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Do's and Don'ts in Commercial Real Estate Loan Reviews

1. A **portfolio manager**, and not the original underwriter, should complete the annual review.
2. **Key property documents:**
 - (i) **Rent Roll** (not a Tenant Register). If you have a Self Storage property, request a Management Summary. The Rent Roll will do you no good.
 - (ii) **Prior year's P&L.**
 - (iii) **Training 12 months P&L.** YTD when less than 6 months is limited.
3. The **tax return analysis should not be materially different when the same tax years are included** in the historical analysis presentation.
4. **Understand recurring cash flow** when completing the analysis.
5. **Hire a third-party to complete a property inspection**, particularly for low-coverage and low-debt yielding loans. Make sure they identify dark and vacant spaces (retail), and of course property condition. The Borrower Rent Roll may be deceiving.
6. **Compare current rent collections at the property level to scheduled rent** in the Borrower Rent Roll.
7. **Understand recurring expenses.** Do not include depreciation, amortization, and interest expense.
8. **Verify property taxes.** Go onto the tax assessors portal.

Valuation when you do not have a current Appraisal:

Two scenarios: Stabilized property and an unstabilized property. I will define the difference, which differs by occupancy and, occasionally, by income.

1. **Stabilized Property:** Take your underwritten NOI and apply a cap rate.
2. **As-Is Value,** which incorporates a lease-up discount for vacant space and deferred maintenance.

I compare the re-underwritten value to what the Borrower's view of his or her property value as per SREO reporting. I also consider haircuts I took on other SREO properties with a Zillow value.

Call local commercial real estate brokers to obtain neighborhood color, market trends, and valuation metrics (i.e. cap rate and "price per pound"). Published materials can be found on the research section of national brokerage firm websites (i.e. Marcus and Millichap, CBRE, Jones Lang LaSalle, and Colliers, but I am finding these reports to be more general over time with market stats only on vacancy and rents, not on cap rates and value).

Depending on the state, I also look at the assessed value on the county and/or city website. For example, in California, if my underwritten value is below the assessed value, this means that the Borrower has lost market value on its asset.

About Gina Marotta

Ms. Marotta is a subject matter expert in mortgage finance, property ownership, and due diligence involving performing and non-performing commercial real estate loans and properties. In addition to structured finance transactions, she works with credit unions on the underwriting analysis of new loan participations and the completion of annual loan reviews, global cash flow analysis, and credit risk rating of commercial real estate loans.

Since 1995, she has held a variety of roles in pooled mortgage transactions that include the re-underwriting of some \$70 billion in legacy CMBS loans under the US Treasury's PPIP program; managing the securitization process of commercial real estate loans; and loan re-underwriting and due diligence on behalf of high-yield investors purchasing commercial real estate loans and assets. Between 2009 and 2012, Ms. Marotta worked with a major private equity firm in building a distressed debt platform to invest in small balance mortgage loans of failed community banks throughout the US.

Ms. Marotta has held various senior consultant roles in Latin America since 2004 that include: social interest housing securitization transactions, enterprise risk assessments of social interest housing mortgage companies, distressed small-balance mortgage loans, and operational assessments of regional mortgage and consumer finance companies.

In addition to her corporate and consultancy career in real estate investment transactions, she has been an investor in various commercial and multifamily properties in California and Michigan.

Ms. Marotta began her career in 1987 working in the urban mixed-use development group of the Santa Fe and South Pacific Railroad (Santa Fe Pacific Realty). She holds an MBA from the University of San Diego and an MA in international human rights from Columbia University. She is the founder of the non-profit Human Strategies for Human Rights, which she ran from 2001 through 2004, focusing on NGO capacity building, and held consultancy positions at the United Nations in 2000 and 2001. She maintains consultancy offices in Los Angeles and Detroit.

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