



## Credit Risk Ready Podcast

Host Linda Keith CPA With Rick Chess

### *First Steps From CRE Triage to Performing Loan*

This is Linda Keith, CPA, with Credit Risk Ready, a podcast where we interview senior credit and lending professionals from community and regional financial institutions across the United States, their regulators and banking advisors to better understand and mitigate credit risk in any environment.

Today, we get to talk with Rick Chess of Chess Law Firm PLC. Rick has funded and managed billions of dollars of projects in the commercial real estate space. His resume includes Pennsylvania State Legislator, Director of Investments, Director of 1031 Transactions, audit committee chair, real estate manager, economic development director, and the list goes on.

Rick understands the investor, the owner, and the lender side of complicated commercial real estate deals. And better yet, he can explain the challenges and options in clear, concise language...my kind of a guy. Currently, Rick guides individuals and organizations through CRE triage, transformation, and triumph. In a previous interview, we focused on CRE triage, this time we zero in on the mindset and action steps to take to transform a CRE challenge into a CRE triumph.

Welcome back, Rick.

**Rick Chess:**

Glad to be here.

**Linda Keith:**

So triage, we figured out from talking to the borrower which ones we should be worried about and which not. Getting a little more feel for how spread out they were, but were they even planning for whatever is coming at us? So, now let's decide that, boy, one of our deals -- either because of that conversation or maybe because it is a building where the businesses are still shut down, it's been three months, nobody can pay their rent -- despite all the plans, something is going poorly with that project. What can we do to transform that, or participate in transforming that from trouble to triumph?

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### **Rick Chess:**

Well you hit on it right, because as a lender, you've already negotiated in your loan certain ways that you can come in, take over, put all the money into a lockbox. And those are extreme measures. You're trying to have something in there in a way of an asset, that's separate. I'm still on the point where you've looked at the property, you've looked at the market, you've spent time with the borrower, you've done your triage. You've figured out what you really are up against, how well is this person handling the crisis, et cetera. And now you're like, "Okay, I have 90 days, I have 180 days." Whatever you think that the time frame is to work with and, to go from triage to transformation, the key word is innovation. We didn't know the rules when everything shut down.

### **Linda Keith:**

Right.

### **Rick Chess:**

Now things are opening up a little bit, you're seeing some businesses doing fine, you're seeing some businesses going away. Some of them may have gone away anyhow.

### **Linda Keith:**

Yeah.

### **Rick Chess:**

The ones we're focusing on right now are the borrowers. They still have their doors open. They still have staff. You look at their properties, they still have some tenants there, whatever. But just because they've survived, just because they were able to give you insights in the triage stuff to what's going on, doesn't necessarily mean that they are able to turn from defense, which is really what you're doing in triage, to offense, which is the only way that you can move on to the triumph.

### **Linda Keith:**

So, we're glad they survived, but that's really just step one.

### **Rick Chess:**

Yep.

### **Linda Keith:**

And we know they survived, but you mentioned 90 to 180 days, I wonder how long, given the nature of this recession and the global pandemic, how long will it be before any of us can project out 90 days? I mean, 90 days used to be easier than it is now. Right now 90 days, I don't even know how open my state will be. I don't even know yet whether my granddaughter's first birthday on June 3rd, whether we'll even be able to have the family get together. More or less, the summer solstice on June 20, when my sister, whose husband just died suddenly and unexpectedly, we can't even have a funeral and we don't know when we'll be able to. So, the idea that we can project out in this environment seems so much harder than it usually is.

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### **Rick Chess:**

Let's start with what stays the same. Individuals, people, there are ways they think, there're ways they communicate, there're ways they learn. People are people are people, so whether it's in a pandemic and we're all sitting at home and with the old thing, "I'm married for life but not for lunch." Why I'm in the office right now, rather than home. But you start with, what do you know? And if a building was well constructed before the pandemic, it's still well-constructed. If it's in a part of town that's an area of town that people want to live, it's still an area of town people want to live. The ratios may all have changed, but the basics are still the basics.

### **Linda Keith:**

Right.

### **Rick Chess:**

But the question for you, as you go into this transformation phase, you're transforming your relationship with the borrower. You are a partner, even though you haven't taken the property back. You need to be getting out ahead of every potential issue. Let's think about it, some borrowers are national, but really, what's the old thing Tip O'Neill used to say, "Politics is local," real estate's local. I've been involved with the United Dominion, we lend properties in 26 States, but we really had about 52 markets we were in. And each market was slightly different. You as the lender, typically, have a far better big picture than the borrower does.

I mean, hopefully because the borrower is laser-focused, at least in theory they should be, on the properties that they own, the few that they're trying to buy. But, as a lender, with all the different tentacles that you have out there in a market, you're aware of everything. You're aware of what companies are shutting down, which companies are growing. That's not real estate, but your lender knows about it. As the borrower, you give me credit because I know how to build something, I know how to get through the planning and zoning.

But I think about it, I've talked to my wife a lot, where I'm laser-focused and she's 360. You, as the lender, have to be the 360 person and bring to the dance those pieces that the borrower... They paid attention to it because they had to do it to get the loan. But they really didn't go into great detail on such and such a manufacturing plant or whether that restaurant got their business just from the immediate neighborhood or people were coming from long distance. You have access to ideas, you have access to people who study these different pieces in a way that your borrower doesn't. And you can position yourself right. Be literally a partner. They didn't necessarily invite you to the dance, but wait a minute, you own 80% of the dance.

### **Linda Keith:**

I was going to say, yes they did.

### **Rick Chess:**

They would never have been there but for you. And let's think about it for a second, if you can help them understand that, yes, you are in this role as lender and you are concerned about the investment, but their success long-term is your success long-term. You have other loans you want to make with them, you have other loans that you want to make with others and so you're looking at them to learn.

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Because, since we're in a brave new world, and we are going into a brave new world, you can learn stuff day-to-day talking to your borrowers that you never could learn in college.

You might learn from Linda Keith, but you would not learn in college so, I think it's a wonderful opportunity. And once you can get the investor, the borrower over that fear that you're daddy coming in to check on them and make sure they're not smoking marijuana or whatever the analogy you want to make. But they realize that you are, in many ways, on the same side of the equation.

**Linda Keith:**

Yes.

**Rick Chess:**

That's when you hopefully can start opening up their mind to opportunities. And two things occur: one, an idea you have might actually sink into their head and they might implement it, but also, if you find that as you're bringing them this goal and they're not reacting? Ding, ding, ding, ding, ding, ding.

**Linda Keith:**

So, if they are not open to your best ideas that you actually do know are good because 10 other CRE borrowers have found them helpful, and this one's acting like you don't know anything and nothing's helpful and you already know that they're stressed because their anchor tenant has moved out...Yeah.

**Rick Chess:**

Yep.

**Linda Keith:**

Huh. I agree with you. You said the lenders can learn in this environment. Well, talk about the School of Hard Knocks. I mean, I felt this way about the great recession, that those lending and credit professionals coming into the profession in their twenties and early thirties and starting out, man, if they got in before the recession and went through that, their understanding of how things can go bad, how quickly they can go bad. The challenge of analyzing a credit when the most recent information you have is actually before things went bad. And then, frankly, it will be the same coming out of whatever this challenge is, I'll call it the pandemic recession, but when we come out of it and the most recent information you have is how bad things were. It's going to be challenging the other direction, but the benefit will be that if you follow your suggestions in terms of these conversations and specifics, you'll have a much better understanding of how strong those borrowers actually are.

**Rick Chess:**

Yeah.

**Linda Keith:**

That when something's gone wrong, they immediately move into strategically planning for a list of possibilities, a list of scenarios, which frankly is what lending credit management in the banks are also doing themselves, right? Exactly what they're doing in terms of stress testing everything and trying to

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determine what would we do if? Well, that's the same thing, it sounds like, that these CRE borrowers should not only be doing, but be able to communicate with you that they are doing. And then the way to transform it is simply whatever gets us to the other side with the loan still intact and the borrower still on their feet. Is that right?

**Rick Chess:**

Well, let's talk about an important issue. Flirting.

**Linda Keith:**

Okay.

**Rick Chess:**

You brought up-

**Linda Keith:**

What? Flirting?

**Rick Chess:**

... Flirting.

**Linda Keith:**

Okay.

**Rick Chess:**

I think it was in the last session, you talked about, do you go to them talking about what their needs might be financially to keep the property going, to improve the property? Well, there's also a flirting issue that was very important post 08 and post 86. And this was, the lenders aren't designed for managing real estate. They're not designed for owning real estate. So, if I'm somebody who is out there and I'm resisting some of your suggestions, you flirt a little bit. And part of what I'm doing in calling all my borrowers is, we recognize not everybody's as brilliant as you, Mr. Borrower or Ms. Borrower, and we're going to be needing to find who are the people that we could partner with as we take back some... If their heart's not bumping at that time, they're dead.

Because, you're feeding them the cocaine of CRE of, ooh another deal, ooh, I can... If I can just convince this lender that, Oh wait a minute, I actually have to do because I'm already a borrower. But if I can show them that I'm listening, that I'm implementing, that I'm reporting on what I've done, that I'm actually sharing in a way, like I would with a partner, then oh, maybe it's not just, I have to worry about losing this one property, which is a real risk. For instance, in Virginia and I think in most States, you have this volunteer medical force. There's 10,000 members of it in Virginia that came and helped on COVID-19. Well, one of the issues they have is, where do we meet? Where do we train? Where do we have our office?

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So, you have somebody that has a retail center and they're going to lose a tenant and there's space there. Well, you make that space available to this, or any kind of volunteer organization, but if you do it the right way and the lender works with you, the lender may be able to take a tax deduction for allowing this part to happen. The lender might be able to take credit for it. Oh, do you think that people might be angry with lenders? I mean lenders right now are saying, "Oh, don't pay your interest, pay us back later." But at some point the lenders are going to have to go back to being lenders.

So, having some good news post pandemic recession, or at least as we start getting back. Where the lender had said, "I saw this restaurant go under and it's a shame and so I'm helping, because all the equipment's in there, we're working with a local group of handicapped kids where they're coming in, they're learning." Give me 15 minutes, I'll give you 500 different ideas, because there's nothing that you and I would come up with that hasn't already been happening somewhere in the country.

**Linda Keith:**

Right.

**Rick Chess:**

I guarantee you that the very focused borrowers, they're focused on survival.

**Linda Keith:**

Oh, yeah.

**Rick Chess:**

Right now they're focused on survival and getting them to open up their blinders a little bit broader. They need to do what they need to do and you're going to be helping them figure out what they need to do. But if you don't get them to open up their blinders, you're almost wasting your time on them because you're not going to help them grow. That's the challenge right now, there's lots of innovations that will help you in your transformation with your relationship with your borrower, with their property. But getting folks to do what they need to do, it's the number one challenge. It's why you've spent all the time with lenders and I've spent time with people here because it's hard to say, "Huh, maybe I got to do things a little different."

**Linda Keith:**

So, when somebody is really focused on survival, sometimes one of the best things you could do for them is to actually broaden that focus to say, "When you survive from this, one of the ways you might be able to build your restaurant back to its original capacity is by being known in the community for the way that you reached out and helped the health care workers with their food during this time. So, is that something that you might be able to do with the employees you're trying to keep on to handle this payroll protection plan and not have to pay the loans back? Do you think there's some idea there that could be helpful?" And now you're getting them to think beyond, "My gosh, how am I going to even make payroll?" To maybe, "Oh, maybe there is something that I can do that would benefit me when I come out of this, that I can do now, even when I'm in the middle of it."

**Rick Chess:**

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Think about the hierarchy. People believe more what they discover than what they're told, people integrate more what they feel than what they think. Think about the different things that drive decisions, and everything you've just talked about, Linda, touches on those things. Right now, we're all walking wounded and emotionally, financially, intellectually, spiritually are challenged. This is hard for someone in business as a lender, a borrower, local government, whoever, to think about, because we are driven to, let's get this done. And this is a time when, it's a unique time in history, it may be the best time in history to be involved with commercial real estate. Because people are realizing how real estate in many ways, the center of the community, it is where we meet with other people, it's how we reflect who we are, what's important to us. It has the potential for us to be coming out of this together. And we're not all going to make it, this is not Kumbaya.

**Linda Keith:**

Right.

**Rick Chess:**

Not everybody's going to live. And some people, they were in so much trouble before COVID-19, that couldn't have saved them then, now it's just a matter of, "Okay, let's rip the bandage off, let's move on with that." But there's going to be a group of people, lenders, borrowers, local governments, whatever, businesses that are going to do exceptionally well, because they're going to do exactly what you talked about, Linda. They're going to figure out a way to touch those who are important in their lives and their business and their community. And those relationships will last for next 20 years.

**Linda Keith:**

This is a time when people actually can make a difference in other people's lives more so than often is the case. People are stepping up in the health arena, in the science arena, in banking, in real estate development, in every different direction, trying to bring their very best ideas because of the threat. So, I completely agree with you that if you can get past the frightening, "will I even survive" part, and you can somehow bring something to the party at this point that contributes to the transformation, and ultimately, triumph of the businesses and real estate deals and so forth that can be saved. It feels really good to be in play right now. At least that's the way I see it.

**Rick Chess:**

I think you're absolutely correct, Linda. And I'm glad to be part of this with you and look forward to those things we can do in the future.

**Linda Keith:**

Well you know, commercial real estate will still be the sweet spot of community banking after the recession. And I can't wait to have another conversation with you then and look back on this and see what the heck we learned and how we helped others make it through to the other side. Thank you so much for joining me.

**Rick Chess:**

Thank you Linda.

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### Linda Keith:

Thanks for joining us on the Credit Risk Ready Podcast. Subscribe, comment, or share on social media to stay connected and spread the word. Join me next time as we bring your bank, your customers, and your community through the recession, safe and sound. Take care.

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### *About Rick Chess*

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Rick Chess guides individuals and organizations through triage, transformation, and triumph!

Chess works with lenders, owners, and investors to help them better understand their challenges and options, in clear concise language.

Chess served as a member of the Pennsylvania General Assembly and as President of REISA (now ADISA), a national alternative investment trade association.

He acquired 50,000 apartments and 10 retail centers for United Dominion Realty Trust (UDR), investing over \$2 billion.

Rick helped develop and take public – as a founding board trustee -First Potomac Realty Trust (FPO) and served its Audit Committee Chair.

He also serves as a transactional attorney, focused on commercial real estate, equity formation and capital gains tax planning.

Write him at [Rick@ChessLawFirm.com](mailto:Rick@ChessLawFirm.com) with a summary of your challenge. He will arrange a free 20-minute consultation, providing specific steps to start your process of triage, transformation, and triumph!

[www.ChessLawFirm.com](http://www.ChessLawFirm.com)

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### *About Linda Keith*

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Linda Keith CPA draws on her 30+ years of experience consulting with and training lending institutions, background in public accounting, 15+ years as CFO of the family residential construction company, experience as an Examiner with the Washington State Auditor's office and as adjunct faculty in

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Accounting Principles and Managerial Accounting to help lending and credit professionals say “Yes” to good loans.

Of course, you know those are not consecutive years or she'd be over 100 by now!

Linda is known by her clients to be both practical and funny. In fact, there is a move afoot to change the 'P' in CPA to stand for 'Playful'. The fact is people absorb ideas and learn better when they are having a little bit of fun. So, Linda brings the fun along with her practical knowledge and depth of understanding to provide credit analysis training and presentations that make a difference.

She is the founder of [Lenders Online Training](http://www.LendersOnlineTraining.com), a virtual classroom approach to improving tax return and financial statement analysis capabilities; the host of the [Credit Risk Ready Podcast](http://www.CreditRiskReady.com); and a [consultant/trainer on credit risk](http://www.CreditRiskReady.com) to banks and credit unions across the country.

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