

“ *It's tangible, it's solid, it's beautiful. It's artistic, from my standpoint, and I just love real estate. ”*

Donald Trump

Commercial Real Estate Finance

Part 1: Origination and Credit Risk Management

OVERVIEW

This course covers the fundamentals of Commercial Real Estate Finance (CREF) with a particular focus on best practice in origination and credit risk management. It is Part 1 of GBRW Learning's 2-part programme to help banking professionals build or improve the competitiveness and soundness of their CREF banking business. It can be taken as a stand-alone course or complemented with Part 2, 'Managing Distressed Debt'.

The course takes delegates through all the main components of building a successful CREF business and/or improving the bank's existing policies and procedures. The aim is to encourage practices that produce the best risk adjusted returns. It focuses on obtaining the right information through due diligence and reporting requirements, modelling findings appropriately, understanding valuations and due diligence reports to ensure important information is properly captured in loan covenants, and monitoring. From commissioning property and sponsor due diligence, through structuring debt and negotiating terms, to pricing loans and exit management, the course will help participants develop their analysis and structuring skills, and put them into practice immediately. Sessions will use case studies, examples, checklists and other tools to facilitate learning and implementation. This two-day course can be extended to three days with the addition of a one-day CREF Deal Modelling add-on.

WHO SHOULD ATTEND?

This course is designed for CREF and Corporate Banking professionals. It will be of interest to those with responsibility for CRE-backed debt origination, relationship and transaction management, credit risk analysis and monitoring, securities investment analysis, debt syndication, portfolio management and regulatory capital management (including stress testing). If you are asking yourself any of the following questions, then this course should definitely be of interest:

- *How can I originate stronger CREF exposures, as resilient as possible to market downturns?*
- *How do I ensure that collateral, sponsor and loan risks are appropriately reflected in the loan terms?*
- *What is the best way to price debt?*
- *What strategies can I employ to manage capital allocation and risk while improving profitability?*
- *Are there early warning signals I can build into exposure monitoring to reduce the risk of losses?*

sharing knowledge, developing skills

OUTLINE

OBJECTIVES

Participants will come away from this course with a deeper knowledge and understanding of:

- How to use market and investment analysis to improve commercial real estate lending and credit decisions
- How best to define due diligence requirements to enhance its effectiveness
- How to critically assess sponsor business plans and operating models to pinpoint risk areas
- The importance of scenario modelling in determining debt structure and terms
- The benefits of using regular collateral-level reporting and dynamic covenants
- Tranching debt to price the risk adequately
- The difference between Hold to Maturity, Originate to Distribute, and Originate & Manage models
- Using sell down (exit) to manage exposure concentrations, access funding, and/or transfer risk

WORKSHOP DELIVERY

- This is a two-day workshop totaling **14 hours of delivery time**. It comprises 7 hours of instruction, and a further 7 hours dedicated to intensive team work underpinned by case studies and implementation exercises facilitated by the instructor.
- The CREF Deal Modelling **optional add-on** is a one-day workshop of **7 hours of delivery time**. It comprises 2 hours of instruction and 5 hours dedicated to building a deal model based on a case study.
- All hand-outs and instruction will be in English.
- Delegates will receive a copy of all the course materials, as well as appropriate checklists, best practice guides, case studies and models.
- The high-levels of participative group work on case studies and interactivity during tutorials strictly limits numbers to **no more than 20 participants for main the workshop** and **no more than 10 for the Deal Modelling add-on**.

TRAINING NEEDS ANALYSIS & POST-TRAINING EVALUATION:

To ensure that participants gain maximum benefit from the course, it is our practice to send a detailed questionnaire to all course participants to ensure we fully understand their specific training needs and objectives. The completed questionnaires are analysed by the course instructor who will tailor the course content and style of delivery to the requirements of the participants. Following completion of the course, participants are asked to measure and assess the effectiveness of the training. The results are collated and reviewed, and the analysis shared directly with the relevant client stakeholders.

OUTLINE

DAY 1

Module 1: Introduction

- ⇒ Overview of course structure. Participant and facilitator introductions
- ⇒ Essential debt terminology
- ⇒ Key formulae e.g. ICR, DSCR, LTV, yields
- ⇒ Market structure and sources of funding
- ⇒ Evolving debt provider landscape
- ⇒ Bank CRE business models

Module 2: Informed lending grounded in market and investment analysis

- ⇒ Overview of CRE asset classes
- ⇒ Characteristics of operating assets
- ⇒ Understanding market supply and demand conditions and their impact on CRE
- ⇒ Critical assessment of income security
- ⇒ Demystifying costs and expenses
- ⇒ Selecting the appropriate valuation approach

Module 3: Terms and term sheets

- ⇒ Parties, functions and responsibilities
- ⇒ Avoiding surprises with good term sheets
- ⇒ Covenants and covenant construction
- ⇒ Adapting reps & warranties, conditions and obligations, to sponsor and deal features
- ⇒ Defining default triggers and consequences

Module 4: Due Diligence

- ⇒ Importance of debt and equity modelling
- ⇒ Property DD: valuation, environmental, technical, legal (ownership, restrictions)
- ⇒ Corporate DD: legal, accounting, tax
- ⇒ Corporate structure and its impact on security packet, loan structure and terms
- ⇒ Sponsor credibility and strength of asset management
- ⇒ Checklists: DD, CPs, modelling inputs

DAY 2

Module 5: Risk management through dynamic loan terms

- ⇒ Setting release pricing for property disposals
- ⇒ Using amortisation, reserves, and cash sweeps
- ⇒ Pre-defined covenant changes linked to business plans and loan performance
- ⇒ Margin step-up as a prepayment incentive
- ⇒ Why use conditional extension options?
- ⇒ Factoring in disposal programmes, lease-re-gearing and refurbishment plans

Module 6: Pricing debt

- ⇒ Pricing drivers: market level, cost of funding, risk/return analysis
- ⇒ Using debt tranching to price risk appropriately

Module 7: Risk management

- ⇒ Initial credit risk analysis: CRE assets and other collateral, loan terms, hedging strategy, sponsor structure and strength
- ⇒ Exposure aggregation to sponsor group level, across product lines and jurisdictions
- ⇒ Loan and capital market sell-down/funding strategies: clubs, syndication, securitisation
- ⇒ Exit options for managing exposure concentrations, funding and risk transfer

Module 8: Structured finance

- ⇒ Bridging funding gaps with mezzanine, preferred equity, rescue capital and participations
- ⇒ Contractual and structural subordination
- ⇒ Negotiating inter-creditor terms
- ⇒ Using debt tranching to facilitate sell down and risk management

OUTLINE

OPTIONAL DEAL MODELLING ADD-ON

DAY 3 – CREF Deal Modelling

Module 1: Modelling in Excel

- ⇒ Model structuring rules: assumptions, inputs, outputs, analysis
- ⇒ Excel functionality: formulae and projections
- ⇒ Scenario modelling and VBA
- ⇒ Managing multiple users

Module 2: Modelling CRE cash flows

- ⇒ Data tape rules
- ⇒ Identifying and quantifying assumptions
- ⇒ Using ranges and scenario modelling
- ⇒ Defining inputs: building up revenue and expense lines from data and assumptions
- ⇒ Defining time scale, aggregating cash flows

Modules 3 and 5: Building a model

These sessions are dedicated to a major exercise in which participants will be presented with a case for which they have to develop an equity and debt cash flow model with basic scenario capability.

Module 4: Modelling debt cash flows

- ⇒ Reflecting debt terms: amortisation, sweeps
- ⇒ Calculating performance versus covenants and default triggers and reflecting consequences
- ⇒ Using outputs to run scenario analysis and create monitoring tools (tables, graphs, etc.)
- ⇒ Defining time scale, aggregating cash flows

Modules 6: Closing remarks

This session wraps up the modelling exercise by reviewing the information / data requirements identified and discussing how models can complement existing bank MIS.

COURSE FACILITATOR



Monica Filkova, CFA
Course Facilitator
GBRW Learning

Monica has more than 17 years of banking and advisory experience in commercial real estate (CRE), loans, structured finance, debt capital markets and corporate finance.

She has advised on non-bank financing, credit risk of stressed CRE debt, bonds and companies, debt restructuring and workout strategies for a bank's NPL portfolio. As a banker at Eurohypo AG (last as Head of Structuring), she closed over €6bn of CRE loans across Europe and executed 10 commercial mortgage backed (CMBS) deals totaling €6.5bn of issuance. She has negotiated complex inter-creditor agreements, conducted risk/return analysis of exit strategies, priced tranching debt, and developed origination policy.

Monica has sat on 4 CREFC-Europe committees, which produced industry best practice and origination guidelines for CREF and CMBS. She is a member of CFA UK and volunteers with its Fixed Income Continuing Education group. She also offers personal finance courses through her company E-MONA Learning Ltd.

To find out more about Monica, her credentials and experience, visit her LinkedIn profile.

LinkedIn

<https://uk.linkedin.com/pub/monica-filkova/11/940/9b4>

DETAILS

ABOUT GBRW LEARNING

GBRW Learning is the training and knowledge-sharing arm of GBRW Limited. Founded in London in 1995 by a group of senior bankers GBRW's mission is to provide first-class consulting and training to banks and bankers in Emerging Markets, to the same standard as would be expected in developed markets. From our London headquarters and subsidiary offices in Washington DC and Singapore we have served clients in more than 50 countries in Europe, the Middle East, Africa, Asia and the Caribbean. Our clients include banks and other financial institutions, governments, and economic development agencies and institutions.

Through our training programmes we share the experience and knowledge of our experts with bankers in Emerging Markets, supported by high quality materials and taking advantage of the latest technologies. Our courses are all highly interactive, and make use of carefully designed case studies and simulations.

We offer a range of training topics for banks and financial institutions including:

- Strategy & Management – Formulating, Implementing & Monitoring Strategy
- Risk Management – Credit, Market & Operational Risk
- Human Resources Management
- SME Banking – Customer Relationship Management; Credit Risk Management
- Retail Banking – Customer Relationship Management, Distribution Strategy, Product Management, Credit Risk Management
- Corporate Banking – Customer Relationship Management, Credit Risk Management, Project Finance, Trade Finance
- Commercial Real Estate Finance – Best Practice in Origination and CRM, Managing Distressed CRE Debt
- Governance, Regulation & Compliance
- Financial Markets

For more information, visit our website at:

<http://www.gbrw.com/training>

To discuss your specific requirements email us at:

mail@gbrw.com

TERMS & CONDITIONS

Total fee cost for the on-site delivery of the 3-day course as described, including Deal Modelling Add-On, is US\$ 11,500. For the 2-day Commercial Real Estate Finance course without the modelling add-on, the fee cost would be US\$ 8,800. Prices are EXCLUSIVE of:

- Flights (discounted business class);
- Accommodation (min. 4★) for every night required on-site;
- Local travel costs and subsistence;
- Venue and equipment hire (if required) and materials production;
- VAT, if applicable

These additional costs will be for the account of the client or, alternatively, we can provide an all-inclusive quote encompassing all expenses if that is more convenient.

GBRW Learning can also host the course at or near our London headquarters for an all-inclusive fee of US\$ 13,800 including VAT. This includes venue and equipment hire but does NOT include the travel, accommodation and subsistence expenses of participants.

A 60% deposit is payable one-month prior to the scheduled course date, with the balance payable immediately following completion of the course.

Discounts are available for multiple course bookings.

For more information or to arrange a booking, please contact Johnny Rizq at:

johnny.rizq@gbrw.com

Note: Terms and Conditions valid until 31st December 2015