Chris Griswold, P.C.

News From the Firm March 2014

Message From Chris….

"Mezzanine Financing" is a term you've heard before but you might not yet fully understand what it means. Let's shed some light on it. This is good stuff for everybody to know so read on further below… (and don't forget to click on my Facebook or YouTube links below to also see my short video on this material).

Explaining Mezzanine Financing

What is it? It's a way for borrowers who don't have enough equity (in the traditional loan-to-value calculus) to get traditional financing for their project.

How does it work? Instead of there being enough equity (i.e., cash) available in the project to make a lender adequately secure/comfortable (through a traditional promissory note and properly recorded mortgage scenario), a borrower will grant unto the lender (and the lender will take and accept) a security interest, not in the real property itself, but in the shareholder or membership interest of the actual borrowing entity itself (usually an LLC entity). Lenders often require the LLC to be a "single purpose entity" which exists solely to hold the title to the real estate to be purchased (thus avoiding the liability problems which might otherwise be encountered if the real estate was held jointly along with other real property (all in one, single LLC) and that was either: **i**) foreclosed upon as regarding such other real property held jointly, **ii**) the subject of an involuntary or voluntary petition for bankruptcy instituted by other creditors against such other real property held jointly, and/or **iii**) lawsuits brought by third parties against such other, jointly held real property (like "slip and fall" accident claims")).

What does this accomplish for lender? In the event of a default by the borrowing entity, the lender can "foreclose" its right to the membership interest in such LLC. Keep in mind, lenders aren't in the real estate business - so they'd rather have their monthly payments from borrower.

What is the real value of mezzanine financing to a borrower? It gets deals done that otherwise wouldn't get done. In essence, it's the equivalent of "credit card debt" in the real estate world and, at the end of the day, it's undesirable and to be avoided whenever possible (by both bankers and borrowers). However, again, it's sometimes the much needed "grease" that makes the difficult deals work.

What My Clients Are Saying

"Chris is always there when you need him and you don't have to wait a day to get a returned phone call. He does what he says he is going to do in a timely manner. He has the expertise to make problems simpler which makes them easier to solve. He is honest, consistent and reliable.

He loves what he does and is active in the community."

Randy Lacey / Broker, Newmark Grubb Levy Strange Beffort / Oklahoma City, Oklahoma

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