MARSHALL BRIDGING FUND INSIGHTS

Investors have asked us in the past why quality loan recipients with good projects to fund are willing to pay Bridge Finance relatively high interest rates, while banks are not profitable, active or competitive in this area currently.

The answer is that several events have combined to create a very interesting market for lenders and a difficult marketplace for borrowers, who would otherwise find it difficult to secure loans for their projects.

Bank Implications:

1) Many banks still have outstanding loans on their balance sheets which have remained unrecovered, reducing their available lending capital.
2) Banks have reduced the amount available to lend to the real estate sector and this has compounded the affect, resulting in fewer lenders and reduced amounts of available capital.
3) Increased banking mergers, have further reduced the number of potential lenders. Where previously, a borrower had access to several potential lenders with lines of credit, far fewer are now available.
4) Banks have increased the required time to approve loans. In the current climate, a lender who is quicker in approving a loan, has a competitive advantage and thus can demand a higher interest rate with the difference between a 2-3 week turn around and a 2-3 month one, being the difference between success and failure in getting a deal off the ground.
5) Banks have tightened their underwriting standards and have greatly restricted the types of loans they will grant, not because they are riskier, but because they compute differently for capital ratios. Also, in a drive towards eliminating risk, many seeding loans, or change of use projects are now rejected by banks, making it difficult to secure lending for borrowers.

Other Implications:

1) Capital requirements on banks as a result of BASLE III have also reduced the appetite within banks for certain types of loans which now have greater capital requirements as collateral. The amount of capital banks are required against servicing rights has also increased dramatically.
   New requirements also make it much more expensive to service delinquent loans, resulting in such low profit margins, that many banks have withdrawn from this type of business.
2) The industry has also deleveraged, reducing LTV ratios and creating a gap between the capital needed for the project and the one a bank would provide. This provides an opportunity for bridge lenders and increases their strategic value, even at higher interest rates.

Data on Bridging can be found at: http://www.money.co.uk/bridging-loans.htm

Some examples of bridge lending executed by Marshall Bridging Fund:

Change of use – Rugen Loan

Marshall Bridging Fund gave a loan of 600,000 Euros with a combined LTV of 49%, for a period of 15 months, with monthly interest of 1.35% per month.

The borrower purchased a former nursing home and was granted planning consent to change the use to residential apartments. The site and building were purchased at €1,800,000 with additional application costs of €150,000. As a result of successful planning application, the site value was reported at €3,370,000 when the loan was granted. On completion of the conversion the gross development value was €8,500,000, subject to building costs of €1,161,000.

Refurbishment – Wittenberg Loan - Germany

Marshall Bridging Fund gave a loan of €1,200,000 with a combined LTV of 51%, for a period of 15 months, with monthly interest of 1.35% per month.

The loan was used to undertake a refurbishment of the common parts and upgrade facilities for the tenants throughout the complex.

The borrower purchased a former hotel that was converted into a sheltered housing building comprising 73 units. This comprised of 2,771m^2 of net lettable area, being 2,168m^2 of residential and 603m^2 of ground floor commercial space as well as nursing rooms, physiotherapy and care rooms, office and reception. The property is let at an annual rental of €242,280 net receivable.

Development - Pankow Loan - Germany

Marshall Bridging Fund gave a loan of €405,000 with a combined LTV of 51.3%, for a period of 12 months, with monthly interest payments of 1.225%.

The borrower purchased land and buildings at the site and subsequently secured planning permission with consent to build a complex of 21 houses and 2 self-contained care home/medical centres with car parking. Site purchase cost and

development consent was €1,850,000 for the freehold interest. As a result of a successful planning application, the site value is now reported at €3.5m.
On completion of the proposed residential element, €9,864,000 of sales are envisaged, excluding the medical centres.

A full description of the current and past loans of Marshall Bridging Fund can be found at: http://www.marshallbridge.com/transactions/login