well... I'm a dentist! I could no longer sit back and smile quietly.*

*Then six months later the market collapsed and I knew that the problems with this property went way beyond just my level of involvement. In addition to the larger issues with the real estate market, we had a major problem getting a certificate of occupancy due to the fact that the building needed a new fire sprinkler system that would have cost us \$50,000. I was fearful that the lender would find a loophole in the original loan documents saying that I was liable for all \$4 million. I remembered something about a "recourse provision" in the loan – and that scared me.*

*Like so many others in this recession, I found myself with no cash flow and dwindling assets. At the dental practice, the worry was taking its toll. Patients were skipping appointments and starting to put off elective procedures – so my income dropped. If you know what that feels like, well... it's brutal. I had told my wife when I bought the property, but I never really explained to her how much money we could lose if the deal went south. And She didn't even know that her father had loaned me a nice chunk of my share of the down payment. So now I was not only losing my shirt, but I felt like I was about to drag everyone else down with me!*

*I was under a lot of stress. I gained weight and couldn't sleep. I lost interest in sex. Not even golf was fun anymore! Almost every night I would obsess over trying to remember the fine print from my loan paperwork. I was have a recurring*

*nightmare where paragraph 29 would actually leap off the page and bite me in the rear end!*

*My wife knew something was up, but she just withdrew emotionally. I was beginning to feel like she knew what was going on but would just smile and play coy even though she was emotionally detached from me.*

*Then four months before the loan reached maturity we were completely out of money. I called my partner and had a meeting with our lawyer and real estate broker to go over our options. The legal bills started to pile up. We decided the best plan was to seek out a service called Commercial Default Help and see if we could get our bank to agree to a workout. After all, I already had a very friendly relationship with Skip, the bank employee who originated the loan.*

*So I got the team at Commercial Default Help on our case and they prepared a workout plan for us that was just a major improvement over what we EVER would have been able to come up with our own offer. We went in armed with the most up-to-date information possible... and it was well worth it! We were able to agree to a workout deal with the bank that allowed me to walk away without having to hand over my family's assets to the bank or have a loan default on my credit history.*

*This was HUGE for us! I mean, I had been up every night worrying about this loan and now we have the bank agreeing to a real outside-the-box solution. And yeah, the bank did send its people over to inspect the property and make sure everything was in order, but the important thing was that they trusted us and we wanted to have a good relationship with the bank moving forward. We couldn't have asked for a better outcome considering how bad the situation could have been for us."*

# 11 Essential Steps

Michael's story about his own successful lender workout teaches us a lot about strategies that borrowers can use to fix bad situations like the one he was facing. So what can you do to make sure you're more likely to receive a successful commercial real estate workout? Here are my 11 Essential Steps to Prepare for a Commercial Loan Workout:

1. No matter how bad the message is, **you've got to keep your lender informed** about what's going on. Don't wait until the last possible second and then pull the rug out from under your lender.
2. Treat your lender like a business partner and you're MUCH more likely to receive a workout that's favorable to you.
3. Remember that **workouts don't always work out**. There's no guarantee that your lender will agree to a workout, so keep in mind that you may not get it approved no matter how hard you try.
4. **Bankruptcy is, in the view of the lender, not a solution**. They're NOT scared of your threat to declare bankruptcy. Filing for bankruptcy isn't going to save your family's assets for very long if you're holding a bad commercial real estate loan. Many borrowers try to stall the process by declaring bankruptcy, but lenders almost always win out.



5. **Know your property.** The last thing the bank's workout specialists want to see is a borrower who doesn't really know what he borrowed the money for. Make sure you're fully informed about the property itself and all the issues related to finding tenants or its use.

6. **Know your local real estate market, too.** You MUST be prepared to help your lender understand the effect the overall real estate market has had on your specific property asset.

7. **Tell your spouse what's going on.** We know what it's like to be sitting on a bad investment, but delaying the day you tell your family about it will just make things worse. Telling your spouse will actually free up your mind to focus on what's important.

8. **Tell your partner(s) what's going on.** At this point in the game, there are no silent partners. If you know you need a loan workout, tell your partner(s) that you are working on a plan to fix it.

9. **Know who you're dealing with.** The bank employee who originated your loan is not likely to be the same one who handles your workout.

10. **Don't stop marketing your property.** Even if your investment appears to be dying a slow death, finding a tenant will show the bank that you're making a good-faith effort to make the investment work.

11. **Know what happens if you're a bad boy!** Whatever you do, make sure you continue operating in an ethical and 100% legal manner. Your loan most likely contains a recourse provision that gives the bank the right to accelerate the loan and seek immediate payment in 10 business days or even seek a court judgment that could result in you losing your personal assets.

## The Three Critical Points of Power

As a commercial real estate borrower, you DO have some significant leverage when approaching your lender for a loan workout. Here are my Three Critical Points of Power that you have as the borrower:

1. You know exactly how much your property is worth in TODAY'S market and how much income potential it has right now.
2. You're willing to negotiate with the bank and do whatever it takes to fix the situation.
3. You have a viable exit strategy provided by Commercial Default Help, which shows your bank that you have a detailed plan for fixing this bad commercial real estate investment.

## Getting Help

Michael's story about his commercial workout was pretty awesome, but you might be wondering how he pulled off the workout? Not everyone has the time and money to hire a lawyer and put together a huge package with financial reports and analysis of his property and the loan. That's why we've created Commercial Default Help. It's a service focused exclusively on helping commercial real estate borrowers — especially those who are facing a default or foreclosure and would like to pursue a lender workout.

The team at Commercial Default Help is made up of some of the top commercial real estate teams in the country — brokers, attorneys, developers, investors — some of the most knowledgeable CRE people you'll EVER meet. We've done all kinds of work in the industry. We've partnered together to provide a cost-effective and easy-to-use service that isn't available anywhere else. Here's how it works...

## A One-Step Solution

We want to show commercial investors how we can help them understand the lender's process and help them sleep better at night knowing there *is* a way out of the mess they're in. Most people involved in the process simply don't understand what you're going through in your private life. We do. We understand your fear of losing everything.

### Document Review

So what does Commercial Default Help do for investors like you who are facing the prospect of defaulting on a commercial real estate loan (or perhaps already defaulted)? We provide a one-step solution where experts in their fields will review your situation and show you a plan. We'll review the contents of your loan provisions and help identify any loopholes that could come out of nowhere and surprise you. After all, most commercial real estate loans are personally guaranteed by the borrower, so a loan workout could very well save your home, cars, beach house or boat from being taken. We know you don't want the bank taking your personal assets thanks to some clause in the loan documents.

### Lender Workout Preparation Checklist

While the Document Review and BOV are being done, Commercial Default Help will immediately send you your Lender Workout Preparation Checklist so that you'll have exactly what you'll need to prepare. Don't just stare at the stack of three-ring binders sitting there on the floor. When we show you exactly what you need to have ready, it isn't all that much work to roll up your sleeves and get your paperwork together!

## Broker's Opinion of Value (BOV)

We'll also provide a broker's opinion of value, or BOV, from a national real estate services company. The BOV gives you an accurate and up-to-date picture of what your property is REALLY worth right now! Look, the market is dropping like a rock right now and property values are constantly changing. When you're armed with the most current information about value, you can approach the bank and speak with authority about the issues affecting your loan. Knowing the true value of the property allows you to work out a *solution*, not just walk into the bank with a set of *problems*.

## Individualized Exit Strategy Review

We'll give you an independent third-party review of your exit strategies. Exit strategies are the various workout scenarios that would allow you to fix the problems affecting your loan and the commercial property itself. When you have viable exit strategies, you can approach your lender from a much more advantageous position than an investor who just throws his hands up in the air and yells out "I GIVE UP."

## The Good Cop and the Bad Cop

Here's something every single commercial real estate investor should understand about Michael's loan workout story... When Michael approached the bank about doing a workout, he got a call back from another employee at the bank named Gary. Gary worked in a department called special assets. Special assets is sort of a vague term, I know, but at many banks the special assets department is responsible for handling loan workouts. This is important for lenders like you to know ahead of time:

THE LOAN ORIGINATOR AND THE LOAN WORKOUT  
SPECIALIST WILL NOT BE THE SAME PERSON!!!

I know I'm shouting, but it's important that you're not caught off-guard by this point. The loan originator was your buddy. He was the friendly one who you might play golf or have a few martinis with. He's your business partner inside the bank. Think of him as the good cop.

The loan workout specialist is the complete opposite. He's cold and rational. He doesn't care about your particular story or what you're going through. He isn't going to be swayed by lots of emotion and he won't let you wine and dine him. He's purely concerned with making the decision that is best for his bank's bottom line. Think of him (or her!) as the bad cop.

# The Top 10 Most Common Loan Workout Mistakes

1. **You don't get a second opinion** of the property's characteristics and its value in the current market.
2. **You don't review your loan documents** to make sure you understand your obligations based on the paperwork, and how it will affect other aspects such as taxes and insurance.
3. **You don't have your financials update to date**, with a YTD budget in draft form.
4. **You don't read all your leases** and make sure all aspects of the leases are being performed.
5. **You don't make sure the property is in good condition.** This one seems simple, but it's important because the lender will inspect the property when you least expect it. I'm talking about the flower beds, yard, entrance foyer, etc.!
6. **You don't review your financial statements** to make sure you have disclosed everything.
7. **You don't understand your lender's financial condition.** Reviewing public disclosures will give you added leverage when trying to get a loan workout.



8. **You don't have your files in order.** Make sure you have all the files detailing the marketing, leases, insurance, closing binders and photos in one place that is easy to copy
9. **You're not on close, personal terms with your banker.** Set up a line of discussion that is open and easy so that you can build trust.
10. **You're not responsive to your banker's needs** and ask for concessions from your lender even when you're not prepared yourself.

# The Big Picture

This entire situation you're in is easily summed up in 10 simple points.

- 1.** You took a risk when you invested in commercial real estate.
- 2.** Things have changed — the market has dropped and the deal is not what it once was.
- 3.** You're now looking at a loan default. If the bank pursues you for the personal guarantee you signed, it could wipe you out and seriously hamper your family's lifestyle.
- 4.** You don't have the ability to pay back the money you borrowed. (Millions!)
- 5.** You need facts, analysis and feedback on solutions from outside professionals.
- 6.** You don't want to spend weeks running around town looking for the right lawyer, real estate broker, accountant and business consultant.
- 7.** You don't want to (or can't) pay each of these guys thousands of dollars so they can tell you “you made a bad investment.”
- 8.** You want a cost-effective, one-step solution that will give you an economical, speedy, independent review of the major issues affecting your commercial real estate investment.
- 9.** You want to do the right thing by way of the lender, your partners and the property.
- 10.** You need a plan of action that puts this mess behind you.

If that describes where you are right now, let me tell you what Commercial Default Help can do for you.

## Your Next Steps

These are difficult times for commercial real estate investors, but there's a silver lining in this mess. We understand just how devastating your one bad commercial real estate investment could be for your family. Your home, your savings, your way of life... all of it could be at risk if you do nothing and just hope the situation will resolve itself.

The reality is that you HAVE a resource at your fingertips. Commercial Loan Workout Pro is the most cost-effective way to put a team of real estate professionals in your corner. Workout Pro gives you the resources you need to approach your lender and get a workout approved so your life no longer has those gray, stormy clouds hovering over it.

It's that simple. So instead of just "wishing" your bad deal would go away, now is your chance to DO something about it!

Just visit [www.CommercialDefaultHelp.com/workout](http://www.CommercialDefaultHelp.com/workout) and read all about Commercial Loan Workout Pro and how it can help you.



Ben Pargman

## Glossary

**Broker's opinion of value** — An assessment of a commercial property's true value. It takes into account the property's ability to produce revenue, as well as other factors.

**Certificate of occupancy** — This is a permit issued by the local city or county that certifies that a building is safe to occupy.

**CRE** — Commercial real estate. CRE includes property used for offices, retail, industrial and other revenue-producing uses.

**Commercial forbearance** — A legal term describing when a lender gives a borrower more time to pay back a loan by delaying foreclosure proceedings. A commercial forbearance may be part of a loan workout.

**Deed in lieu of foreclosure** — A voluntary agreement where the lender agrees to take back the deed to a property without a foreclosure.

**Default** — The condition of a loan that is not being paid back to the lender.

**Foreclosure** — The right of a lender to reclaim possession of a property if the borrower does not pay back the loan.

**Interest reserves** — The amount of money the borrower sets aside to pay for interest when the loan is originated.

**Loan originator** — A lender employee whose job it is to issue loans.

**Maturity** — The date when the loan and all interest is scheduled to be completely paid off.

**Note** — Your promise to pay back the loan.

**Phantom income** — A common term among real estate investors to describe debt that is forgiven by a lender, which may be considered by the IRS to be taxable income.

**Recourse provision** — A provision in the loan document that gives the lender the right to seek out the borrower's personal assets if the loan defaults due to a fraudulent or wrongful act.

**Workout** — The action steps that a borrower and lender take to avoid a foreclosure or default — usually by adjusting the terms of the loan or some other alternative plan.