

TOPIC

I'm uneasy about my real estate investments—when should I approach my lender about a loan workout?

ADVICE

Don't wait until you miss a mortgage payment to start talking with your lender about difficulties. Begin communication now while you still have options. If you wait until you are in default, your chance of renegotiating is slim.

The key to a successful workout is convincing your lender that you can ultimately pay off the renegotiated loan. To do this, show the lender why it is in his or her best interest to agree to a workout arrangement:

- 1. Get professional help.** Your original plan didn't pan out. Thus, you need an advocate to vouch for why your new plan will work. A professional advisor fluent in both lending and real estate is an objective mediator between you and your lender.
- 2. Identify the problems.** Cash flow is not the problem—it is only a symptom. Look at your property management, leases, and marketing. Consider both macro and micro factors.
- 3. Focus on the non-financial factors.** You and your other companies will be the subject of close scrutiny. At this point, a good reputation may be your saving grace. Highlight your integrity, long-term planning ability, track record, competency, and the strength of your other investments.
- 4. Present a solution.** Walk into your lender's office prepared. Be armed with reliable, professionally produced financials and other documentation that show your grasp of the current situation. Have projections ready that demonstrate your plan under the proposed loan terms.
- 5. Respond to the lender.** It's a negotiation; your lender will have ideas, too. Be open and responsive. Be careful not to give up your legal rights, but seriously consider the workout from the lender's perspective.

Remember: non-performing loans are kryptonite to lenders. Therefore, interest rate, term, payment schedule, and covenants (e.g., debt-to-equity ratio) are all negotiable. If you show a lender how you intend to keep the loan performing, they'll likely agree to workout the loan.



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