



Managing Workouts – What are your best options?

Panel Members:

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Don Neff, President/CEO, La Jolla Pacific, Ltd.



Pat Trendacosta

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- PROBLEM LOANS: OPTIONS
 - RECEIVER
 - WORKOUTS/FORBEARANCE
 - FORECLOSURE
 - DEED-IN-LIEU OF FORECLOSURE
 - ATTACHMENT/LITIGATION





Bill Hoffman, CEO Trigild, Inc.

- Why use a receiver instead of just following through with foreclosure?
- Why / how do you sell a property in receivership instead of REO?
- How does receivership differ from bankruptcy?
- Why not a workout, deed-in-lieu, forbearance, etc.
- How do you determine value?





REO Assessment & Risk Management Strategies

Don Neff, President/CEO
La Jolla Pacific, Ltd.



Banks' Major REO Concerns

- What is the bank acquiring?
 - Product type (commercial vs. residential)
 - Location (supply vs. demand)
 - Stage of completion (5 asset categories)
 - Condition (PCARs are an important tool)
- What are the bank's legal exposures?
 - As owner
 - As completing party
 - As seller or landlord

Banks' REO Challenges

- Banks are not set up to handle real estate
- Do not fully understand construction risks, liability, insurance, and customer service/warranty obligations
- Distressed assets either get “worked out” or folded into REO portfolio
- Banks must perform proper due diligence and figure out what they have acquired in order to determine best disposition strategy
- Three options to consider...

Determining Disposition Strategies

- Preserve and hold asset
 - Mostly feasible for raw land, blue-topped lots, or finished lots
 - Avoids potential risk and maintenance issues with vertical construction
- Bulk sale to investors/GC/Builders
 - Perhaps most risk-averse strategy
 - Banks may struggle with heavy discounts (insolvency)
- Build out and retail to consumer
 - Able to minimize short-term financial losses
 - Potential risk/liability issues with construction defect litigation
 - Cost-benefit balance of capital needed vs. higher future returns
 - Discounted cash flow analysis: What is bank “hurdle rate”?

Commercial Office Towers



Master-Planned Community



Risk by Assembly (& Other Issues)

- Soils issues
- Concrete foundations
- Structural framing
- Weather barriers
- MEP (mechanical, electrical & plumbing)
- Acoustical (for attached product)
- Attractive nuisances (maintenance, trespass, etc.)
- Entitlement issues (expiring permits, fees, etc.)
- Title (liens, judgments, easements, etc.)

Property Condition Assessments

- “PCAR” Reports

- **Level A**

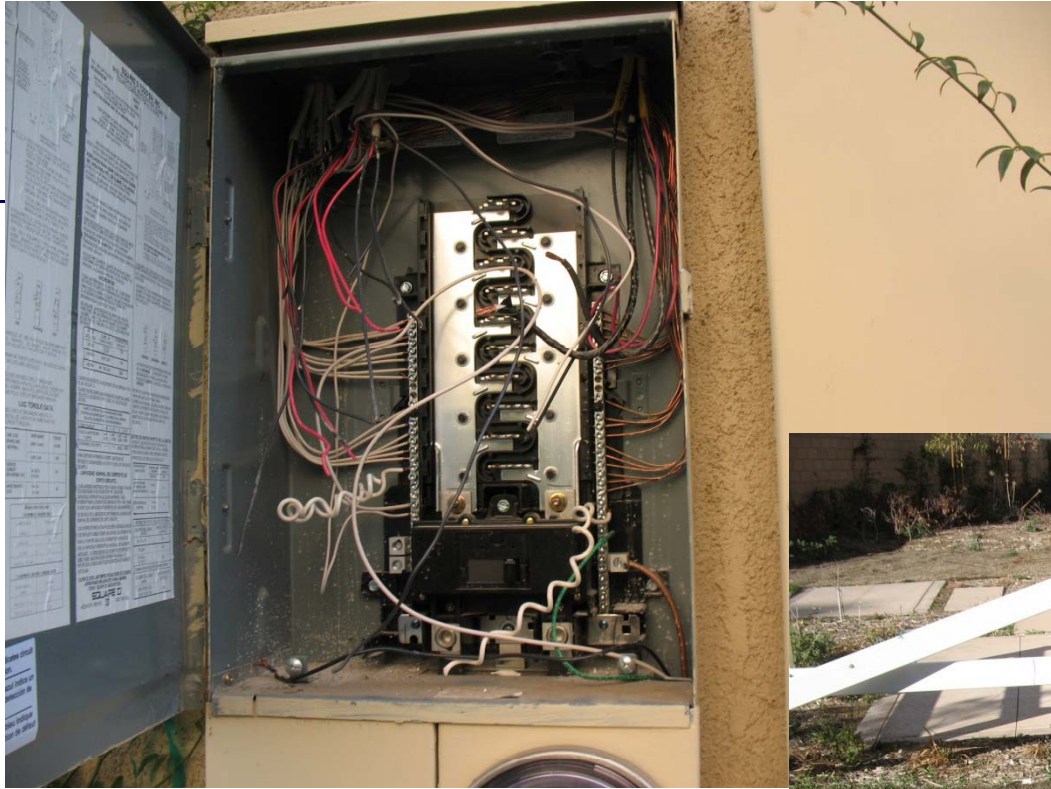
- Used for all five asset types
- Existing conditions analysis & photo records
- Deferred maintenance & recommended repairs

- **Level B (Report A +)**

- Primarily used for partially finished lots, partially complete homes
- Estimated costs to complete
- Remaining lifecycle of components
- Components include building interiors, exteriors & common areas

- **Level C (Report B+)**

- Used for large residential & commercial projects
- ADA accessibility review
- Life safety review
- C of O & permits review
- Code compliance review



Due Diligence Docs (List of 50)

- Project management files
- Purchase contract files
- Field construction files
- Homeowner lot files
- Customer service files
- Warranty service files
- Insurance certificates
- Lead bank underwriting documents
- Government agencies

Opportunities for “Green-ing” up Assets

- Recognized third-party certification:
 - LEED®
 - GreenPoint Rated®
 - EnergyStar®, etc
- May help with market value and quicker resale of distressed assets
 - Focus on the following:
 - Water conservation inside offices and units with low flow fixtures
 - Energy efficiency via building envelope insulation



THANK YOU

Don Neff

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QUESTIONS?