

Stay Alive Until '25

...and Maybe Even Thrive

Presented By

Kevin Kim, Esq., Partner & Chair, Corporate & Securities at Geraci LLP
Nema Dagbandan, Esq., Partner at Geraci LLP
& CEO of Lightning Docs

AAPL #14
ANNUAL
THE NATION'S LARGEST PRIVATE LENDER EVENT

 **GERACI**
AAPL GENERAL COUNSEL

 **LIGHTNING
DOCS**

YOUR PRESENTERS



KEVIN KIM, ESQ.

Partner & Chair Corporate
& Securities at Geraci LLP



NEMA DAGHBANDAN, ESQ.

Partner at Geraci LLP
CEO of Lightning Docs

AGENDA

**(1) Deep Data Dive To Determine How
Your Business Stacks Up**

(2) Plan of Action for 2024

WHAT IS LIGHTNING DOCS ?

- › Geraci LLP Proprietary Built Cloud Based Loan Document Solution
- › Only Used by Private Lenders (no banks, credit unions, conventional, etc.)
- › The Official Loan Documents of AAPL – The Industry Standard For Private Lenders
- › Business Purpose Loan Documents ONLY
- › 30 Year DSCR & RTL Loan Documents
- › 182 Active Users in 2023 with 118 Active Users in October 2023

www.lightningdocs.com

DATASET ANALYSIS

- › **40,000+** Loans Analyzed
- › **\$25 billion+** in Loans
- › **\$1 billion+** and **2,000+**
Monthly **L**oan **T**ransactions



DATA ANALYSIS METHODOLOGY

- › Remove loans < \$50k and > \$2MM
- › Remove erratic users (for example 20 loans in one month but then 300 in next)
- › Remove loans with interest rates < 4% and > 15%
- › For volume slides user must have signed up to use Lightning Docs prior to the Date Period Identified (for example before 2023 or before 2022).

DEFINING TERMS

BRIDGE

- An interest-only loan with duration < 36 months
- Includes fix and flip, construction, and straight bridge

RENTAL

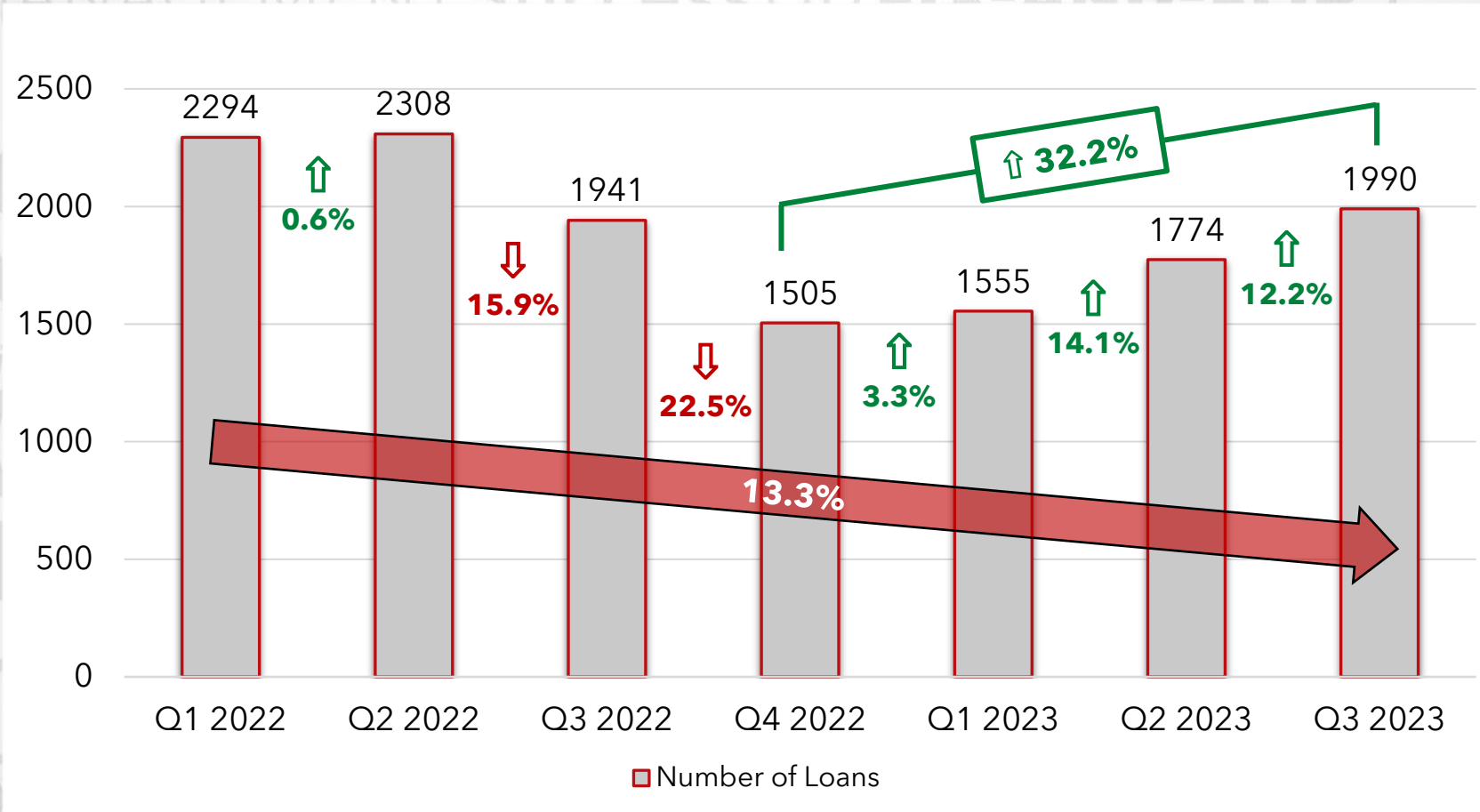
- A 30 Year DSCR (Debt Service Coverage Ratio) term loan
- May be adjustable rate or fixed
- May contain an interest-only feature
- Typically contains a 5-year prepayment penalty



BRIDGE LOAN VOLUMES BY SAME USERS

Q1 2022 - Q2 2023

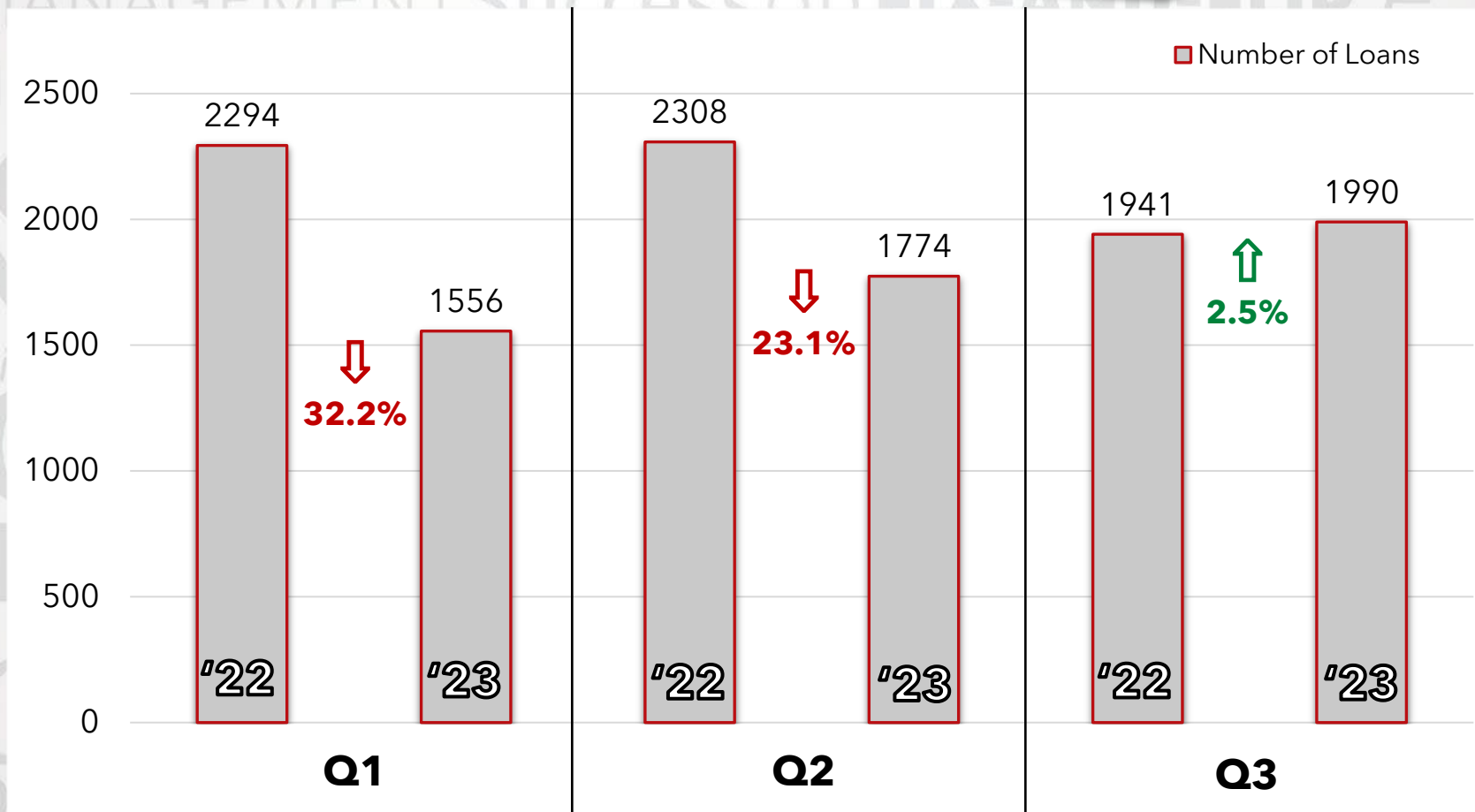
69 users



YOY ANALYSIS OF BRIDGE LOAN VOLUMES

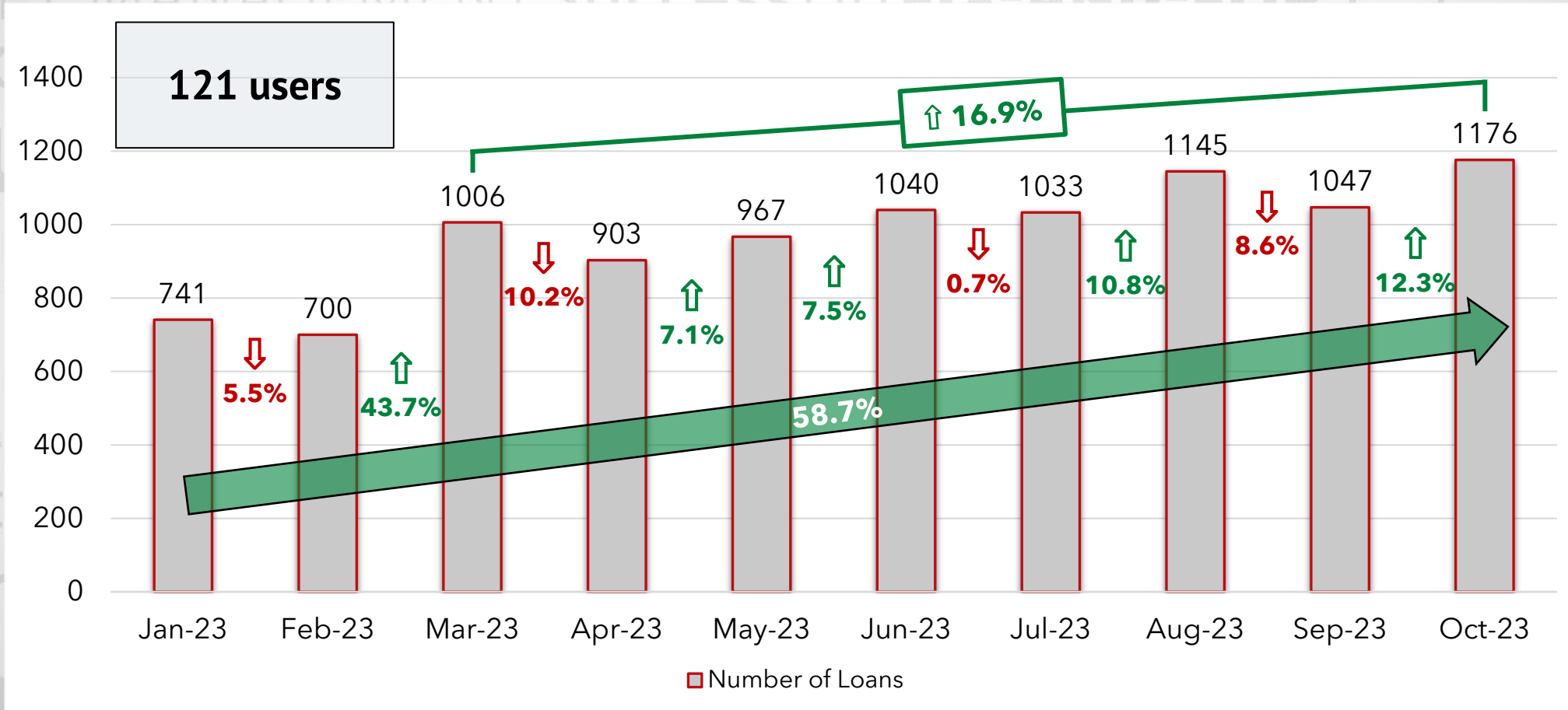
2022 - 2023

69 users

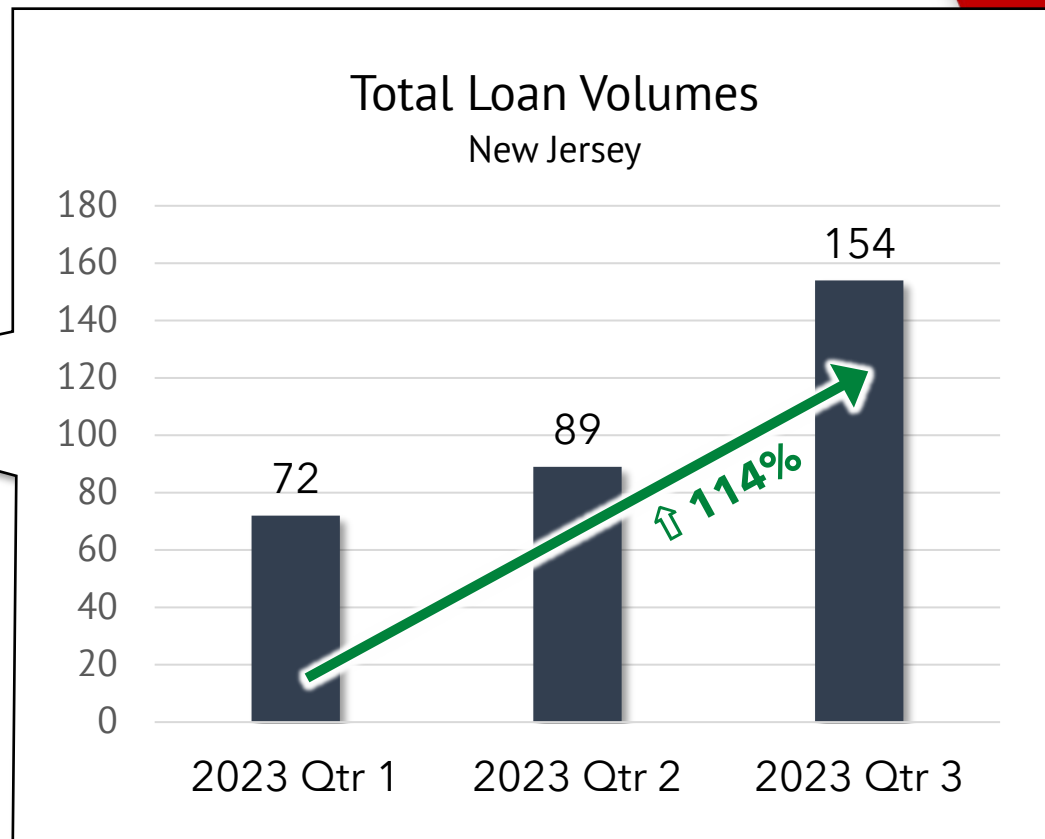
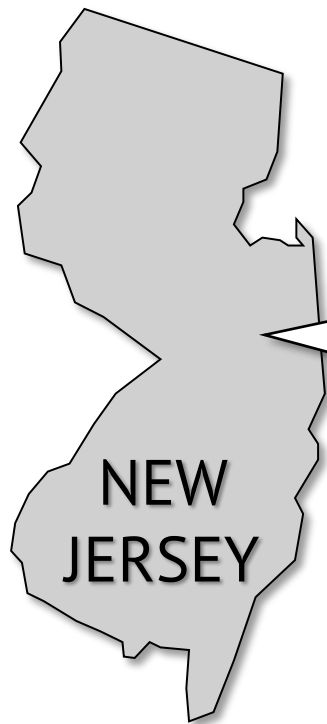


BRIDGE LOAN VOLUMES BY SAME USERS

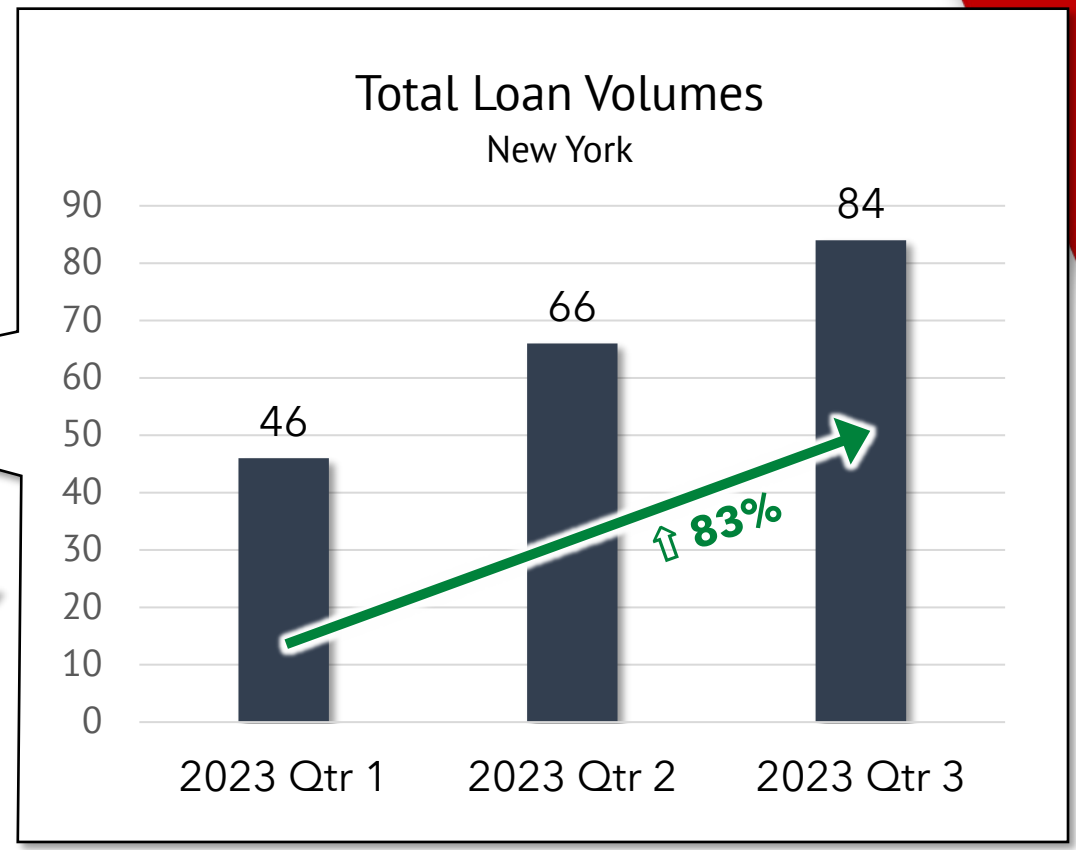
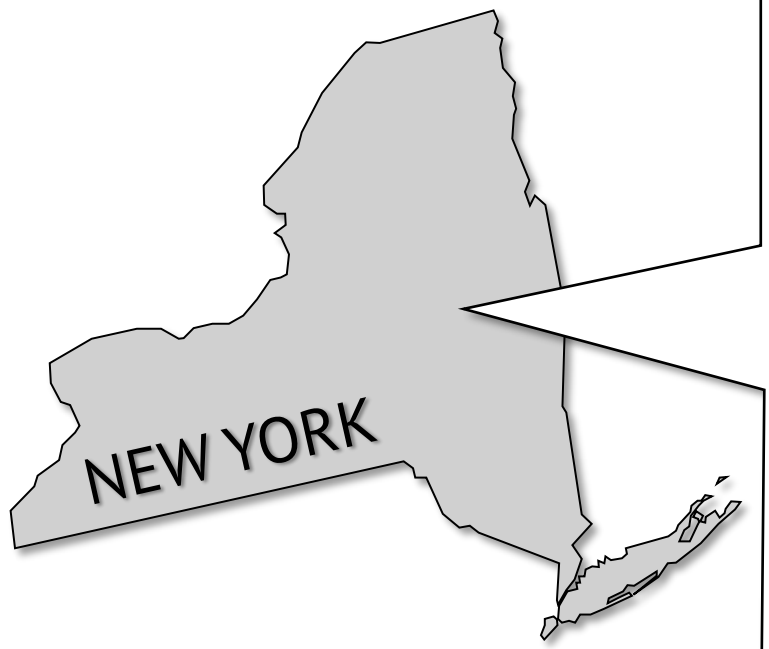
JAN-OCT 2023



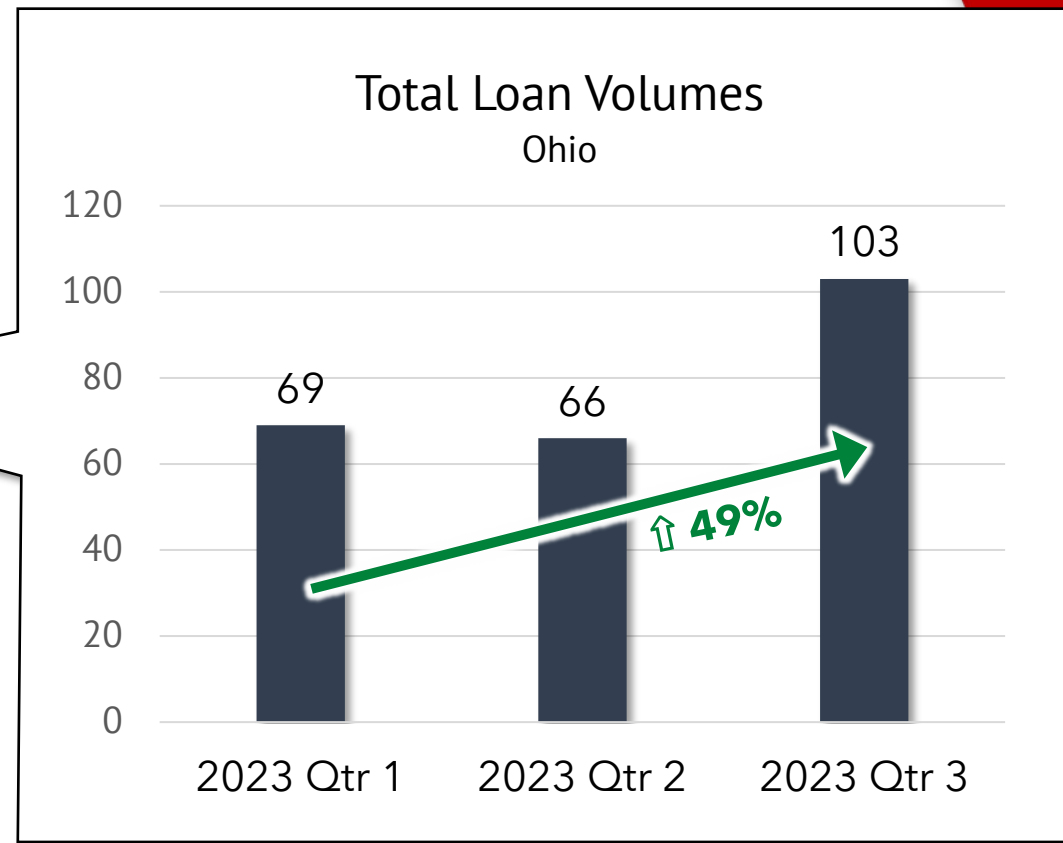
STATES WITH **MOST GROWTH IN BRIDGE VOLUME** IN 2023 ACROSS SAME USERS



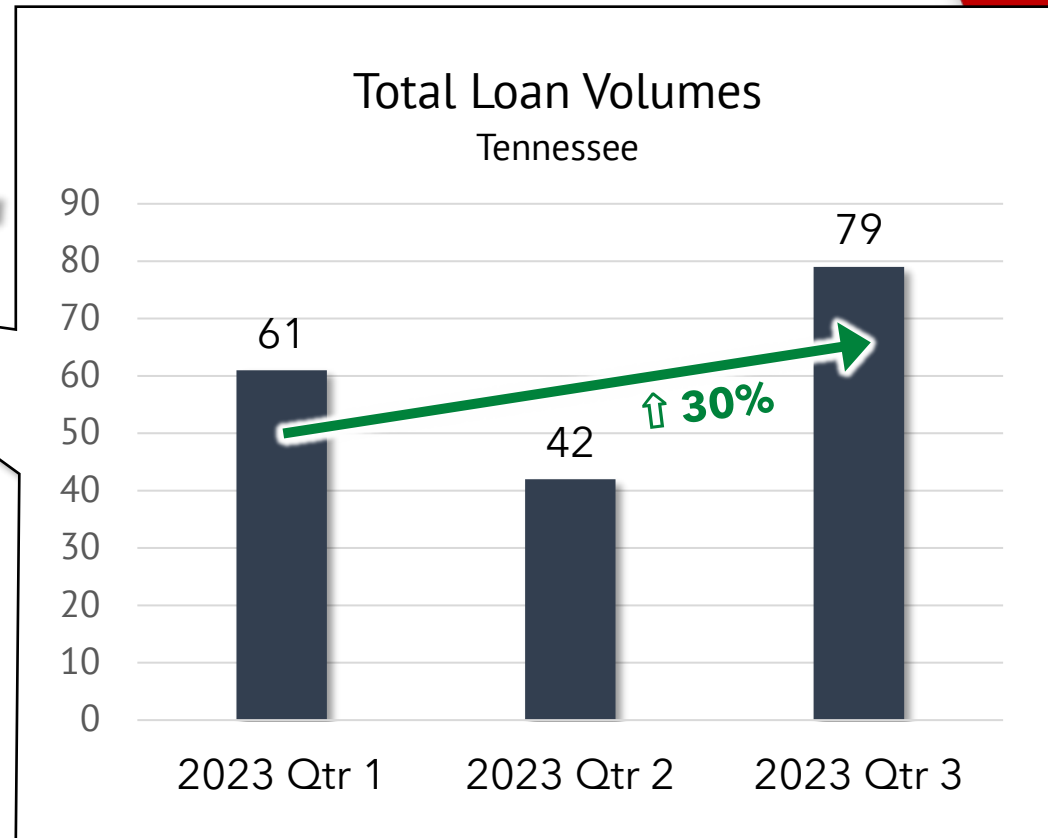
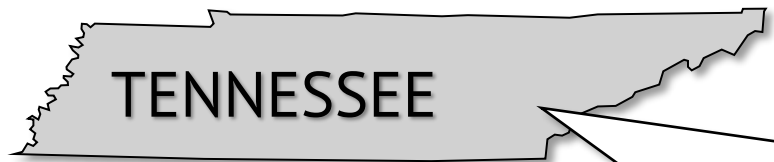
STATES WITH **MOST GROWTH IN BRIDGE VOLUME** IN 2023 ACROSS SAME USERS



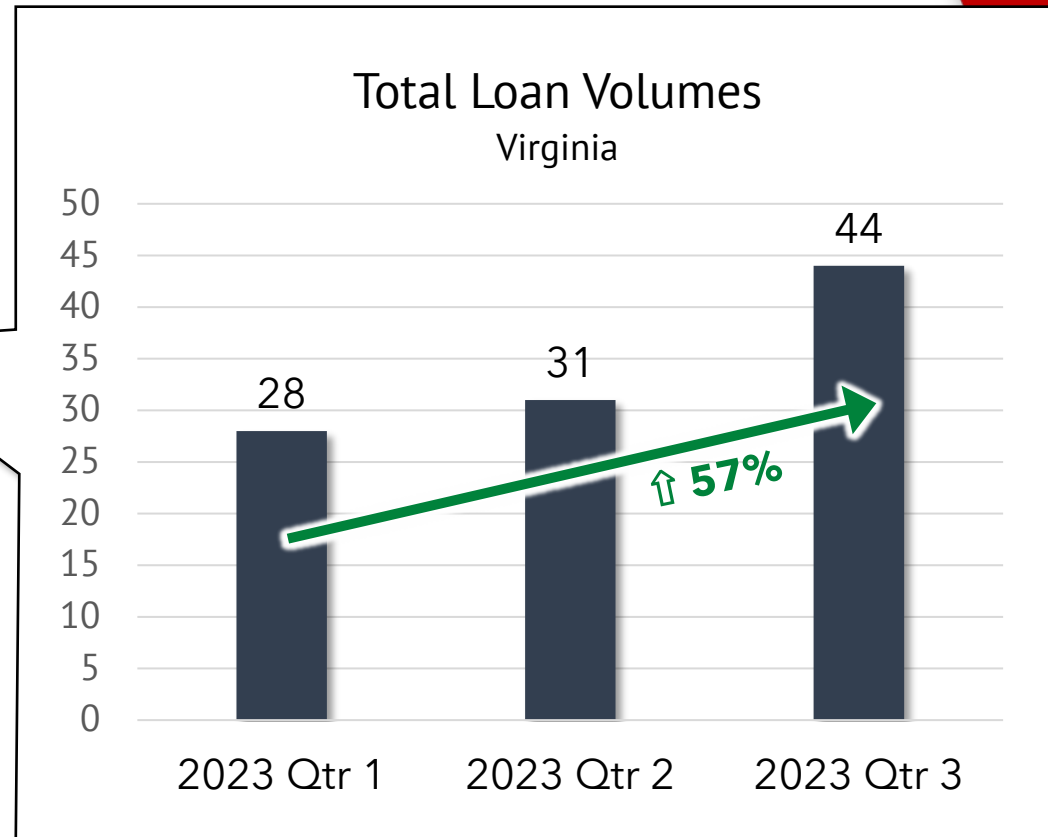
STATES WITH **MOST GROWTH IN BRIDGE VOLUME** IN 2023 ACROSS SAME USERS



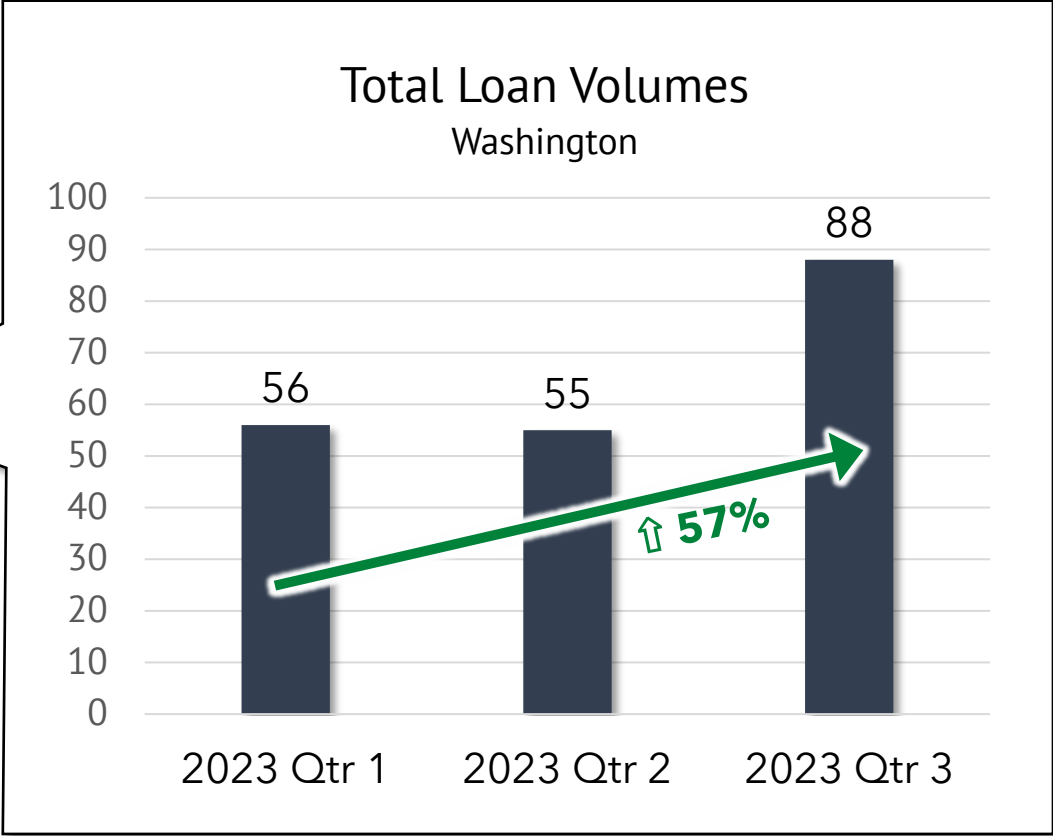
STATES WITH **MOST GROWTH IN VOLUME** IN 2023 ACROSS SAME USERS



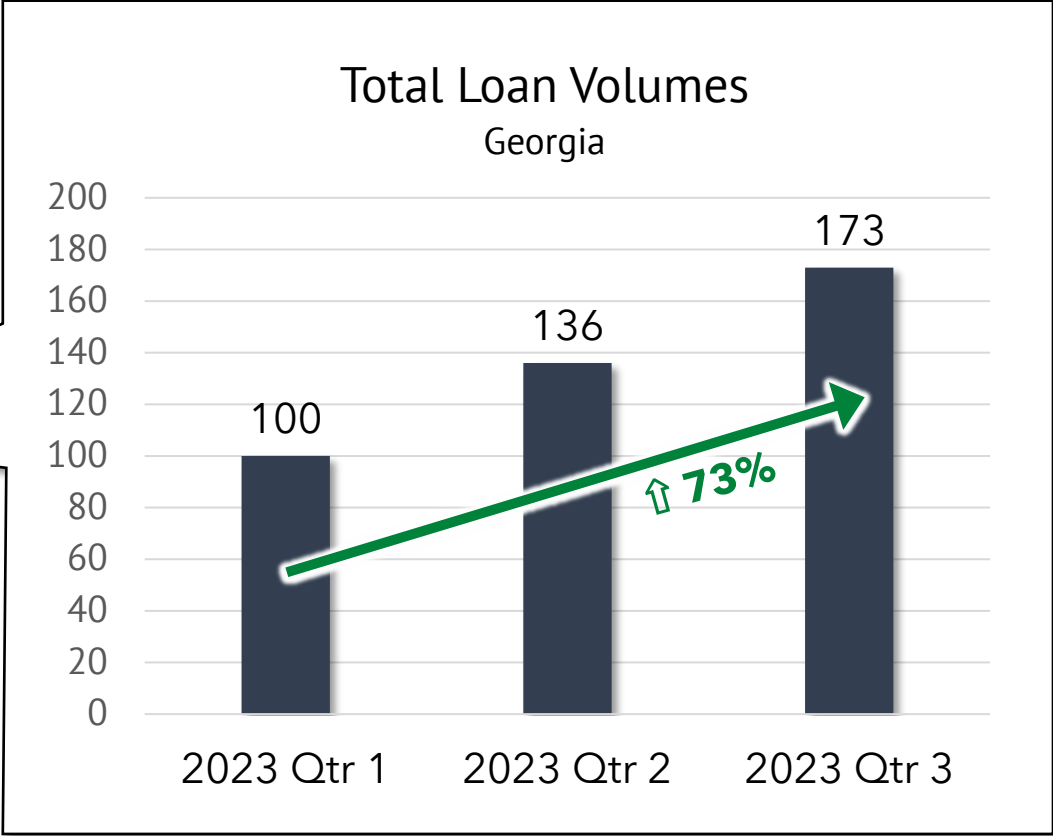
STATES WITH **MOST GROWTH IN VOLUME** IN 2023 ACROSS SAME USERS



STATES WITH MOST GROWTH IN VOLUME IN 2023 ACROSS SAME USERS

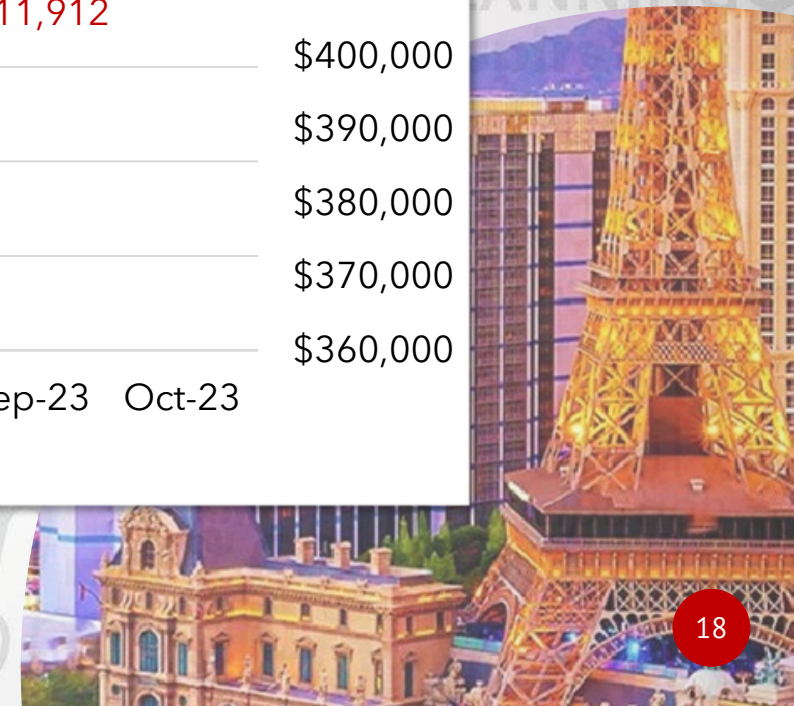
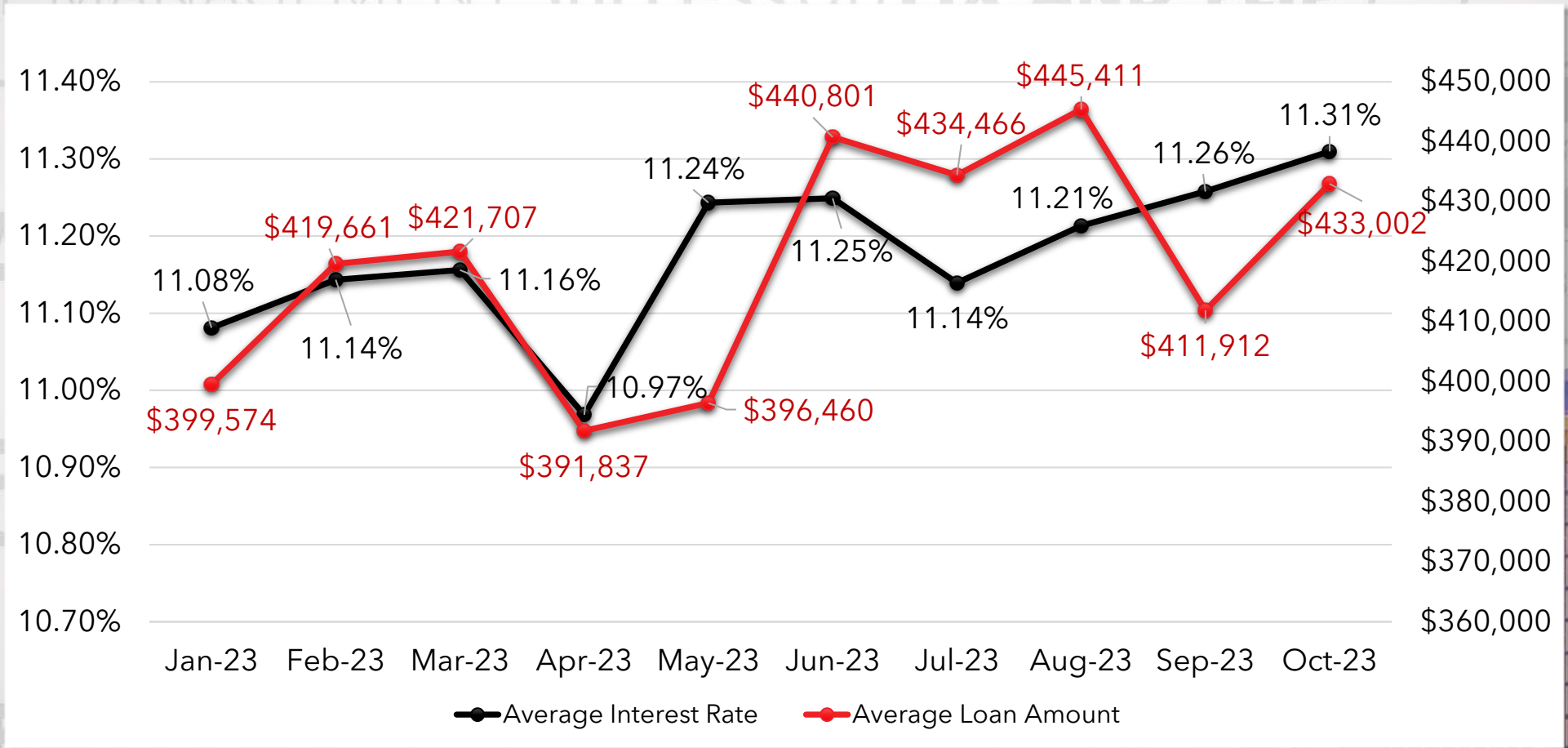


STATES WITH MOST GROWTH IN VOLUME IN 2023 ACROSS SAME USERS



BRIDGE RATES & AVG. LOAN AMOUNTS

JAN-OCT 2023

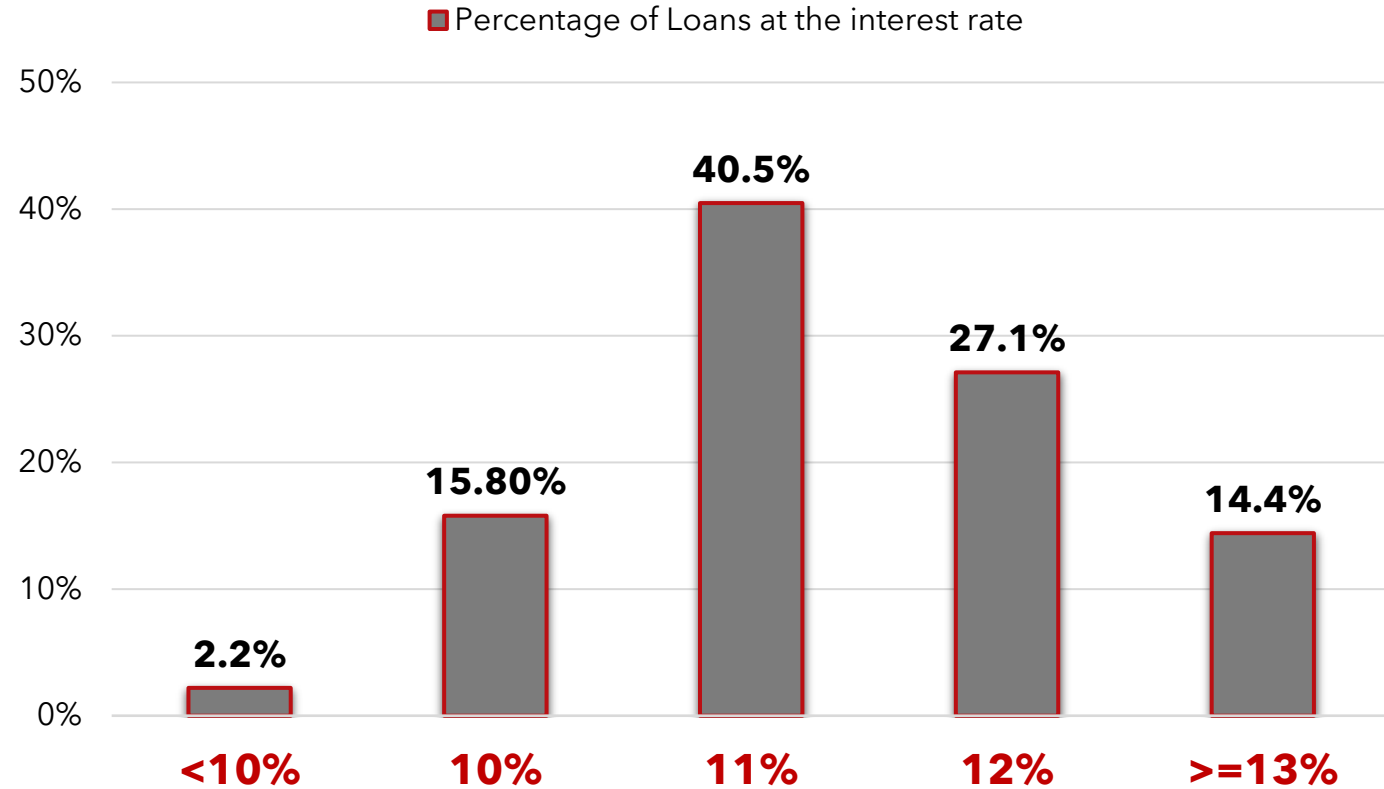


BRIDGE INTEREST RATES

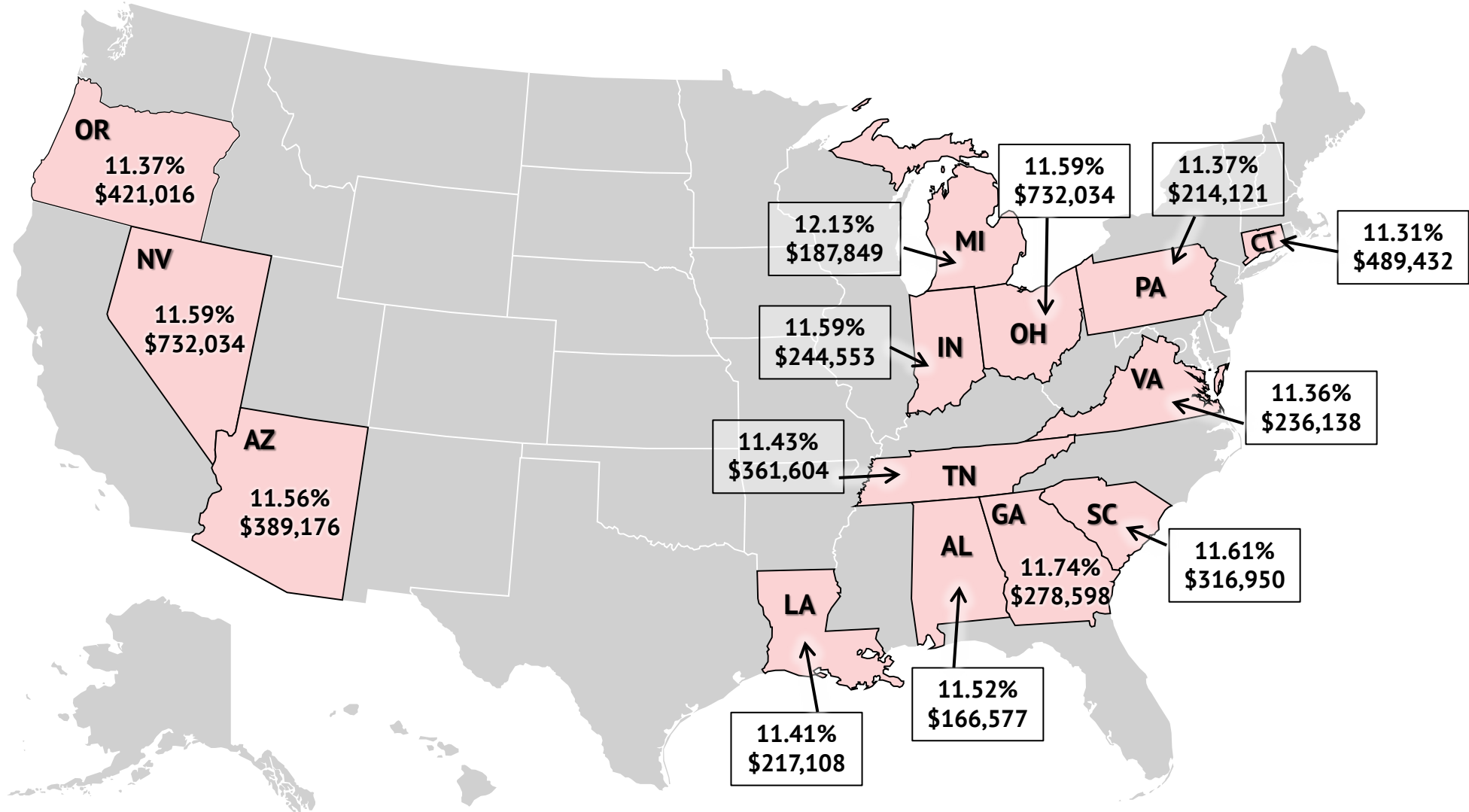
OCTOBER 2023

Average int. rate
for October:
11.3%

83%
of loans were
between **10-13%**

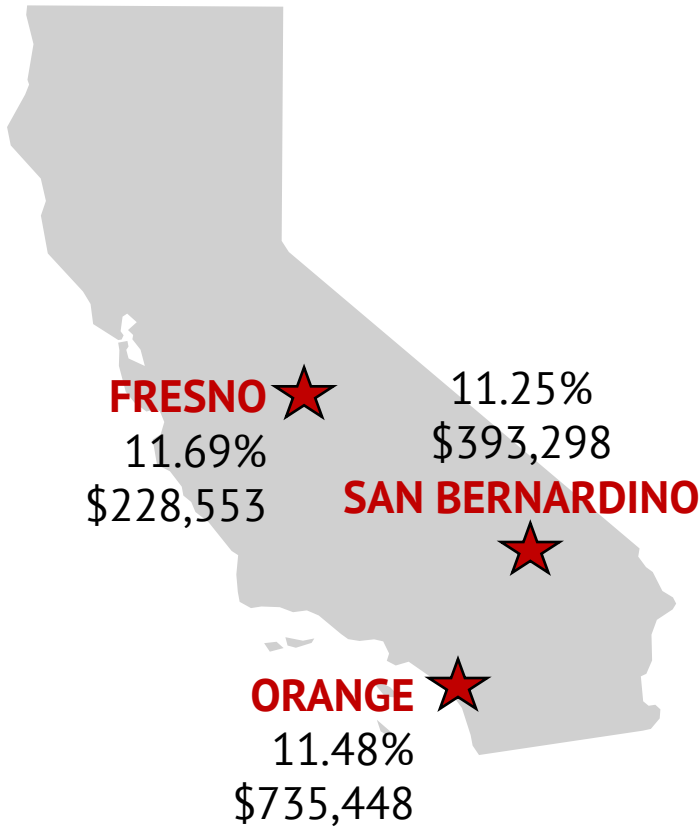


STATES >11.3% NATIONAL AVERAGE WITH >20 LOANS IN Q3 2023

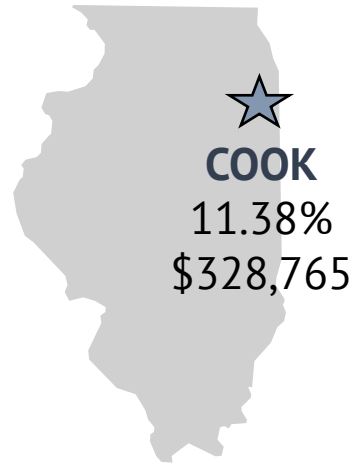


COUNTIES >11.3% NATIONAL AVERAGE WITH >20 LOANS IN Q3 2023

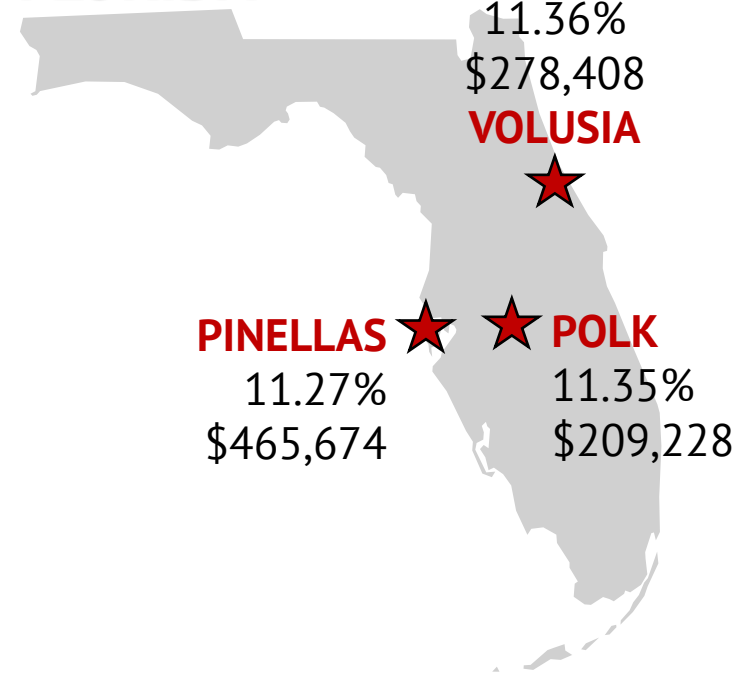
CALIFORNIA



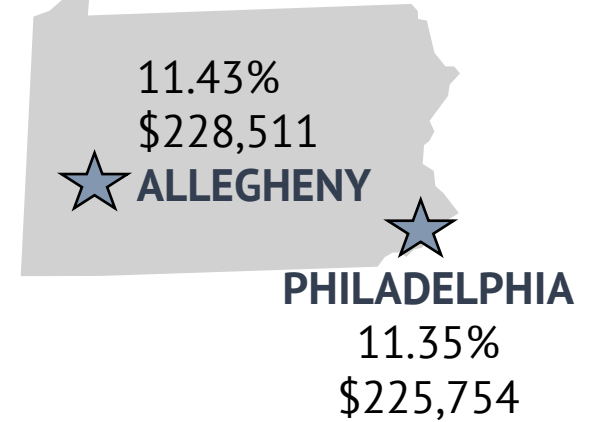
ILLINOIS



FLORIDA

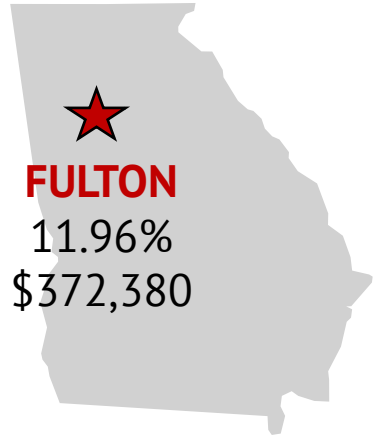


PENNSYLVANIA

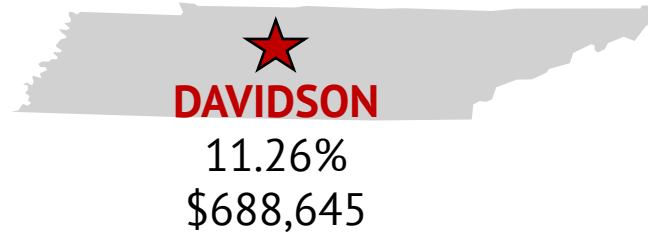


COUNTIES >11.3% NATIONAL AVERAGE WITH >20 LOANS IN Q3 2023

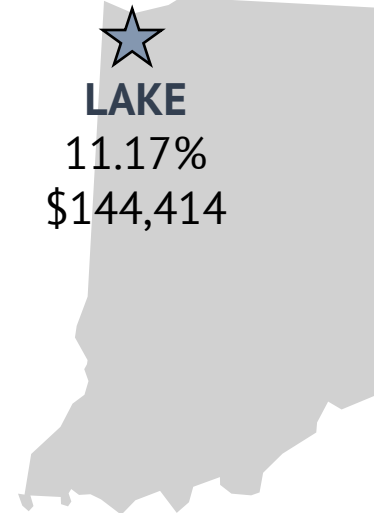
GEORGIA



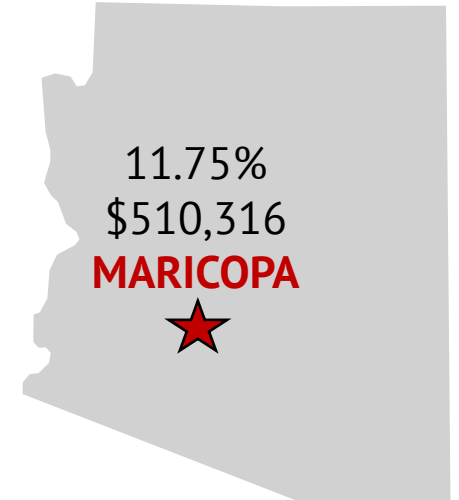
TENNESSEE



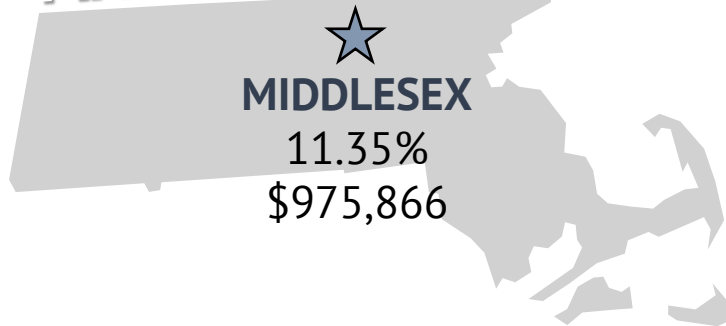
INDIANA



ARIZONA



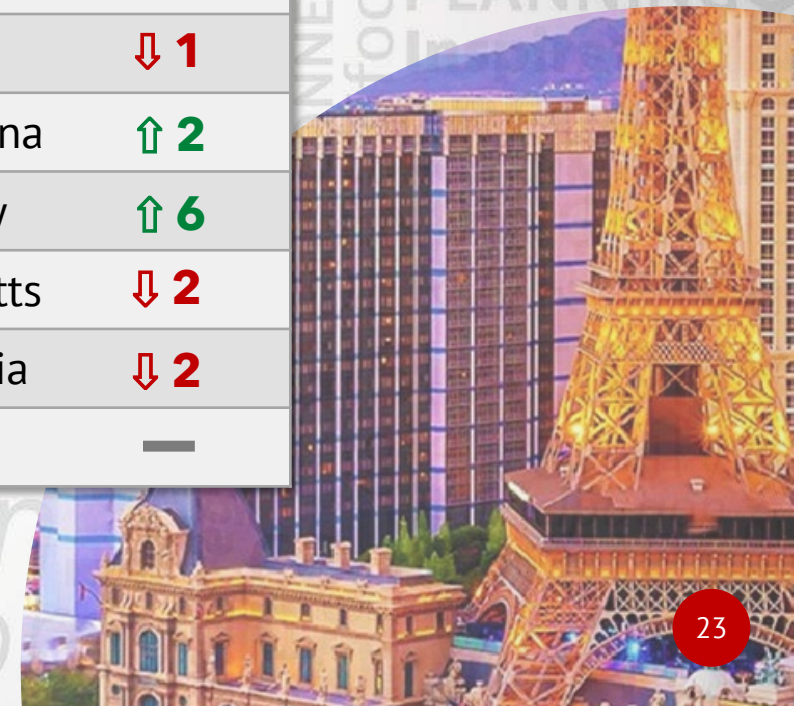
MASSACHUSETTS



TOP BRIDGE STATES BY VOLUME

2022-2023 (SO FAR)

2022	2023
California	California —
Florida	Florida —
Texas	Texas —
Georgia	Illinois ↑ 1
Illinois	Georgia ↓ 1
Massachusetts	North Carolina ↑ 2
Pennsylvania	New Jersey ↑ 6
North Carolina	Massachusetts ↓ 2
Tennessee	Pennsylvania ↓ 2
Ohio	Ohio —

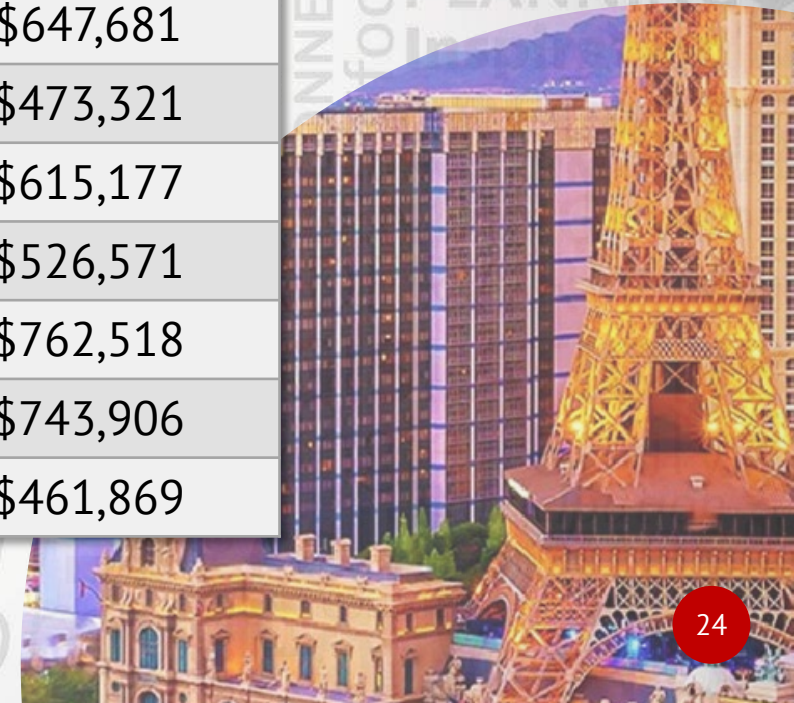


GREATEST BRIDGE INTEREST RATES BY COUNTY

Q3 2023: JUL-SEPT



Q3 2023	INTEREST RATE	# OF LOANS	AVERAGE LOAN AMOUNT
Fresno	11.69%	20	\$228,553
Orange	11.48%	48	\$735,448
San Bernardino	11.25%	24	\$393,298
Los Angeles	11.06%	321	\$647,681
Sacramento	11.06%	19	\$473,321
Riverside	11.05%	51	\$615,177
Alameda	10.92%	21	\$526,571
San Diego	10.87%	133	\$762,518
Santa Clara	10.79%	28	\$743,906
Contra Costa	10.47%	16	\$461,869



GREATEST BRIDGE INTEREST RATES BY COUNTY

Q3 2023: JUL-SEPT



Q3 2023	INTEREST RATE	# OF LOANS	AVERAGE LOAN AMOUNT
Escambia	11.95%	13	\$163,161
Marion	11.75%	13	\$204,103
Duval	11.71%	15	\$242,394
Palm Beach	11.51%	17	\$608,948
Volusia	11.36%	20	\$278,408
Polk	11.35%	24	\$209,228
Pinellas	11.27%	42	\$465,674
Lee	11.14%	24	\$411,741
Hillsborough	10.91%	28	\$342,798
Orange	10.89%	18	\$431,684



GREATEST BRIDGE INTEREST RATES BY COUNTY

Q3 2023: JUL-SEPT



Q3 2023	INTEREST RATE	# OF LOANS	AVERAGE LOAN AMOUNT
Montgomery	11.58%	11	\$407,319
Harris	11.11%	31	\$265,790
Dallas	11.06%	56	\$546,710
Bexar	10.87%	11	\$373,168
Travis	10.71%	26	\$749,761
Tarrant	10.61%	24	\$256,936



GREATEST BRIDGE INTEREST RATES BY COUNTY

Q3 2023: JUL-SEPT



Q3 2023	INTEREST RATE	# OF LOANS	AVERAGE LOAN AMOUNT
Cook	11.38%	146	\$328,765
Lake	11.35%	10	\$346,816



GREATEST BRIDGE INTEREST RATES BY COUNTY

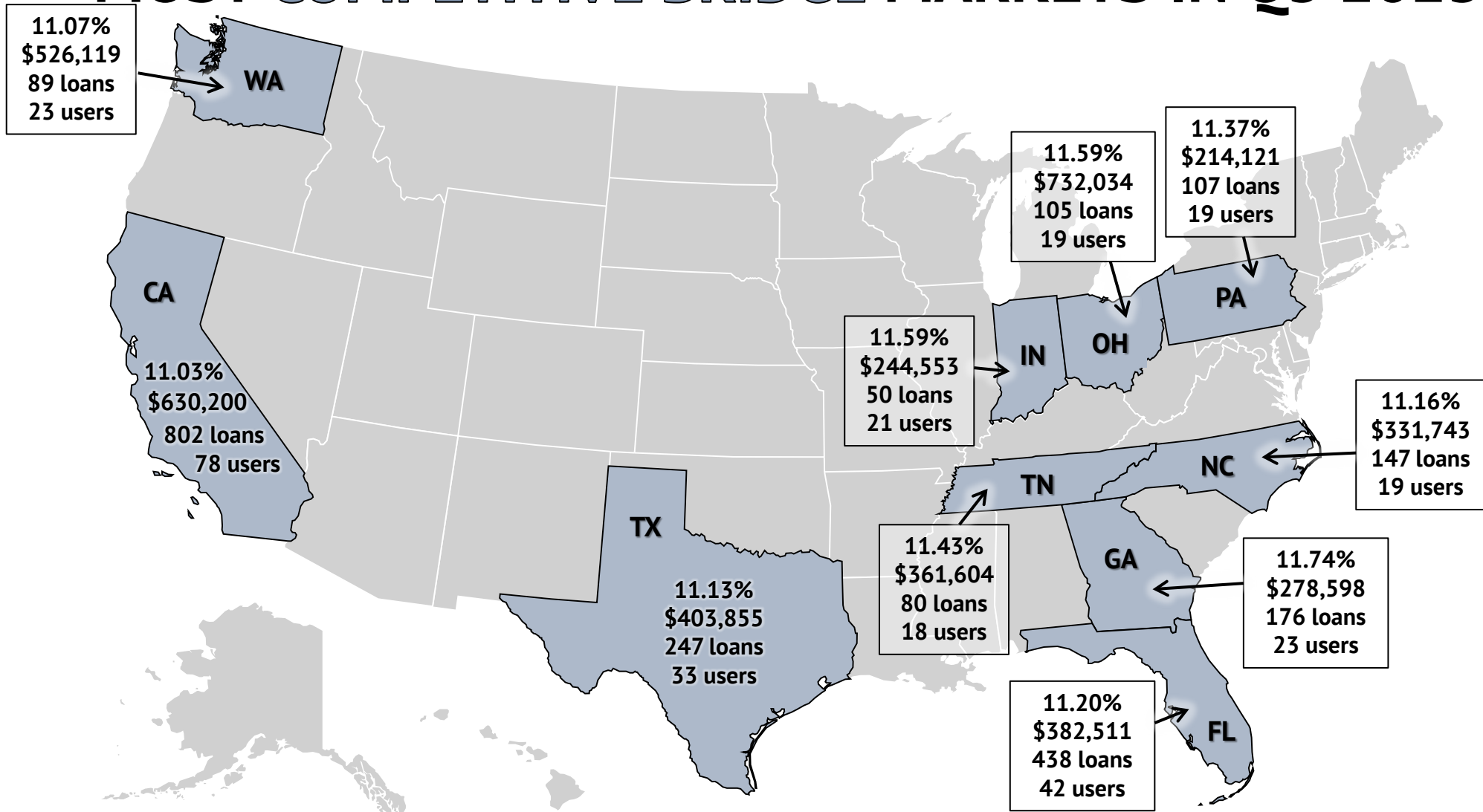
Q3 2023: JUL-SEPT



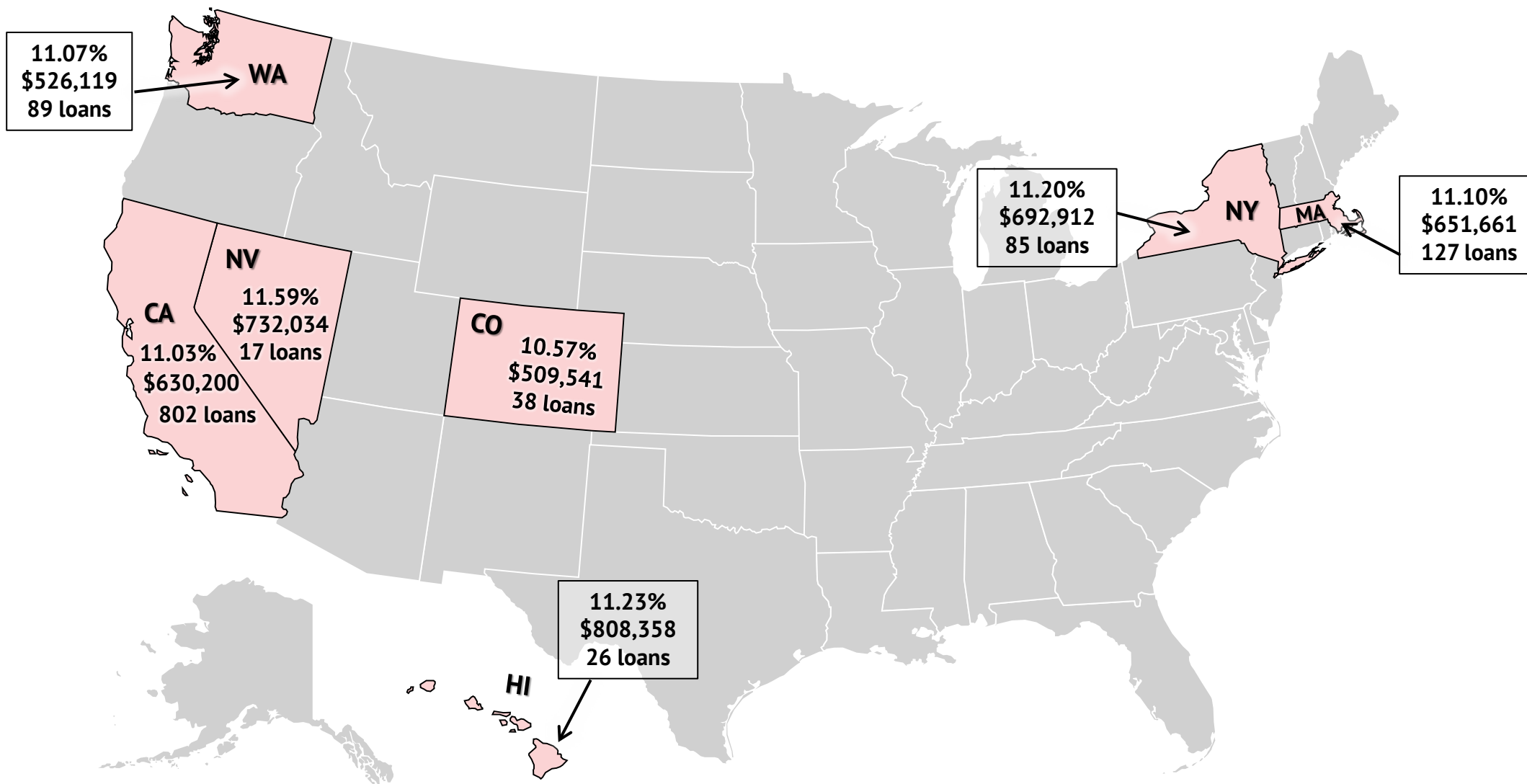
Q3 2023	INTEREST RATE	# OF LOANS	AVERAGE LOAN AMOUNT
Clayton	12.46%	7	\$171,936
Fulton	11.96%	45	\$372,380
Chatham	11.83%	6	\$236,148
Gwinnett	11.13%	7	\$238,892
DeKalb	11.12%	22	\$453,675



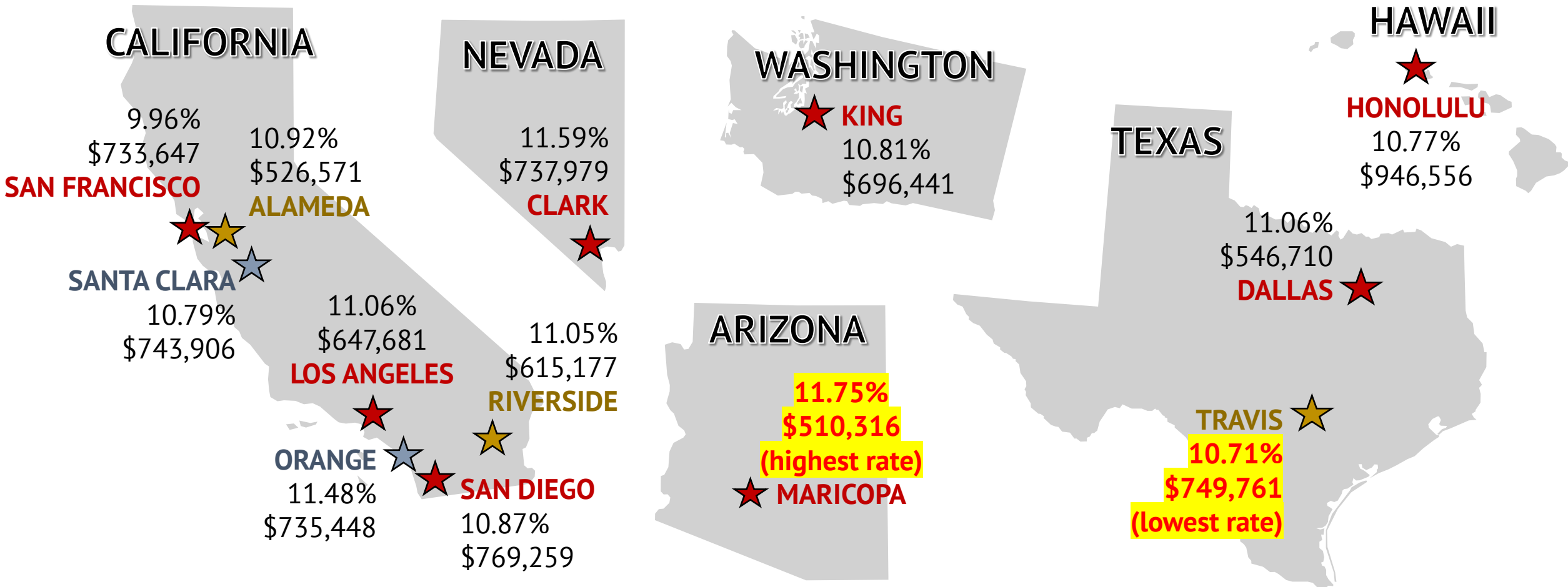
MOST COMPETITIVE BRIDGE MARKETS IN Q3 2023



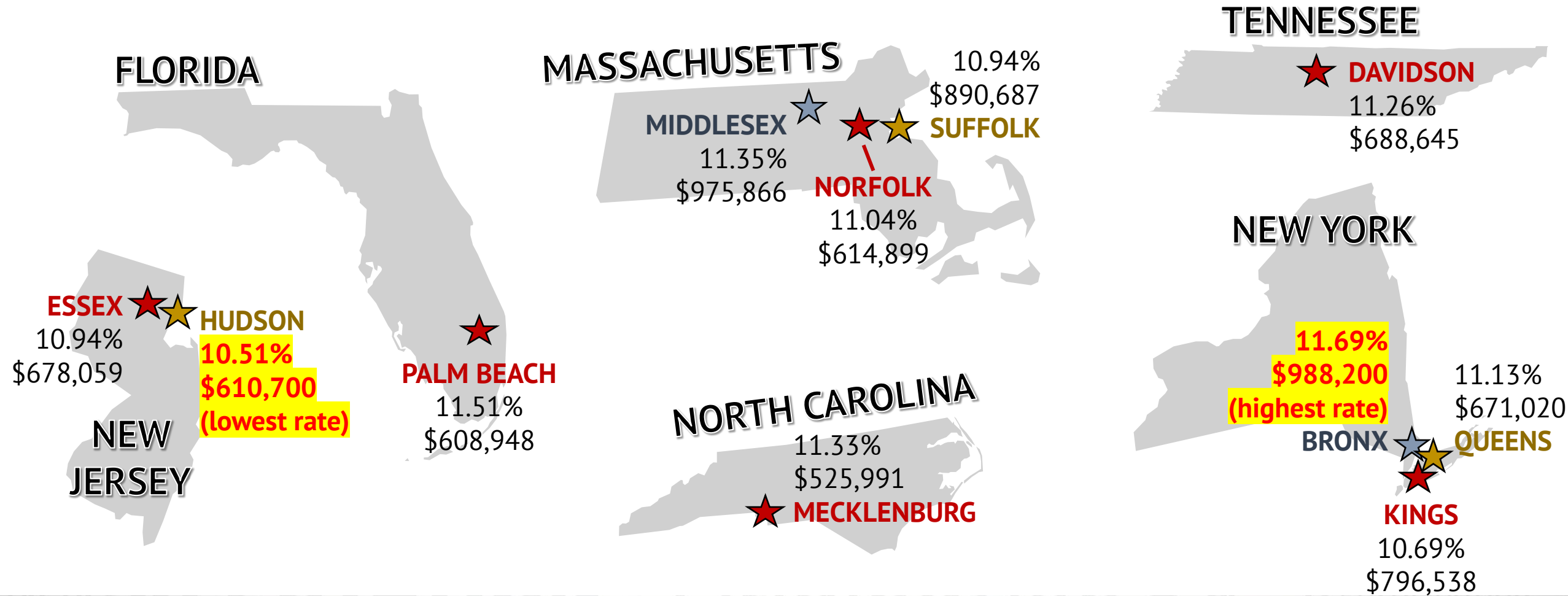
STATES WITH AVG BRIDGE LOAN BALANCES >\$500K IN Q3 2023



WEST COAST AND CENTRAL U.S. COUNTIES WITH LOAN BALANCES >\$500K IN Q3 2023 WITH AT LEAST 10 LOANS



EAST COAST COUNTIES WITH LOAN BALANCES >\$500K IN Q3 2023 WITH AT LEAST 10 LOANS



DSCR RENTAL LOAN VOLUMES BY SAME USERS

Q1 2022 - Q3 2023

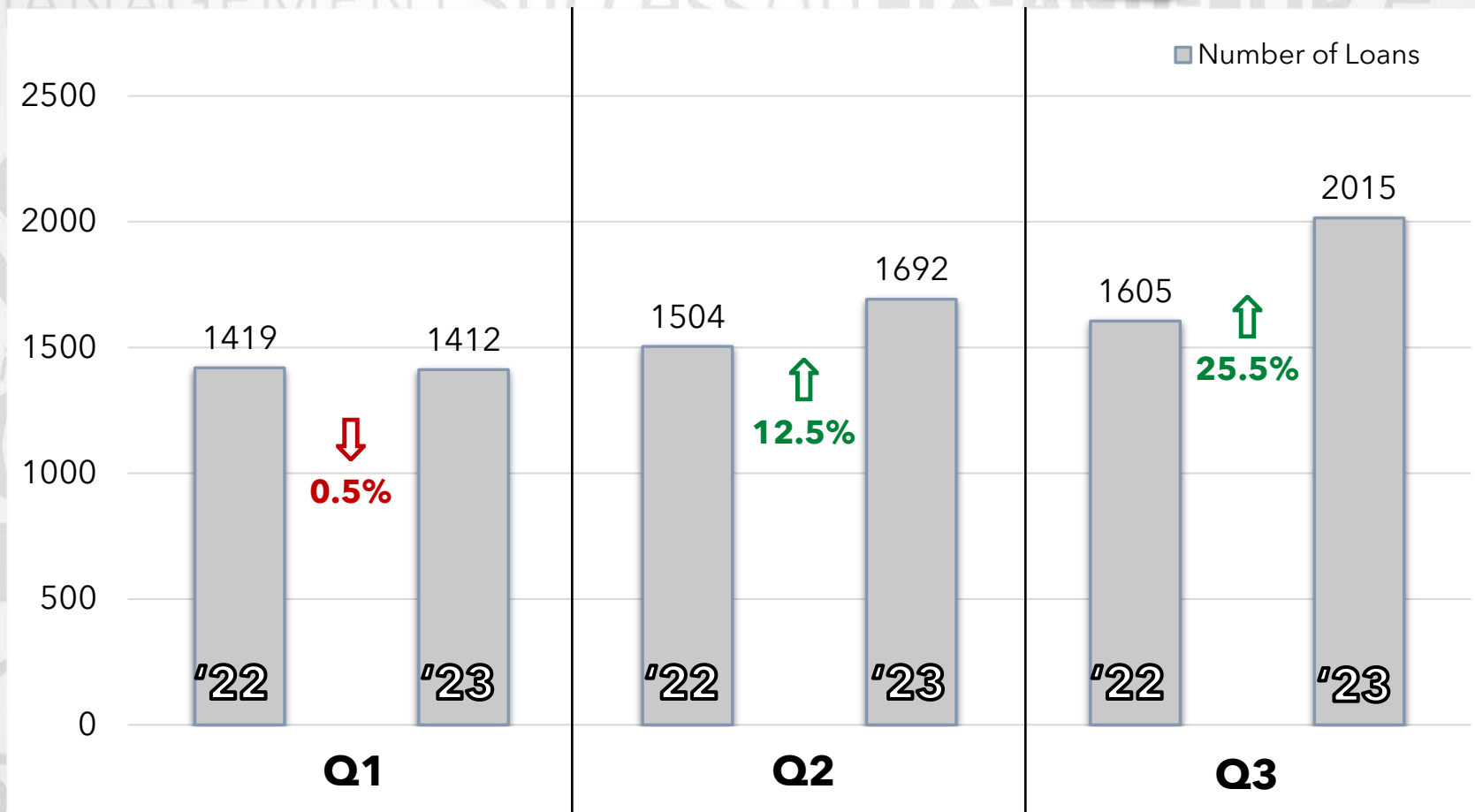
30 users



YOY ANALYSIS OF RENTAL LOAN VOLUMES

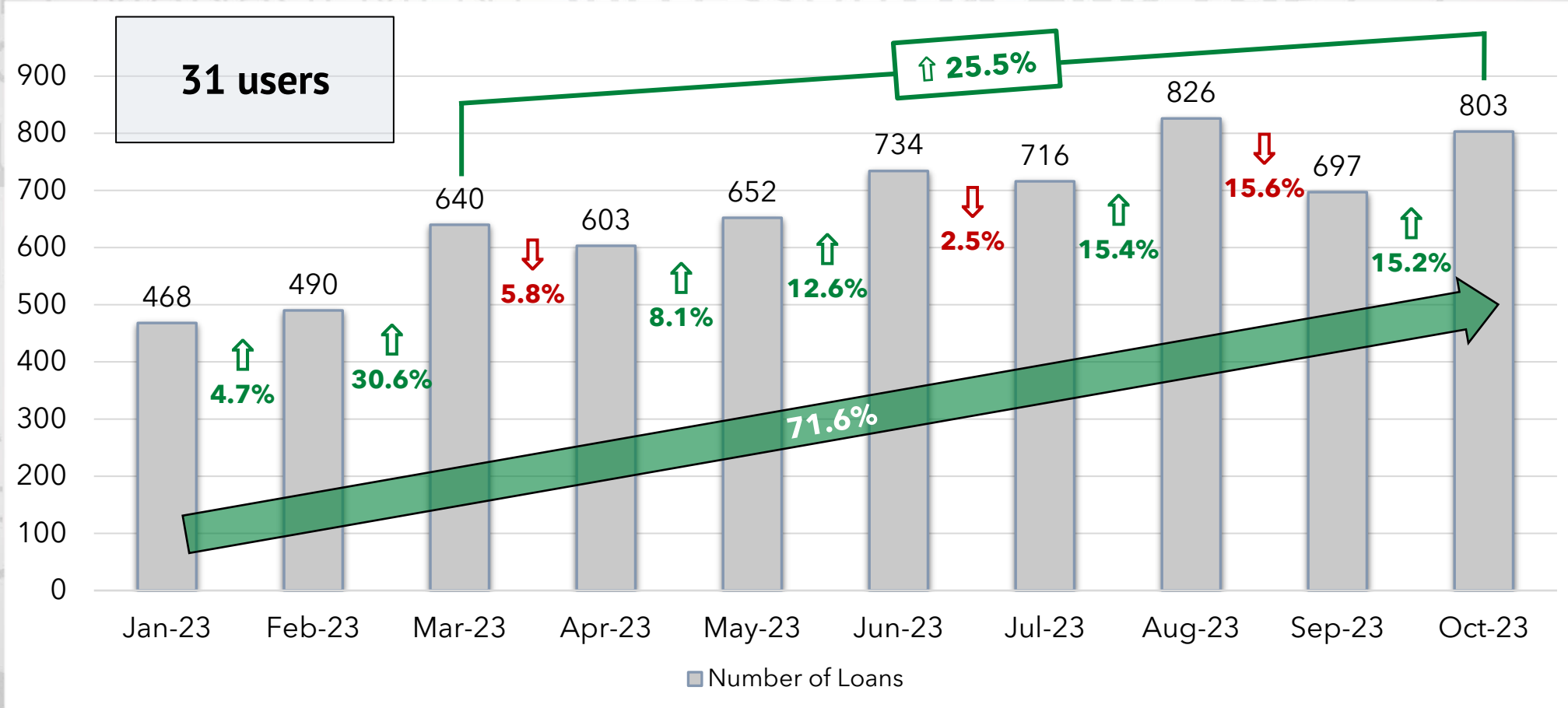
2022 - 2023

30 users



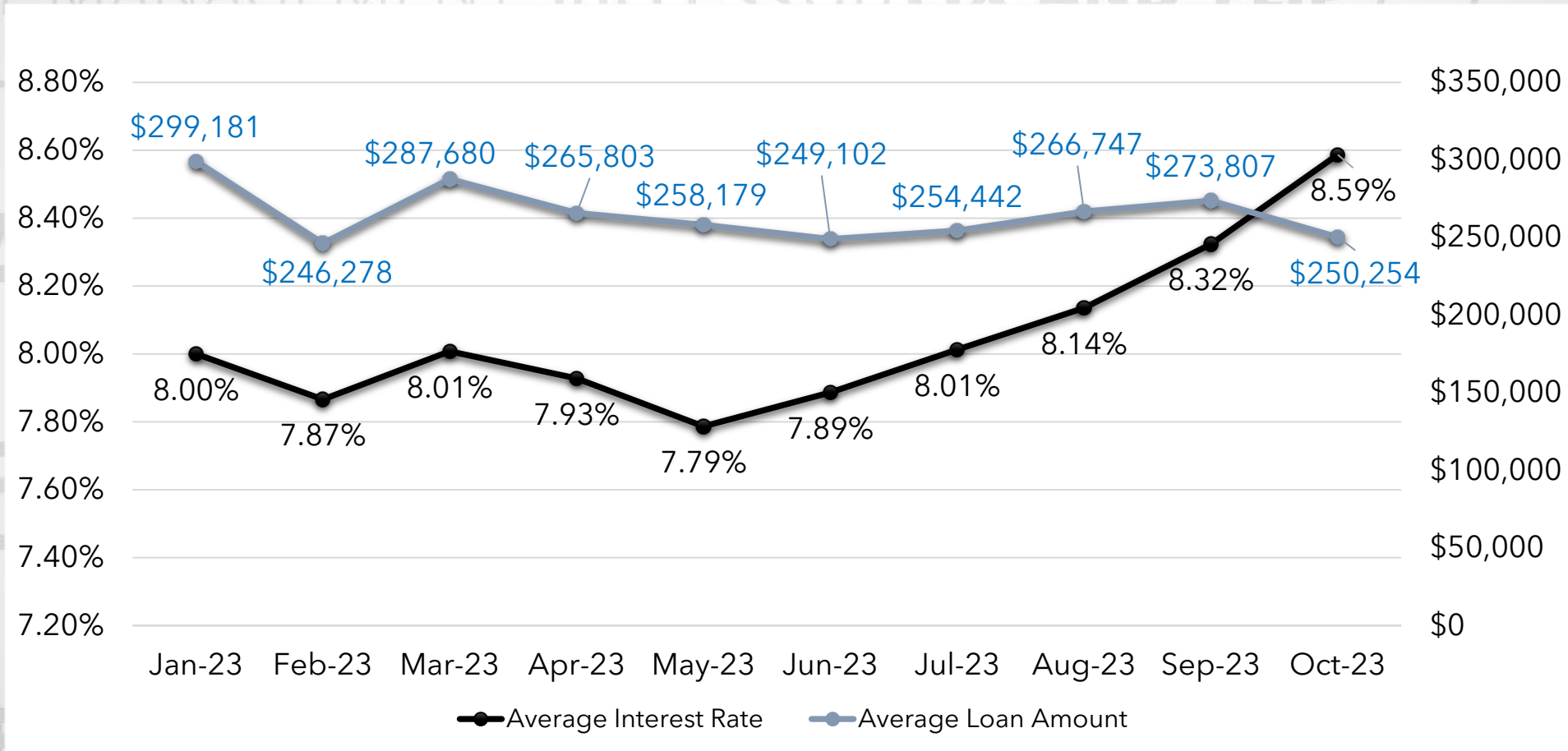
RENTAL LOAN VOLUMES BY SAME USERS

JAN-OCT 2023



RENTAL RATES & AVG. LOAN AMOUNTS

JAN-OCT 2023

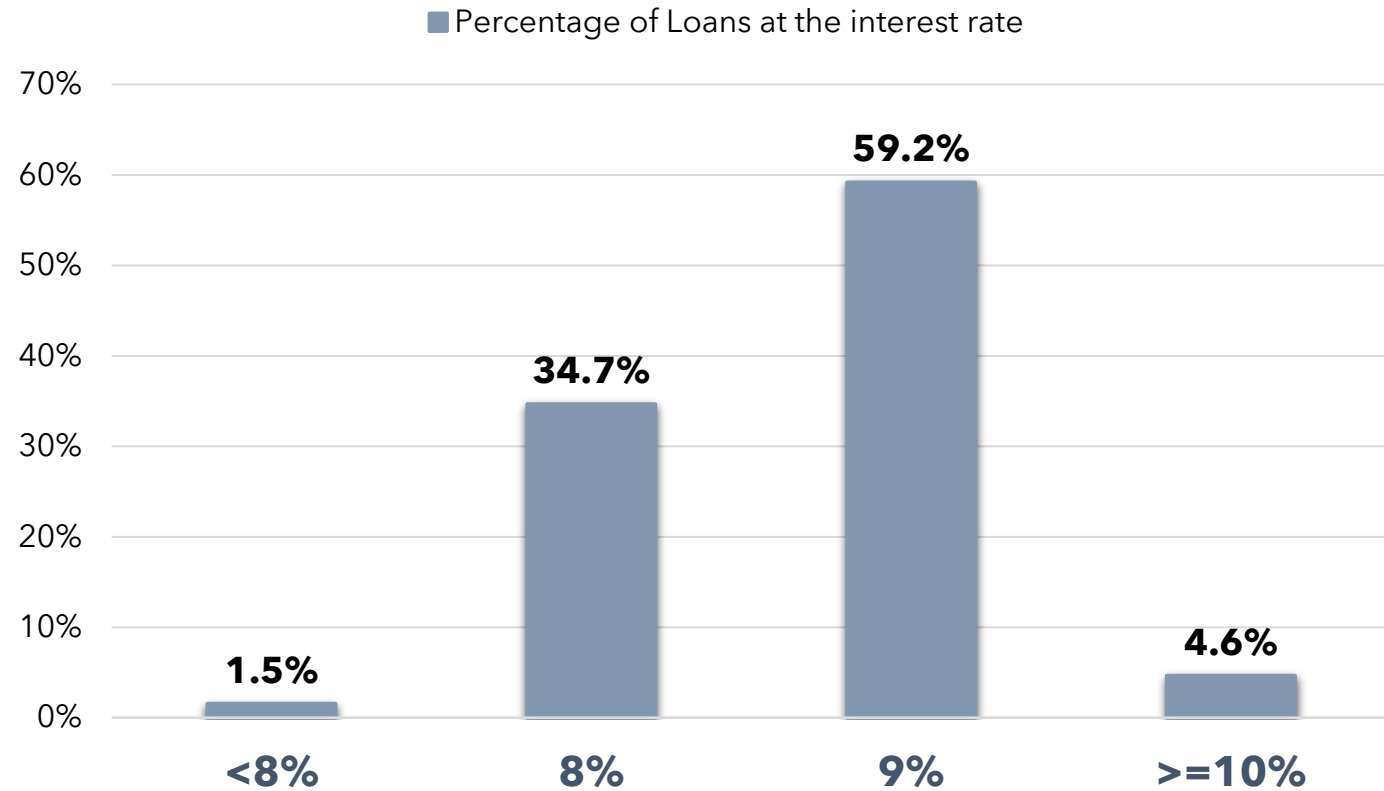


RENTAL INTEREST RATES

OCTOBER 2023

**Average int. rate
for October:
8.6%**

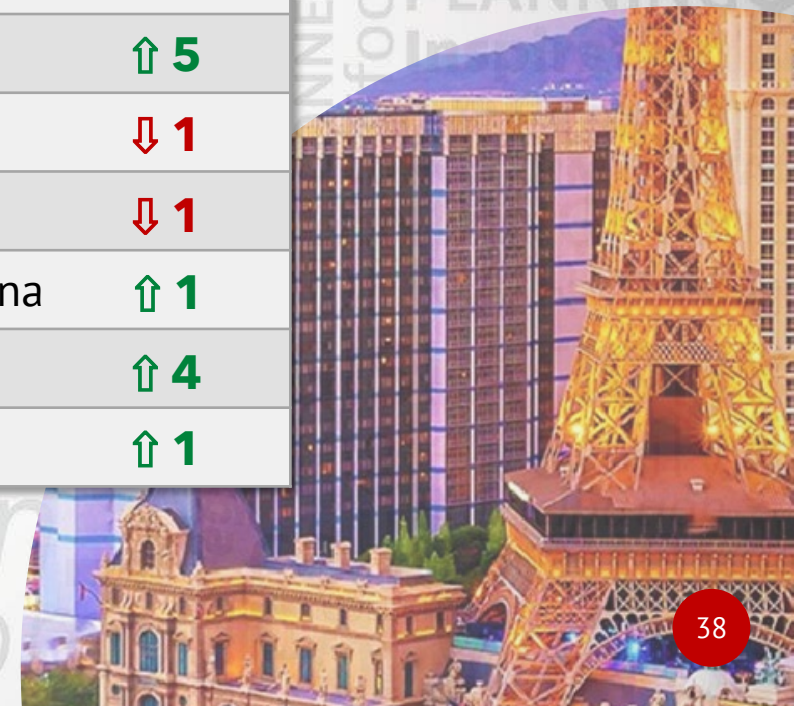
94%
of loans were
between **8-10%**



TOP RENTAL STATES BY VOLUME

2022-2023 (SO FAR)

2022	2023	
Texas	Texas	—
Florida	Pennsylvania	↑ 2
New Jersey	New Jersey	—
Pennsylvania	Florida	↓ 2
Illinois	Ohio	↑ 5
New York	Illinois	↓ 1
Connecticut	New York	↓ 1
California	North Carolina	↑ 1
North Carolina	Maryland	↑ 4
Ohio	Indiana	↑ 1



THE PERCENTAGE OF BRIDGE LOANS THAT DO NOT HAVE A CONSTRUCTION HOLDBACK

(PURE BRIDGE)

39%



THE PERCENTAGE OF BRIDGE CONSTRUCTION LOANS THAT HAVE PREPAID INTEREST (INTEREST RESERVE)

15%



THE PERCENTAGE OF BRIDGE CONSTRUCTION LOANS THAT
CHARGE INTEREST ON THE FULL LOAN BALANCES (DUTCH)
VS. AS THE CONSTRUCTION FUNDS ARE DISPERSED
(NON-DUTCH)

59%



AVERAGE ORIGINATION POINTS FOR BRIDGE & RENTAL LOANS IN 2023

2%



AVERAGE ORIGINATION POINTS FOR BRIDGE & RENTAL LOANS IN OCTOBER 2023

Average **Bridge** Points

October 2023

1.75%

Average **Rental** Points

October 2023

2%



AVERAGE FEES FOR **BRIDGE** & RENTAL LOANS IN 2023

Average Document Fee

\$1,100

Average Processing Fee

\$1,300

Average Underwriting Fee

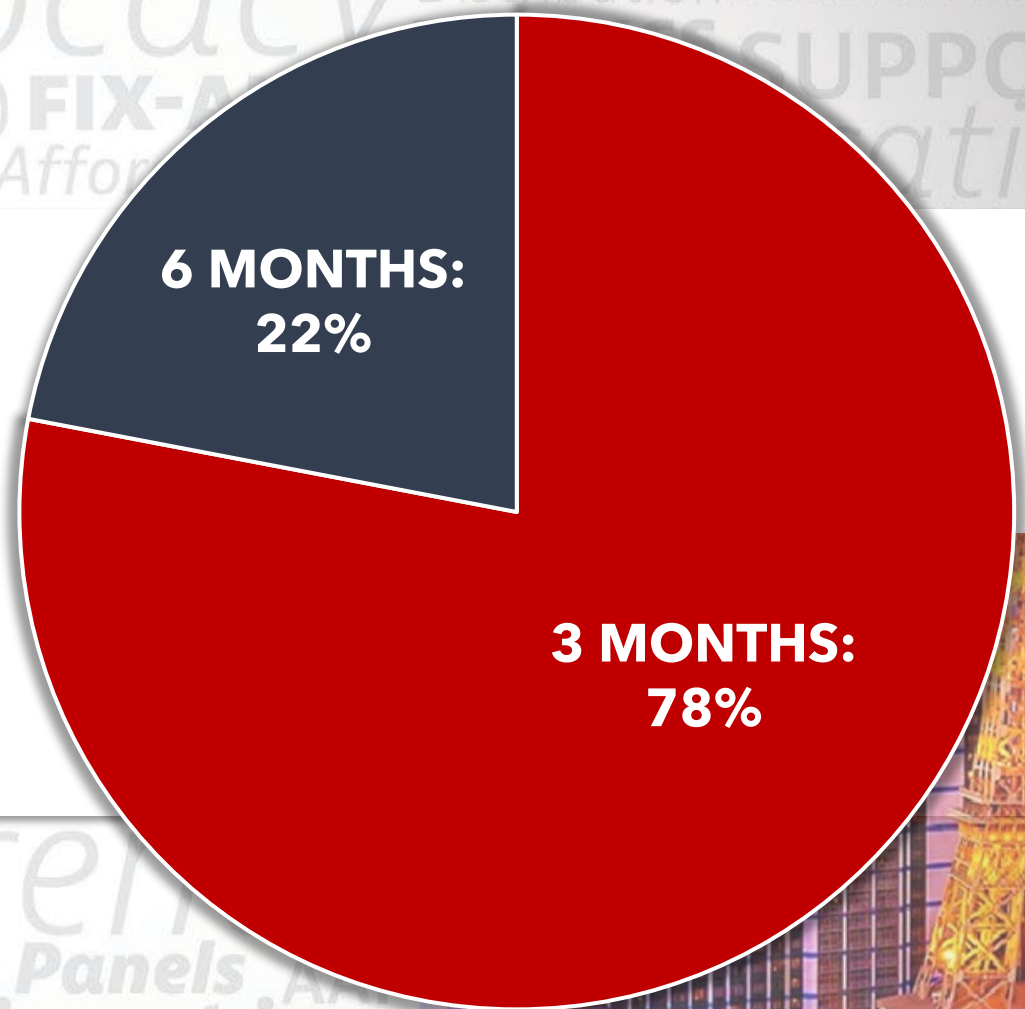
\$1,295

Average Wire Fee

\$45

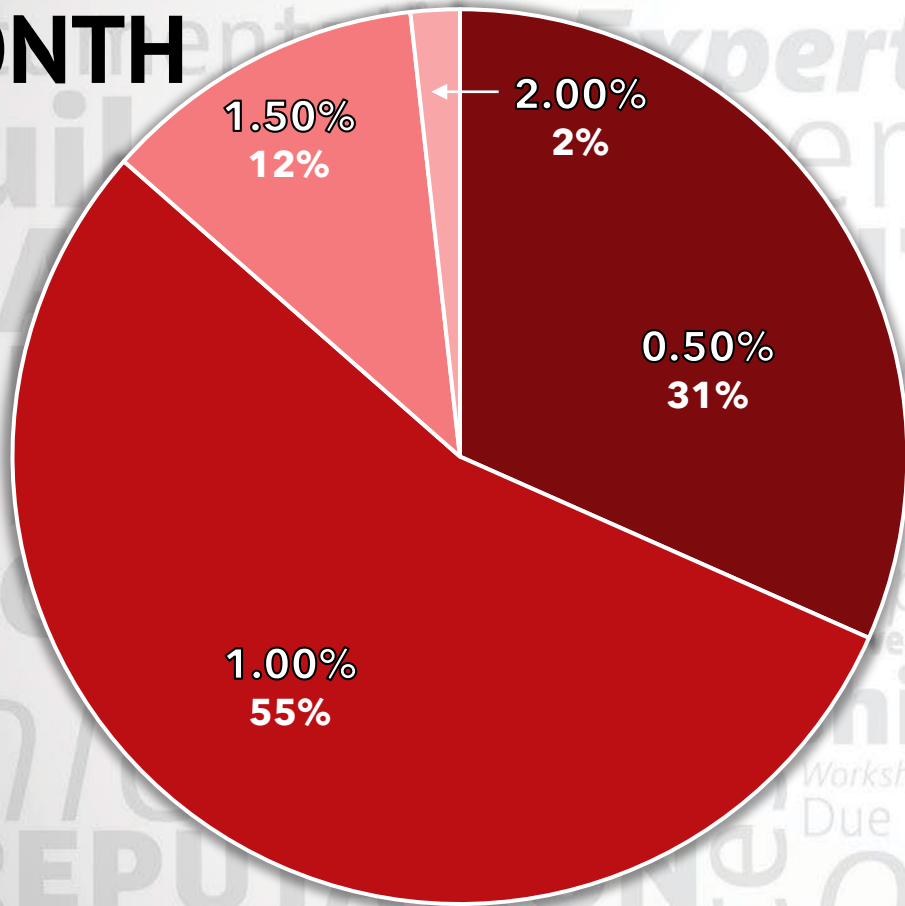


**PERCENTAGES OF USERS
WHO CHOOSE TO NEGOTIATE
A 3-MONTH EXTENSION
OPTION VS. 6-MONTH
EXTENSION OPTION**

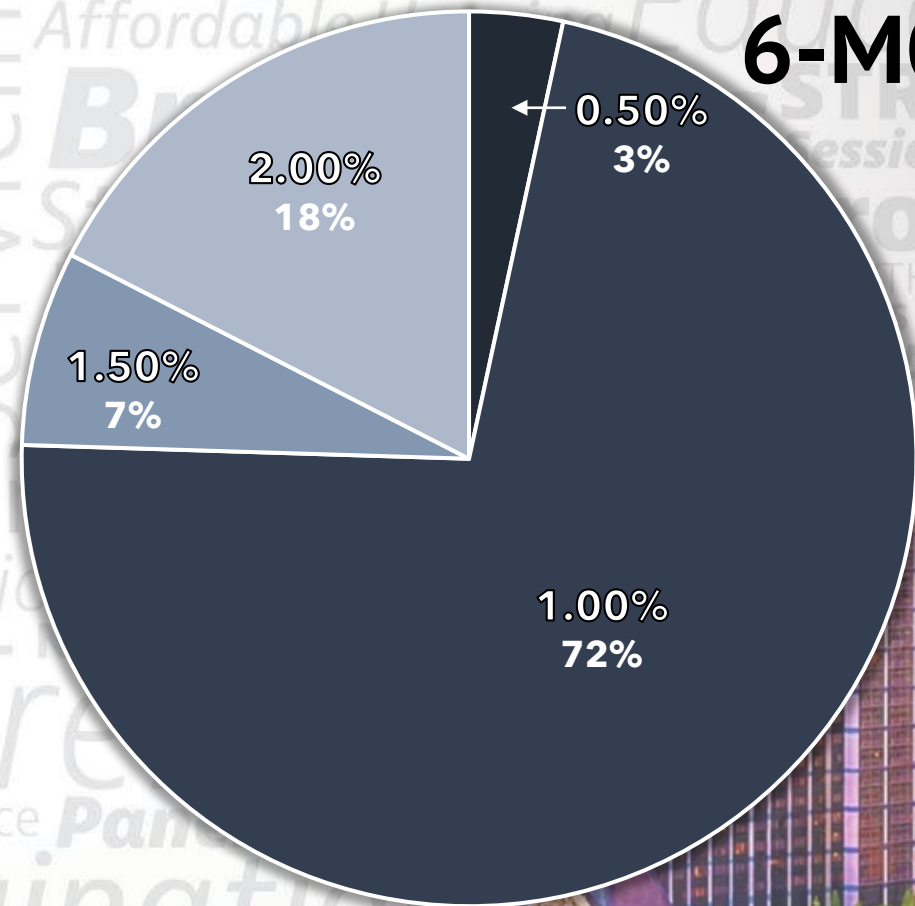


COST OF EXTENSION

3-MONTH



6-MONTH



PLAN OF ACTION FOR 2024

“Survive ‘til 2025”

- What should I be doing to **set myself up for success** in late 2024 & 2025?
- Are there any **SOURCES** of guidance?

TWO RESOURCES TO LOOK TO

INDUSTRY **SUCCESS**

- Successful examples
- What do they have in common?

INSTITUTIONAL **GUIDANCE**

DBRS Morningstar Guidance

SUCCESS IN THE INDUSTRY: CAPITAL

CAPITAL: SIGNIFICANT & MEANINGFUL BALANCE SHEET

- Significant & Meaningful Balance Sheet
- Debt fund, WLOCs, Equity Partnerships, Family Office, JVs with Institutional Investors

SUCCESS IN THE INDUSTRY: CAPITAL

KEY QUESTIONS TO ANSWER

- Does it provide you the **necessary horsepower** needed to support originations?
 - Origination volume must be there. But national dominance isn't needed to be considered a successful thriving private lending business.
- Is it lasting and meaningful so you aren't **scrambling during a crisis**?
 - Is it scalable?
 - Is it sticky? And grant YOU discretion?
 - Can it weather volatility?

DEBT FUND FEATURES

- RIA Ready – CUSIPs / Platform Approved
- Third Party Fund Administration
- 3+ years of Audited Financials
- Robust Loan Servicing Team – Not just Collections/ Admin
- Fee Alignment with Investors
- Robust Reporting and Accountability
- Line of Credit for Cash Management

SUCCESS IN THE INDUSTRY: **BACK OFFICE**

- Credit Committee / Credit Criteria / Underwriting Guidelines
- Collateral & Risk Management
- Robust Closing Team or Outsourced Service *(law firm)
- Robust Technology Platform & Vendor Support
- LOS: Sales / CRM
- Loan Document Generation
- Accounting
- Policies & Procedures for each department with redundancies and crisis management
- AML/KYC
- Capital Markets Team

INSTITUTIONAL PERSPECTIVE & GUIDANCE

“I think the fact that [RTL is] becoming more mainstream is a byproduct of some of the institutional coming into the space....there’s certainly a supply-demand technical as there’s bene less issuance, and some investors have to look to other asset classes to invest in. The [RTL] space has certainly been a beneficiary of that.”

- RTL Securitization Broker

Source:

RTL Securitization take spotlight amid undersupply in US RMBS, Kunyi Yang, 10/19/2023, Global Capital Securitization

INSTITUTIONAL PERSPECTIVE & GUIDANCE



“...it’s going to take us 100 years to renovate all of the aged housing in America if we continue at today’s pace. To catalyze more of that, more capital needs to come in. [...] We’re only building 500 to 750,000 houses, and we’re way undersupplied, maybe by four or 5 million houses. So we got to build [...] a million and a half houses for a few years and then come back to a million.”

- Ray Mathoda

Source:

Lender Lounge Podcast – Season 4 – “A Conversation with Ray Mathoda”, <https://geracilawfirm.com/lender-lounge/a-conversation-with-ray-mathoda-anchor-loans/>

WHAT DOES THIS TELL US?

- Private Lending is still **VERY attractive to Wall Street** and will continue to benefit from this attraction.
- The market has **plenty of room to grow** and the institutions know this!
- This poses an interesting challenge for our industry and will push it to evolve, improve and grow.

INDUSTRY SENTIMENT

While Volatility has reduced Securitization in our sector, it does not mean deals are not getting done.

- Nomura's September update projects 2023 issuance to max out at about \$2Bn as compared to \$3.2bn in 2022.

What they are focused on seems to primarily revolve around RISK.

- Their report cites to Increased Delinquencies, Increased Volume of Extensions, and Complexities associated with Projected Values cite to an increased need for due diligence, cash management, and specialty servicing.

MORNINGSTAR GUIDANCE

Morningstar's credit rating guidance signals that industry standards will slowly evolve and permeate the industry as rated securitization becomes more prevalent.

With this in mind - How should a private lender set themselves up for success in 2024 going into 2025?

- Use Credit Rating guidance as Influential Guidance. Why?
- The guidance was enlightening because it raised questions re: operational risk that will be asked for all RTL Securitization Issuers.
- Even if you are a retail originator – this matters to you because many of these standards will be pushed down to the retail originators – particularly credit and valuation.
- Even if you have no need for the secondary market – it will inform you to be able to scale your business for a possible equity infusion through an institutional JV or LP.

MORNINGSTAR GUIDANCE: INTERESTING FEATURES



- Underwriting Criteria & Underwriter Experience - No longer something you set up just to check a box.
- The Closing Process will likely be much more carefully evaluated to ensure it follows industry standards.
- Valuation Practices – Outsourced? In House? How to ensure accuracy and mitigate variance risk?
- Technology & Cybersecurity
- AML/KYC & Fraud Detection Systems & Procedures

- Organizational Structure
- Construction Draw inspections/monitoring/approval process
- Disaster Recovery, Business Continuity Plans and Testing
- Policies and procedures that are robust, meaningful, and followed in everyday operations
- Conflicts of Interest Management & Controls
- External and internal Audit Processes

WHAT DOES ALL THIS MEAN FOR US?

Takeaway #1

- Start building your business for scale.
- Treat it as a true ongoing concern and invest in systems, processes, and people.

Takeaway #2

- Get your CAPITAL right.
- Use industry examples to determine your blueprint.
- Kevin's "Blueprint"?

Q&A – Ask Now Or E-Mail Later



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