

# How Debt Funds Use Warehouse and Other Credit Lines

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## ▶ Background

Real estate investors and developers have come to rely increasingly on non-bank lenders since the Great Financial Crisis (GFC). Bank regulation has made banks much slower and less reliable as providers of senior loans, particularly for shorter-term loans, including bridge, renovation and construction loans.

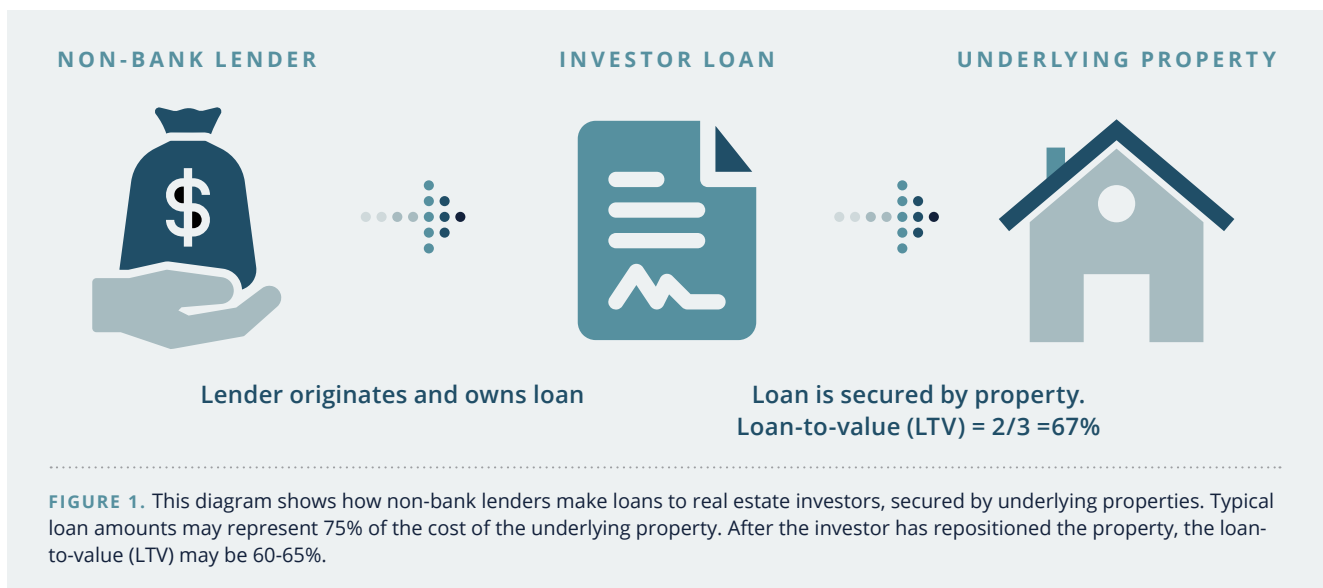
Definitions: In this white paper, we will refer to such loans as “business purpose loans” (BPLs), to distinguish them from real estate loans secured by single family homes made to owner occupants, which are consumer loans. This white paper also applies to commercial real estate (CRE) loans, namely, loans secured by real estate other than 1-4 unit residential properties. Collectively, BPLs and CRE loans will be referred to as “investor loans.”

Meanwhile, real estate investors and developers value speed and certainty of execution. Because they intend to use such loans for relatively short periods of time, many borrowers are willing to

pay relatively high interest rates on such loans—frequently 50+% higher interest rates versus what a bank would charge.

This demand for dependable loans, even if the pricing is higher, has made such loans a popular asset class for investors seeking attractive yields together with a margin of safety, and relatively low interest rate risk. Together, these factors have led to a thriving non-bank lending industry in real estate. In the BPL market, there are many lenders with more than \$1 billion/yr of origination volume. In the CRE bridge lending space, there are lenders at or above \$10 billion/yr of origination volume.

Across the many hundreds of lenders in these two related markets, annual origination by non-bank lenders may be \$100 billion or more, though there is little definitive research on the market. Oaktree Capital estimates the share of real estate loans held by debt funds and mortgage REITs at 10% of the larger \$3.7 trillion mortgage market, or more than \$370 billion.<sup>1</sup>



<sup>1</sup> Source: [https://www.oaktreecapital.com/docs/default-source/default-document-library/the-case-for-private-debt-in-real-estate-investing.pdf?sfvrsn=ae6b9265\\_7](https://www.oaktreecapital.com/docs/default-source/default-document-library/the-case-for-private-debt-in-real-estate-investing.pdf?sfvrsn=ae6b9265_7).

## ▶ How non-bank lenders are capitalized

To fund these loans, and free up capital to make new loans, non-bank lenders use a variety of capital sources. We'll discuss each of the following sources individually:

- ▶ High net worth individual investors
- ▶ Institutional investors
- ▶ Warehouse lines of credit
- ▶ Repurchase, or "repo" lines of credit
- ▶ Securitization

### HIGH NET WORTH INVESTORS

Many non-bank lenders started during or soon after the GFC, as banks retreated from making investor loans. The most common way that non-bank lending entrepreneurs raised money initially was from high net worth (HNW) investors. Frequently, such lenders established a fund and raised capital from Accredited Investors (as defined by the SEC) and used the capital raised to originate investor loans. The interest income from these loans was then distributed to the HNW investors, typically monthly or quarterly. This model remains viable and the author started one such fund in 2010.

In some cases, ultra HNW individuals—typically with a net worth of \$1 billion or more—established or co-founded companies dedicated to making investor loans, using their own money to fund the loans. Examples of such companies in Los Angeles that were founded or co-founded by ultra HNW persons include Karlin Asset Management, which established Calmwater Capital; Hankey Investment Company; and Parkview Financial.

### INSTITUTIONAL INVESTORS

Many institutional investors realized soon after the GFC that investing in real estate debt could be an attractive supplement to their CRE equity investing programs. Investment managers who accessed pension fund and endowment capital early for their lending programs include Mesa West Capital (since purchased by Morgan Stanley); PCCP; and Canyon Capital Real Estate. These are just three examples of Los Angeles companies, among dozens around the U.S. pursuing similar programs.

All of these companies focus on CRE loans, not BPLs. BPL loans are too small to be worthwhile for these lenders, given their need to deploy billions of dollars of capital per year, and their aversion to building the large headcounts that would be needed to do so with small loans. These three companies specifically would probably not pursue a loan smaller than \$30 million today, and their minimums might be closer to \$50 million.

Along with their larger average loan size, these companies usually lend at lower rates, compared to the companies financed by HNW capital. Also, institutional investors have almost always viewed their investments in vehicles managed by these lenders as part of their CRE investment allocation. CRE investments are expected to generate annual returns in the high single digits or low double digits, because they are illiquid investments. Because these lenders charge rates in the mid-single digits, the only way to generate net returns (after fees) in the high single digits is to use structural leverage. We'll discuss this topic in much more detail later.

## DEFINITIONS:

**Structural leverage** – for purposes of this white paper–refers to non-bank lenders using borrowed funds to finance some of their loan portfolios. For example, an investment manager that holds \$1 billion of short term real estate loans to investors might borrow \$600 million and fund the remaining \$400 million with investor capital, in order to deliver a net return to investors in the high single digits. The \$600 million of borrowed funds is the structural leverage in this case. We will also sometimes refer to structural leverage as **“super-senior financing.”** It is “super senior” in that the underlying loans are already senior loans (first liens on real property) and the provider of structural leverage is getting a first priority lien on these senior loans.

## WAREHOUSE LINES OF CREDIT

Warehouse lines of credit (or simply, “warehouse lines”) are revolving lines of credit typically offered by banks to non-bank lenders. They are a form of structural leverage, as defined above. In the example used in the definition, a lender had a \$1 billion book of loans and borrowed \$600 million of the total. This could have been borrowed from a bank in the form of a warehouse line. Such lines typically use a borrowing base, whereby the non-bank lender pledges specific real estate loans (which we will call the “underlying loans”) and can then borrow a prescribed amount secured by each loan.

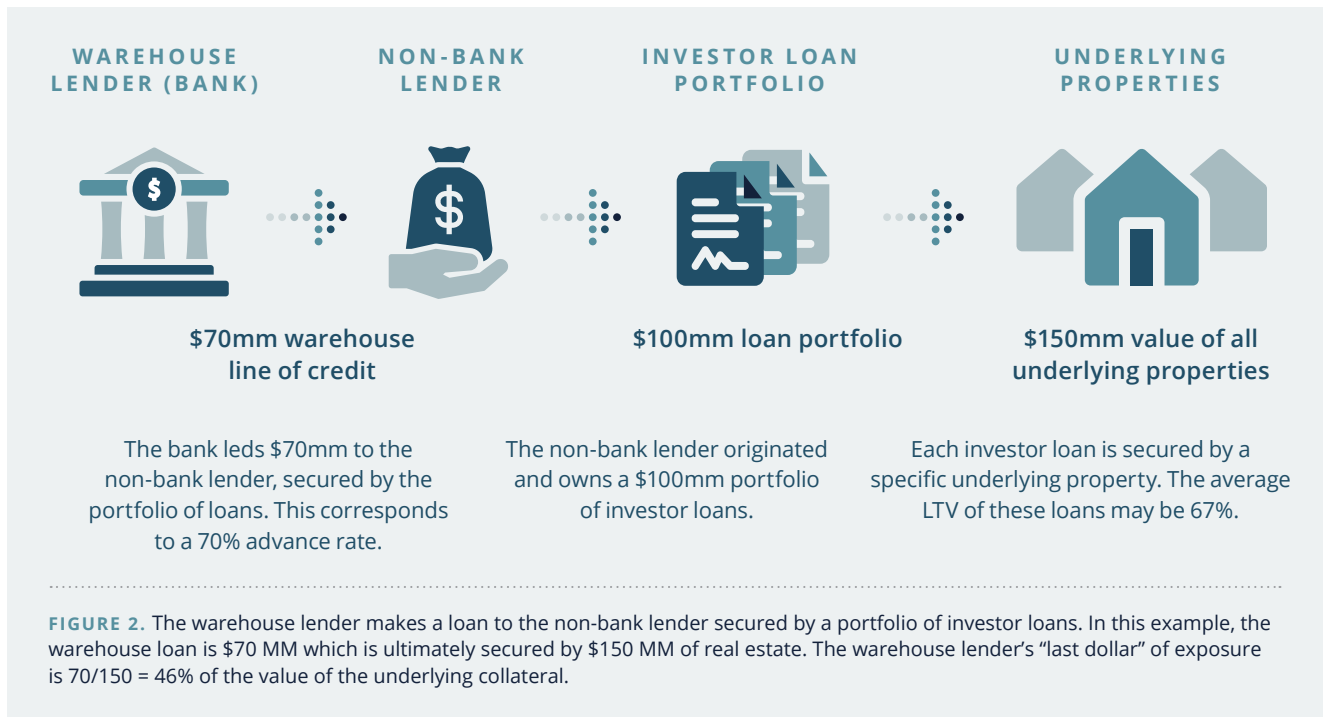
Warehouse lines provide several benefits to non-bank lenders. First, they help such lenders to avoid “cash drag” which reduces returns when there is too much cash in a lender’s portfolio, given that cash has a near- zero return. Second, it enhances returns by mixing investor capital, which is frequently seeking a higher return, with bank financing on which the interest rate is

typically lower. Third, for those lenders who make renovation and construction loans, it provides a source of liquidity to fund construction draws, as the borrowers on the underlying loans improve their properties.

The same features that make warehouse lines so useful for non-bank lenders also make them operationally intensive for the banks that provide warehouse lines. Such banks need to have teams that understand these lines and may have many transactions every week involving such lines, as new underlying loans are pledged into the borrowing base; as other underlying loans pay off; and in some cases, as the dollars outstanding on underlying loans may increase as underlying properties are improved by their owners. Because of this operational intensity, only certain banks provide warehouse lines of credit. Two banks that have provided warehouse lines for non-bank lenders who specialize in BPLs are Western Alliance Bank and Wells Fargo.

## DEFINITIONS:

A **borrowing base** is a portfolio of real estate loans pledged to a bank or other provider of structural leverage. The non-bank lender can typically borrow a specific percentage of the value of the loans. For example, a borrowing base consisting of \$100 million of loans may allow the owner of those loans to borrow \$70 million from their bank lender. This would be referred to as an **“attachment point”** of 70%. Note that in this case the \$100 million of underlying loans would be secured by real estate whose value is typically significantly higher, for example, \$135 million. In this example, the warehouse lender’s loan would represent  $\$70/\$135 =$  approx. 52% of the value of the underlying collateral. Because the warehouse lender’s position is so secure, they can price their loans at a relatively low rate, making them more useful to non-bank lenders.



### REPURCHASE OR "REPO" LINES

Repo lines are similar to warehouse lines of credit, with a few important differences. Repo lines tend to be larger than warehouse lines and are provided by many major Wall Street investment banks such as Deutsche Bank, Goldman Sachs and Credit Suisse. Also, their pricing is often lower than the pricing on warehouse lines, and their attachment point may be higher. For example, if a warehouse line allows for \$70 million of borrowing when the value of the underlying loans is \$100 million, a repo line may allow for \$80 million to be borrowed, or in some cases, even more.

The disadvantage of these warehouse lines, especially those that work with BPL lenders, is that in many cases they have a daily mark-to-market feature. In our example, the non-bank lender pledged \$100 MM of loans which may be secured by \$135-150 million of real estate. With many repo lines, the repo lender (the Wall

Street investment bank) has a trading desk where they trade whole loans. If there is some major disruption or financial crisis, many investors become obsessed with liquidity.

An underlying loan of \$2 million—which is part of the \$100 million pledged pool of loans—that was valued at \$2 million might therefore temporarily be tradable for less than \$2 million. The repo lender could then unilaterally ask the non-bank lender to post more collateral or pay down the repo line, with very little notice. If the non-bank lender failed to comply, the repo lender would have the right to liquidate the underlying loans until the line was rebalanced according to the repo lender's assessment of fair market value of the underlying loans. In other words, a repo line works very much like a margin account in the stock market. If the value of the collateral changes, these lines can lead to very steep losses, even if the value of the underlying real estate hasn't changed.

The difference is that in the stock market, we can all see how share prices move daily, whereas in this market, only a few trading desks on Wall Street know what is happening with the value of these loans, and they could collectively determine that the value has declined, regardless of whether there is any change in the actual safety or return of the underlying loans and/or real estate.

Another variation of the repo line does not feature a daily mark-to-market. In this case, the repo line structure is still used, because it has advantages in case of a bankruptcy declaration by the owner of the underlying loans, but the value of the underlying loans cannot be adjusted unless a third party appraiser determines that the value of the underlying collateral has actually changed so as to impair the value of the underlying loans. This removes the greatest disadvantage of the repo line structure, from the perspective of the repo line borrower. However, such lines

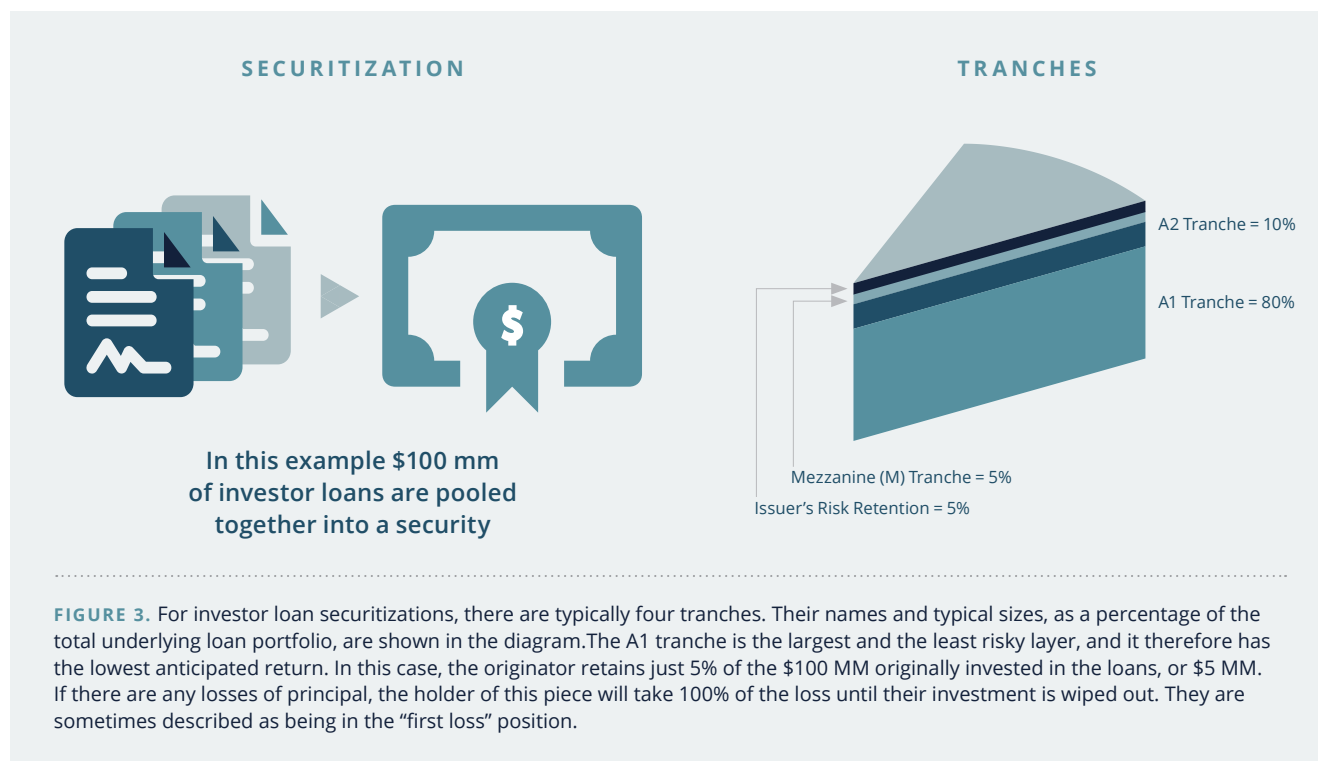
are only available from a handful of banks who focus on very institutional property types with large loan sizes.

## SECURITIZATION

Another form of structural leverage is called securitization. In this model, a pool of loans is pledged into a collateral pool. The loans and the income from those loans is divided into tranches, and the tranches are rated by a bond rating agency. These tranches are then purchased by fixed income investors.

### DEFINITIONS:

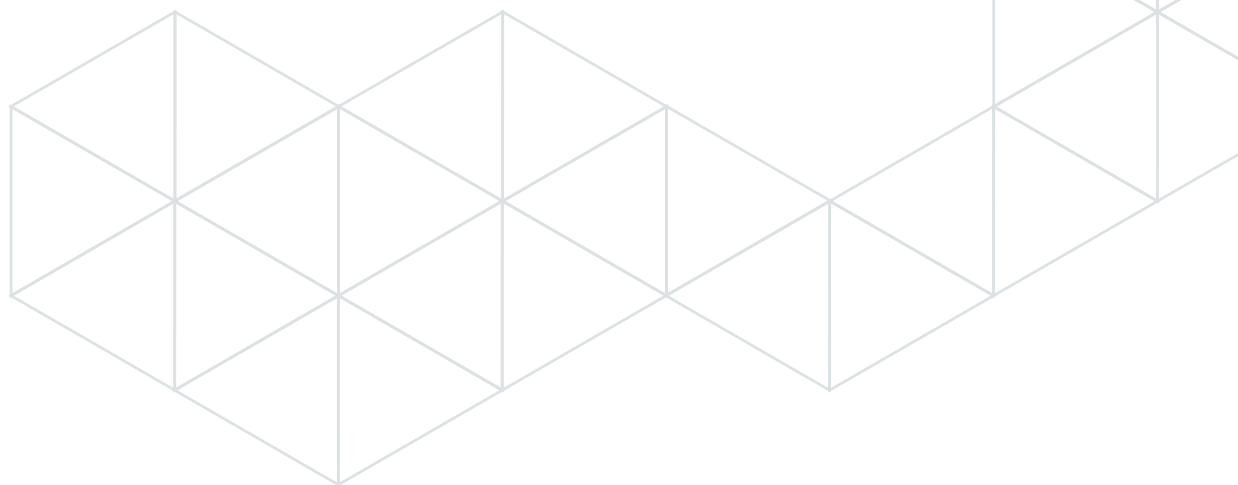
**Tranches** can be thought of as analogous to layers of a birthday cake. The whole birthday cake in this case is a portfolio of investor loans. The tranches are horizontal layers, each with different risk levels and correspondingly different returns.



Several companies have issued securitizations where the underlying loans are BPLs. These companies include Toorak Capital; Kiavi (formerly known as Lending Home); Angel Oak; and Civic Financial Services. Because BPLs pay off relatively quickly, some of these securitizations have been structured like bank warehouse lines of credit in that they allow for new investor loans to be contributed to the security over time, to replace similar loans that leave the security because they paid off.

**Advantages of securitizations.** For the non-bank lender that issues the securitization (the “issuer”), one advantage of this structure is that the cost of capital is fixed for the duration of the securitization. In the example above, the non-bank lender has raised \$95 million that it does not need to pay back for the life of the securitization, which is typically several years. Also, even if interest rates rise, the non-bank lender does not need to pay more to the investors in the tranches of the security. Another advantage is that the cost of capital can be very attractive, in other words, investors in the various tranches do not typically demand a high yield, because they are buying a rated security.

**Disadvantages of securitizations.** One risk for the issuer is that the issuer is obliged to pay interest on all the tranches for the life of the security, no matter what. For example, suppose that half of the underlying loans pay off, and the issuer cannot originate new qualifying loans to replace them for some reason. Now there are \$50 million of loans outstanding, but the issuer must still make interest payments on \$95 million of capital borrowed through the securitization. A second issue with securitizations is that they tend to feature high fees and expenses that are paid to investment banks, lawyers and other agents as part of every transaction. On a \$100 MM securitization, up front fees of \$500,000 to \$1 MM are not unusual. In contrast, the up front fee on a bank warehouse line of credit of the same size would typically be lower.

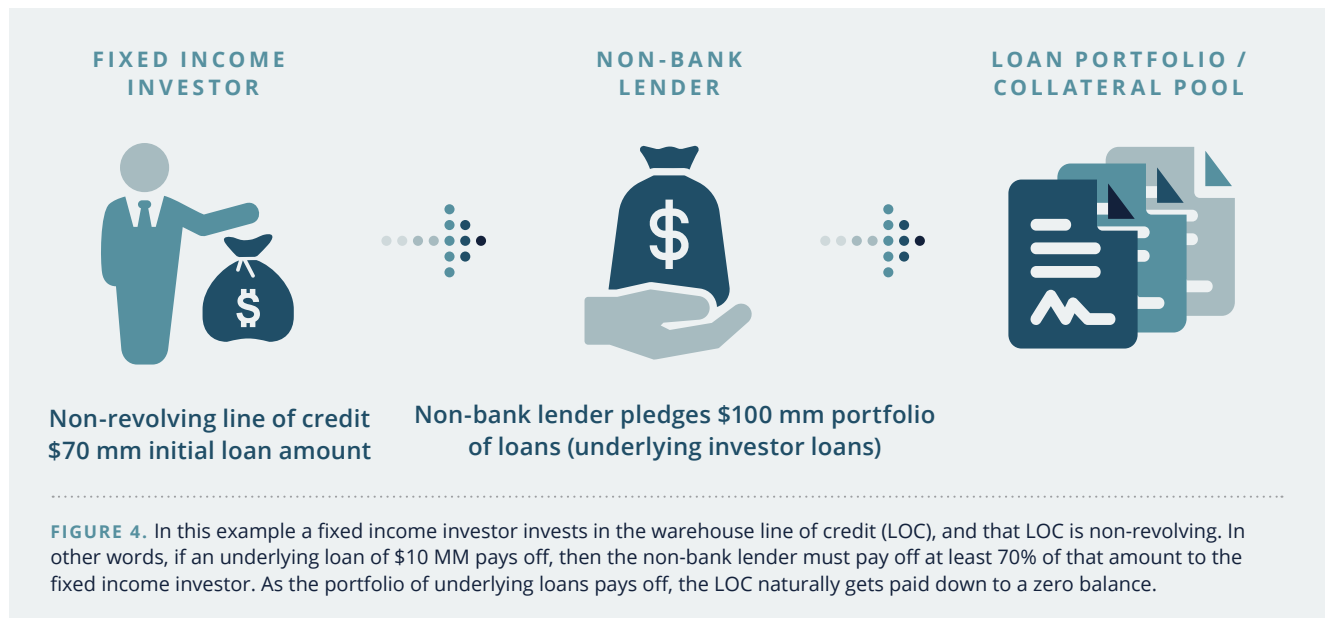




## ▶ A proposed new structure—private placement of a non-revolving line of credit (NR-LOC)

In the remainder of this white paper, we will examine a possible new structure for non-bank lenders to capitalize their portfolios of investor loans. We'll refer to this potential new structure as a "private placement" and the investor in that private placement as the "fixed income investor" or "private placement investor." Note that the "fixed income investor" could be an endowment, pension fund, fund manager, bank or insurance company, and that the interest on the private placement could be either fixed or floating.

This structure resembles a warehouse line of credit, but it is non-revolving. In other words, every time an underlying investor loan gets paid off, the fixed income investor gets paid off by a proportionate amount, or potentially a little more, so that the loan balance decreases to zero naturally over time. Given that many BPLs pay off in one or two years, non-bank lenders might originate a private placement every year to the same or new fixed income investors. For simplicity, we will assume that there is a single fixed income investor in each private placement. The diagram below shows the relationship among the fixed income investor, the non-bank lender and the underlying loans.



## ACCELERATED AMORTIZATION

The parties to an NR-LOC transaction may find it helpful to utilize accelerated amortization, if the fixed income investor places a premium on the safety of the investment and will price the NR-LOC more attractively as a result. **Accelerated amortization** relates to what happens when an underlying loan gets paid off. With accelerated amortization, the amount paid off on the line of credit is slightly higher than the proportionate amount of the underlying loan as a percent of the total loan portfolio.

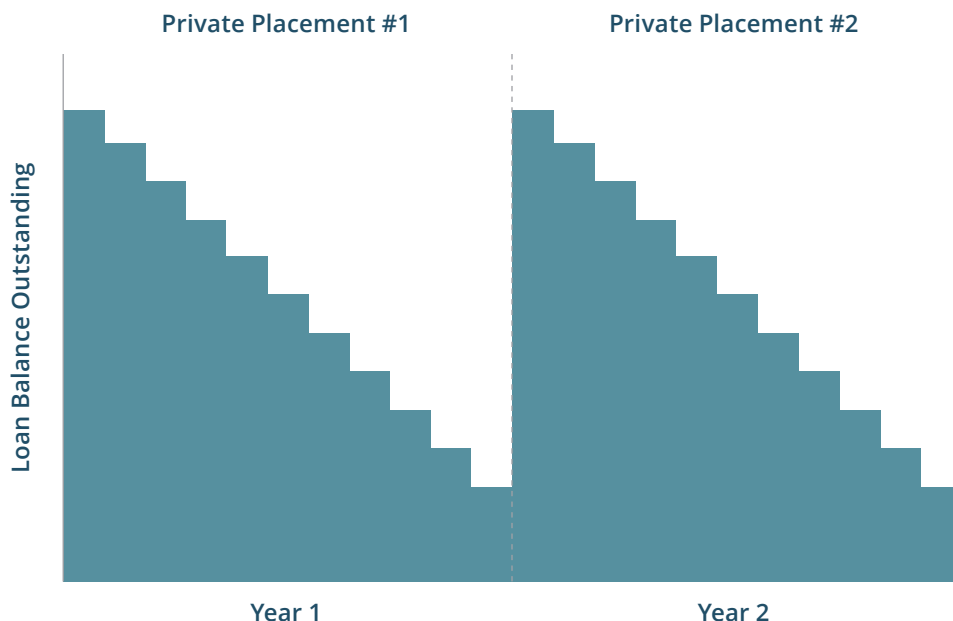
As shown in the table below, this feature is accomplished by using **release prices**. In the example below, the investor's attachment point (which is closely related to risk) declines every time one of the underlying loans pays off. This means a little less efficiency for the non-bank lender's ability to use the LOC to enhance returns in their own funds or other investment vehicles. However, in many cases the LOC provider values security so highly that it may be advantageous to both to use this feature.

HYPOTHETICAL LOAN PORTFOLIO WITH RELEASE PRICES								
	Underlying loan principal balance	Advance rate	Proportionate share of borrowing base (\$)	Release price (%)	Release price (\$)	LOC outstanding after payoff	Underlying loan portfolio after payoff (\$)	Attachment point after payoff
	\$ 1,000,000	70%	\$ 700,000	105%	\$ 735,000	\$ 6,265,000	\$ 9,000,000	69.6%
	\$ 4,000,000	70%	\$ 2,800,000	105%	\$ 2,940,000	\$ 3,325,000	\$ 5,000,000	66.5%
	\$ 2,000,000	70%	\$ 1,400,000	105%	\$ 1,470,000	\$ 1,855,000	\$ 3,000,000	61.8%
	\$ 1,000,000	70%	\$ 700,000	105%	\$ 735,000	\$ 1,120,000	\$ 2,000,000	56.0%
	<b>\$ 2,000,000</b>	70%	<b>\$ 1,400,000</b>	105%	\$ 1,470,000	\$ (350,000)	\$ -	-
Total	\$ 10,000,000		\$ 7,000,000					

**FIGURE 5.** The schedule above shows a hypothetical portfolio of five underlying investor loans with a total principal balance of \$10 million. Each time an underlying loan pays off, the LOC is paid off at 105% of the proportionate amount relating to that loan. The result is that the LOC becomes safer, with a lower attachment point, with every payoff. This is referred to as accelerated amortization.

The following diagram shows how the loan balance outstanding might change over time for each in a series of private placements, which could be with the same investor. The underlying loans remaining in the collateral pool for the first private placement at the end of the first year could be included in the next private placement, allowing the first private placement to be paid down to

zero and retired, even if all the underlying loans had not yet been paid off. This would of course require the approval of the investor in the second private placement, who might negotiate to accept or reject individual loans in the second private placement, if they had any concerns about any loan being included in the second private placement.



**FIGURE 6.** As loans in the collateral pool pay off, the loan balance on the non-revolving line of credit drops. A third-party administrator takes responsibility to make sure this happens in accordance with the loan private placement documents. At any time, or annually if the parties agree, a new private placement can be executed which might include both new loans and potentially loans from previous private placements, if the parties wish to close out an earlier vehicle.



## ► Advantages for the fixed income investor

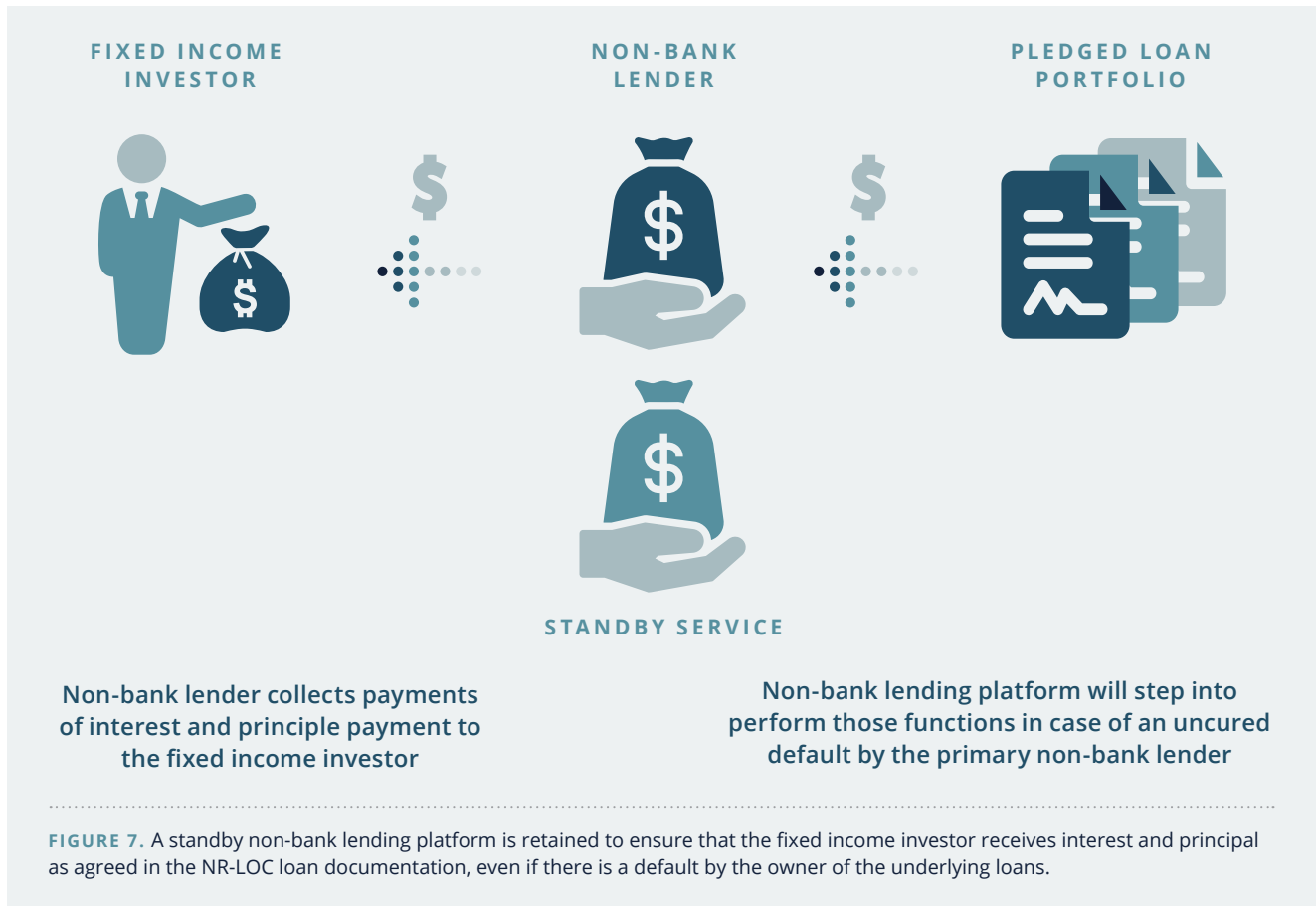
The proposed new structure has a number of beneficial features for the fixed income investor, some of which are outlined below.

### MINIMAL OPERATIONAL RESPONSIBILITIES

One reason many banks choose not to offer warehouse LOCs is that their revolving nature means heavy operations and specialized staffing for the bank. New loans must be reviewed and then once approved, boarded onto the borrowing base, while other loans are paid off, resulting in paydowns and an ever-changing loan balance outstanding.

In contrast, the NR-LOC features no work for the investor after making the initial investment decision. The NR-LOC is paid down automatically by a third party as underlying loans pay off. With the proposed structure, banks, insurance companies and other fixed income investors could potentially access the attractive returns in this market without having to hire and train specialized staff.

In case of a default by the non-bank lender, an independent third party lending platform would need to be in place to take over servicing of underlying loans, as shown in the diagram below.



### **ABILITY TO ACCESS A VERY SECURE (LOW ATTACHMENT POINT) PRIVATE CREDIT INVESTMENTS WITH ATTRACTIVE YIELD**

As described earlier, the NR-LOC features a very low level of risk because the amount invested will typically be around 50% of the value of the real estate that secures the underlying loans. At the same time, the yield can be much higher than many real estate and other loans currently being made by banks. The structure is designed so that even if the non-bank lender runs into operational problems, another non-bank lender is standing by to take over and service the portfolio of underlying loans so that the investor can be paid off. As to the credit quality of the borrowers on the underlying loans, the investor can make their underwriting criteria known and non-bank lenders can create portfolios specifically to meet those criteria.

### **ABILITY TO PICK AND CHOOSE COUNTERPARTIES AND LOANS**

Non-bank lenders come in all shapes and sizes. The investor can choose to work with only those non-bank lenders whose platforms they consider best-in-class, and whose loans fit the investor's preferences. For example, a regional bank active in California might choose to invest only into NR-LOCs where the counterparty is a non-bank lender that has deep experience in that region, and has mostly repeat borrowers. Furthermore, the specific collateral portfolio for an NR-LOC can be customized based on the preference of the investor.

### **POTENTIAL TO ACHIEVE SCALE, WITH GROWTH OF PRIVATE CREDIT MARKETS**

According to a recent white paper by Blackstone Group, private credit has grown to a \$1.2 trillion market.<sup>2</sup> McKinsey's study shows that in North America, capital raising for all private investments (including real estate) has grown 21% in the latest year.<sup>3</sup> By all accounts, private credit is a vast and growing area of finance and can offer attractive and non-correlated characteristics relative to other

investments. In short, this can become a distinct new asset class for those investors focused on income and capital preservation, who do not really need daily liquidity. Investing in real estate NR-LOCs might open the door to similar investments in the future secured by non-real estate loans, making the market even larger.

### **MINIMAL INTEREST RATE RISK**

Most fixed income investments include many investments with long maturities. This means that if interest rates rise, the market value of the investment falls—a fact that bond investors know very well as of the time of this white paper's publication (mid 2022), with many bond portfolios having lost about 10% of their value in the preceding six months. In contrast, the proposed NR-LOC is scheduled to be mostly paid off within 12-18 months, depending on the underlying loan types. As such, an investor in this structure can have their original capital back, plus interest, in a relatively short amount of time, vs. having an investment lose value if interest rates rise, and facing the choice of holding to maturity which may be many years for most fixed income investments, or selling at a loss before maturity.

### **POTENTIAL TO HAVE INVESTMENTS RATED BY A RATING AGENCY, IF NECESSARY**

It may be possible to have a rating agency underwrite and rate a NR-LOC or a series of such LOCs. To engage one of the major bond rating agencies, the cost would likely be too high, unless the size of the LOC is very large, similar to the size threshold required for a securitization, which is approximately \$200 million. However, there is a separate set of rating agencies that provide ratings to insurance companies. For example, Egan-Jones provides ratings for private placements and in the past was open to rating the author's company-run debt funds. Having a rating may make it easier for certain investors to provide capital for the proposed program.

<sup>2</sup> Source: <https://www.bcred.com/private-credits-rapid-growth-a-secular-trend/>

<sup>3</sup> Source: [https://docs.google.com/document/d/1\\_ptewwOknepCIPy07xiXJeaEvd6N\\_cA3Zd282zuYn0/edit#](https://docs.google.com/document/d/1_ptewwOknepCIPy07xiXJeaEvd6N_cA3Zd282zuYn0/edit#)

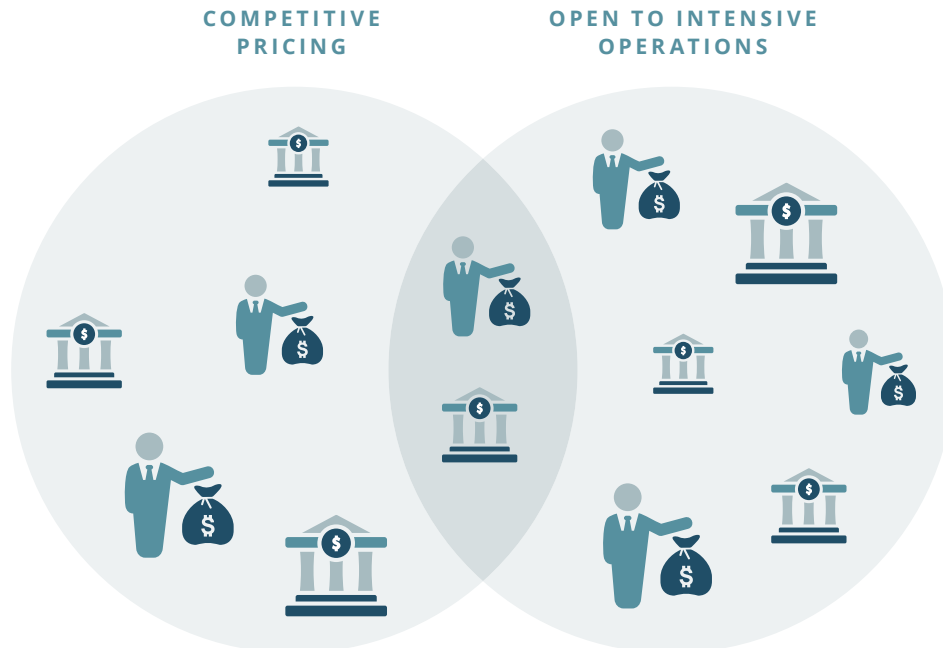
## ► Advantages for the non-bank lender

### ABILITY TO COMPLEMENT OTHER FORMS OF STRUCTURAL LEVERAGE

Non-bank lenders need diverse sources of capital in order to navigate both growth and market volatility. The larger the lender becomes, the more critical it is to have different types of lines of credit from multiple types of investors. By maintaining diversity, the non-bank lender can continue to provide certainty of execution to their borrowers, which is one of their main value propositions to real estate investors and developers. The proposed NR-LOC structure provides another tool for growing non-bank lenders, and adds value simply by being different and potentially coming from different sources than the other forms of structural leverage.

### ABILITY TO REDUCE COST OF CAPITAL

Currently, there is not much competition among providers of warehouse lines of credit. For that reason, pricing has remained fairly high relative to the risk of losing principal on these LOCs. Among those banks and other investors who like the risk and return characteristics of providing these LOCs, the great majority are deterred by the operational intensity of operating such facilities. On the other hand, among those providers of credit who are open to taking on the intensive operations required, very few have a low enough cost of capital to provide truly competitive rates. The diagram below depicts this relationship. By reducing or eliminating the need to take on the operations of such a line, the proposed solution would create competition, which should drive down borrowing costs for users of structural leverage.



**FIGURE 8.** There is very little overlap between LOC providers with a low cost of capital and those willing to take on the operational intensity of maintaining a revolving LOC with a non-bank lender as a counterparty. The proposed solution has the potential to open up the universe of LOC providers to all the lenders with a low cost of capital, effectively making a competitive market for such LOCs where none has existed in the past.

### **VERY SCALABLE SOURCE OF CAPITAL**

By widening the universe of potential investors in these LOCs, the proposed approach not only reduces cost but should greatly increase the depth of the market. Any bank, insurance company or other fixed income investor able to make illiquid investments becomes a potential provider of structural leverage to non-bank lenders. This will ensure that non-bank lenders are never limited based on their access to super-senior financing.

### **NO ARBITRARY MARK-TO-MARKET FEATURE**

As discussed previously, repo lines are unpredictable for non-bank lenders. When the stock and bond markets become very volatile, the repo line provider may inform the non-bank lender that the underlying loans are no longer sufficient collateral for the repo LOC, even if the underlying loans are performing very well. In that case, the non-bank lender can be forced to post additional collateral in a matter of days or even overnight, in order to avoid having the underlying loans sold by the repo lender, potentially at catastrophic losses. In contrast, the NR-LOC has no such mark-to-market feature. The underlying loans would only be marked down from par if the underlying properties had declined significantly in value, based on third party appraisals, to the point that the loan became impaired. This is a much more predictable process for the non-bank lender and therefore greatly superior to a Wall Street-style repo line, all other things being equal.

### **NO RISK OF PAYING HEFTY NON-USE FEES**

With securitizations and some existing warehouse lines of credit, the non-bank lender must pay interest on most or all of the maximum loan amount, whether or not that money is invested in loans. In other words, the non-bank lender faces a real risk of having very large interest payments due to the bank or other warehouse lender, even if underlying loans have paid off and the proceeds have not yet been invested in new loans. With the NR-LOC structure, the non-bank lender will never pay interest on capital unless that capital is invested in loans. The NR-LOC gets paid down automatically whenever an underlying loan pays off, so the line of credit is “right-sized” automatically at all times.

### **POTENTIAL TO BUILD IN FLEXIBILITY, SUCH AS SUB-LIMITS FOR UNDER-PERFORMING LOANS**

With bank warehouse lines of credit, non-bank lenders often face loan terms that leave little room to maneuver when markets evolve. For example, most warehouse lines require that any non-performing or sub-performing underlying loans be removed from the collateral pool. The NR-LOC structure may allow for customized terms, such as allowing for a small portion of the loans in the portfolio to be sub-performing, without their needing to be taken out of the collateral pool immediately. In general, non-bank lenders who build a strong relationship with investors or whose loan portfolios are unusually attractive, may be able to negotiate customized terms that meet their needs, which may not be available through bank warehouse lines of credit or securitizations.

## ► Issues to consider

### PRIVATE PLACEMENT INVESTMENTS ARE NOT LIQUID

For some investors, any lower-yielding income investment must be liquid and tradable on a day's notice or less. These investors may view any illiquid investment as needing to generate high single digit returns to justify their lack of liquidity. For these investors, the proposed NR-LOC investment structure would not be attractive, because while it is projected to generate payoffs every month, with most of the investment liquid within a year, there is not yet any secondary market for such investments. An investor must be comfortable holding this type of investment on its balance sheet until it pays off naturally.

### STRUCTURE IS SOMEWHAT NOVEL, WHICH ENTAILS SOME UNCERTAINTIES

The NR-LOC structure borrows heavily from bank warehouse LOCs and securitization structures that have been tested heavily through all kinds of markets. However, the specific structure proposed here is somewhat novel and so there may not be concrete answers as to how certain scenarios are treated when the financial system experiences stress. For example, the details of exactly how long it takes for the standby non-bank lending platform to step in to service the underlying loans and pay off the NR-LOC are hard to predict until the structure is tested in practice.

## ► Conclusion

Since the GFC, non-bank lenders have become very important to real estate investors and developers. As these firms grow, many of them need additional structural leverage. While bank warehouse lines of credit and securitizations provide many benefits, there is a need for more diverse and flexible sources of capital to allow the industry to keep growing. The proposed solution is designed to allow a wide range of safety-oriented investors to participate in providing

credit to this market. For those investors seeking capital preservation and income, without taking on operational responsibilities, the proposed system of non-revolving lines of credit could supplement existing solutions so that all market participants become better off. This would benefit the wider economy by ensuring that diverse financing solutions are available for real estate investment and development.