

Peoria Square Deal Story

February 22, 2013

RE: “Loan to Own” Note Sale Opportunity

NOTE: Due to Borrower-Owner's distressed circumstances, this opportunity is best-suited for a "loan to own" acquisition of the Property.

Arizona statutes require a public auction sale as the final completion of the 90-day non-judicial foreclosure process.

The foreclosure auction sale delivers one of two outcomes: 1) lender becomes property owner; or 2) lender receives immediate cash payment of face amount of the loan (lender's bid).

Recent Developments:

Borrower-Owner has deliberately defaulted (Feb 1) the 1st-pos loan, in the hope that the Bank will commence non-judicial foreclosure (90-days in AZ). Default(s) consist of payment default and liquidity reserve withdrawal;

The Bank has been requested to accept a stipulated agreement whereby the rents are collected and deposited in escrow for delivery to the new noteholder -- SEE View Projects tab - Request for Cooperation

The Bank is currently deliberating its course of action -- the timing is excellent for a discount proposal today – One-page non-binding Letter of Intent – SEE View Projects tab - Sample LOI

Please review the following deal points and circumstances:

1. The Property is a very successful property (94% occupancy) in a distressed market. The property value has dropped from \$10M in Jul 2008, to \$??M today. Outstanding loans are: \$4.8M 1st-pos, and \$3M 2nd-pos. The 2008-2012 rental income was more than adequate to service both debts, however, due to recent rent re-negotiations, the 2013-2020 rental income does not “cover” the payment of the 2nd-pos monthly debt service. SEE Rent Roll at dwdcommercialmortgage.com/View Projects
2. During 2009-2012, the 2nd-pos lender has continuously refused to agree to a discounted payoff amount, preferring instead to continue to receive monthly interest payments, and to just hope for some miracle to occur that will somehow provide a full (or nearly full) recovery for 2nd-pos lender. This refusal by 2nd-pos lender has made the sale of the property (or a deed in lieu of foreclosure) virtually impossible up to this point.
3. The Borrower-Owner entity is now deliberately fomenting a non-judicial foreclosure by the 1st-pos lender that will (most likely) deliver fee simple title to a new 1st-pos noteholder, and wipe out the 2nd-pos lender. Advancing toward this outcome, the Borrower-Owner entity has recently (Feb 1) defaulted on the 1st-pos loan by A) withdrawal of required liquidity reserve; and B) failure to pay monthly debt service due Feb 1, 2013.

4. Faced with these recent defaults, the current 1st-pos noteholder (Wells Fargo) is deliberating whether to undertake a non-judicial foreclosure (AZ), or to undertake judicial pursuits of a receiver appointment and the loan guarantors. Borrower-Owner has offered a stipulated agreement whereby Borrower-Owner entity continues to operate the property and whereby the rents are to be collected and deposited in an already-established escrow account to be paid to the new 1st-pos noteholder. SEE [Request for Cooperation at dwdcommercialmortgage.com/View Projects](http://dwdcommercialmortgage.com/View Projects)
5. The existing 1st-pos loan consists of a loan-swap combination now totaling approximately \$4.8M, which is the face amount necessary to extricate this loan from the current Noteholder (loan bal-\$4.675M + Swap Buyout-\$125K).
6. This 1st-pos loan is being acquired from Wells Fargo by the exercise of an option-to-purchase -- at the closing of this loan acquisition, the Note will be modified, and transferred to the new 1st-pos noteholder.
7. The Borrower-Owner is cooperating fully, and is participating in the loan modification, wherein the loan balance will be stipulated to be \$4.8M, regardless of the actual purchase price of the Note. The Borrower-Owner entity is an AZ limited liability company populated by two members -- the father-son team that is the original developer of this project. Borrower-Owner is severely under-capitalized, and cannot successfully navigate the turbulent water in the PHX multitenant retail marketplace on a long-term basis.
8. The father and son are also the 1st-pos loan guarantors. These loan guarantors have suffered (2008-2010) severe diminution of net worth. No bankruptcies. Very low litigation or bankruptcy potential for both father and son.
9. It is possible that this 1st-pos loan can be bought for less than \$4.8M, however, any such discount in the loan balance would have to be accepted by Wells Fargo. Wells Fargo may respond favorably to a discounted offer from a credible note-buyer, provided that redacted exhibits confirming note-buyer's financial ability-to-perform are also presented. Wells Fargo will not engage in any negotiation without this confirmation.
10. A discounted offer can be made directly to Wells Fargo through DWD Commercial Mortgage Company, subject to the exercise of the Option. SEE enclosed [Sample LOI](#).
11. The transaction objectives for the Borrower-Owner, Optionee, and the 1st-pos loan guarantors are A) to extinguish all personal loan guaranties (1st-pos loan only); B) retention of liquidity reserve. Both of these objectives will be completed by the note modification with new 1st-pos notebuyer:
12. For additional exhibits, including option, title documents, and property-operating results, SEE [Additional Loan Exhibits at dwdcommercialmortgage.com/View Projects](http://dwdcommercialmortgage.com/View Projects)