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Banks Giving Back Millions To Those Willing to Ask

Consider the Case of Missoula, Montana

Toto, I've a feeling we're not in Kansas anymore

Greg Warren
Managing Partner

Borrowers can come out of their storm cellars. Banks are back out looking for business again. In fact, they're competing hard, particularly for the best credit clients. By definition, that means medical practices.

If there was ever a time to test the financial market, this is it. In the last year, borrowers have secured financing at loans exceeding 100% of value, obtained non-recourse financing and had banks completely waive prepayment penalties on long term debt. It's a great competitive environment.

Yet many of the same savvy administrators, who regularly get bids on everything from insurance coverage to janitorial service, stop short when it comes to the second biggest line item expense behind staffing, the cost of debt on their building.

- "We can't take the risk of upsetting our bank."
- "Our bank was there for us when..."
- "Our bank quickly responds to any of our needs without a hassle. No one else will take care of us like that."
- "Our bank just committed to finance our next building at a high loan-to-value. We can't risk them pulling that approval. What other bank would do that for us?"

The answer is probably quite a few... and at improved rates and terms.

Here are the facts. According to Elizabeth

Allport of CMAC, in the last two years, CMAC was engaged by more than 50 borrowers who already had loan proposals from their incumbent banks. Of those borrowers, there was not a single instance where the bank withdrew its proposal or financing. In fact, in approximately 90% of those cases, the incumbent bank improved its proposal while the remaining 10% maintained their then-current offer.

Those with especially good relationships with their banks, concerned how shopping their loan would impact those relationships, found this; those relationships improved with their banker who was grateful for the opportunity to keep the business - even at a reduced profit.

Missoula Moxie
Consider the case of Missoula Bone and Joint (MBJ). A planned surgery center expansion meant refinancing and adding debt. MBJ went back to its long-time lender, and received a proposal that seemed in line with the market. The group had been assured that the new rate was its most competitive and the best they could do. They were wary of testing the market and concerned about jeopardizing MBJ's long-standing bank relationship. However, when MBJ's CEO Sami Spencer visited with Orthopaedic Associates of Wisconsin (OAW) to view their facilities, she heard how OAW had improved what they thought was already the best financing available. OAW had hired CMAC to globalize the market by sharing with bankers the best proposals from their own bank from around the country.

Spencer wanted the best economic deal for her doctors and was encouraged by what she heard in Wisconsin. So she allowed CMAC to test the market to bring its globalized process to the local, regional, and national lenders of her market. From the first meeting, the challenge was laid out, "CMAC, we need to know you can do your

job without upsetting our banking relationship".

The Bottom Line
MBJ's bank competed with over 15 other banks and lowered its rate to provide interest savings of roughly $1,000,000 over the term of the new loan. Most importantly, the bank (who wasn't even the lowest bidder) was very appreciative of the opportunity to maintain its relationship in the face of a competitive market.

Bottom line - don't be timid. Apply your best business practices to every line item and remember that behind Oz's emerald curtain is a bank that needs and values your business.

ON THE INSIDE...

Trump-Bump Doesn't Faze Lewiston Orthopaedic Associates

It's early November 2016 and we are heading into Election Day. The two leading candidates are Hilary Clinton and Donald Trump. Polls are predicting Hilary wins but what happens next no one could have predicted. Donald Trump, the real estate tycoon who was on TV firing people less than 10 years ago is now the President of the United States. Markets almost immediately spiral downward but then recover by the next morning. Wall Street begins to realize that Trump's politics leading into the election were for deregulation within the financial sector. American stocks begin an extraordinary bull run that continues into 2018.

Accompanying the wild ride in the stock market was a dramatic increase in interest rates over a short period of time. During the three-months after the election interest rates increase over 40%. Putting the Trump-Bump in perspective, interest rates are still at historic lows. But in some cases our clients were seeing as much as an 80 basis point increase on indicative rates from loan proposals in hand.

Scenarios like this left one of our clients, Lewiston Orthopaedic Associates (LOA) in Idaho feeling some sticker shock. Fortunately for this deal, LOA and CMAC had cast a wide net for loan proposals and the group was able to pivot to another lender like Lebron James hitting a game winning turnaround fade-away in the paint, SWISH! Rather than accept the higher rate, LOA refused to lose and was able to walk off the court a winner with a 3.75% interest rate (which represented only a 25-basis point increase) on a ten-year loan with a twenty-five year amortization. The strength of the group's practice was a primary driver for success, but it was their tenacity to never give up and make a quick adjustment that led them to victory.

Got a Swap That's Upside Down?

GET OVER IT

"Negative-value swaps are hurdles, not walls."

JP Conklin, Founder, Pensford Financial Group

"I'd like to refinance and take advantage of the great lower rates, but my swap is under water".

This is the best time in decades to refinance commercial debt, but some borrowers feel they are unable to take immediate advantage of this market because they are upside down in a swap… perhaps to the tune of more than a million dollars. Nothing is further from the truth. There are often viable ways to be freed from the handcuffs of a swap and achieve better financing. Here are some important facts to keep in mind:

1. **Staying in a swap rather than paying it off does not save you money.** If you replaced that exact swap today at the lower rate, you would save the same amount of money that it cost to pay off the swap. In essence, you are merely financing the negative value by remaining in that swap.

2. **Your swap (or its value) is transportable.** If a change of lenders is what you are seeking, there are several ways to get to that new lender without coming out of pocket on the negative value. Some of those include a partial unwind, a novation (assignment) or having the new bank finance the swap's "unwind" by adding it to the new debt in the form of a rate price-up if loan-to-value is an issue.

3. **You can improve your cash flow by extending your swap.** Whether you stay with your current lender or move to a new lender, you have an opportunity to improve your cash flow while extending your fixed-rate period. We know that sounds counter-intuitive, but today's market allows you to do just that.

Any of these modification or termination options allow banks an opportunity to add hidden fees, which could be substantial. In other words, "don't try these tricks at home". Use an Independent Swap Advisor. Consultants like CMAC have access to the same models and live data used by the banks and can assure fair pricing for your swap.

JP Conklin
President

PENSFORD
FINANCIAL GROUP

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JP Conklin is President and founder of Pensford Financial Group, in Charlotte, NC. Following his tenure as Head of West Coast Derivatives for Wachovia Bank, JP left to form Pensford in 2009 to help borrowers create hedging strategies that strike a balance between flexibility and cost while mitigating exposure to interest rates. JP has negotiated and executed over 800 derivative transactions with a notional balance in excess of $75 billion. His unique experience and institutional contacts also provide insight into less well known factors, such as counterparty credit hedging, calculating hedge exposure, back to back swaps, and ISDA negotiation. This translates into increased transparency and improved pricing for Pensford clients.

JP graduated from the University of North Carolina – Chapel Hill with a degree in Economics and spent three years in the US Army's 1st Ranger Battalion. JP lives in Charlotte, NC with his wife, five children, and two dogs. He is an avid sports fan and has been a private pilot since 2006.

Samadany Joins CMAC Team

RN / Attorney Brings New Resources to the Table

Michelle Samadany has joined CMAC Partners to lead business development in the Western United States. Samadany's education and training as a nurse and medical malpractice defense attorney bring a unique perspective to the medical commercial real estate market.

Michelle earned her RN in 1993 and worked in pediatric oncology before adding her law degree in 1999, graduating the Thurgood Marshall School of Law with Honors.

Michelle later became known in healthcare circles for providing innovative Insurance, Risk Management and claims solutions to healthcare groups across the country. With over 20 years in healthcare, Michelle has fine-tuned her ability to provide a variety of solutions to physician-owned hospitals and groups across the country.

Michelle resides in Houston, TX and enjoys spending time with her 4 kids attending dance recitals, soccer games and science fairs, traveling and reading.

Design Dollars… How Every Second Counts

FACT: Flow design solutions that save as little as 1 or 2 minutes on each patient visit will create a significant economic impact. It's why we have spent years perfecting flow design solutions that save our clients just a few seconds here and there throughout the patient visit process. Consider this example of just how much a few seconds matter.

Assuming a typical provider sees a patient on average every 15 minutes that nets 32 patients visits a day. If the flow design can save a minute per patient throughout their visit, 32 minutes can be saved throughout the day. An extra 32 minutes equates to 2 extra patient visits per day without changing anything but the flow design. These 2 extra patient visits are therefore at little to no additional cost and thus can be considered pure profit. An extra 2 patient visits a day nets 480 additional patient visits a year at no additional cost. This indeed represents significant additional revenue. If the flow design can save 3 patient visits per day the additional annual patient visits jumps to 720. And if the flow design can save 4 patient visits per day the additional annual patient visits jumps to 960. That represents an approximate 6-12% revenue increase with no additional costs.

The nice part about good flow design is that the providers and staff do not even know it is happening to them. They simply go about their day as usual but because they are moving 6-12% more efficiently they can do more in the same amount of time. The facility represents only 8-12% of a clinic's overhead costs while staff represents a staggering 40-60%. We have estimated that particularly well-designed flow design solutions allow the 8-12% to make the 40-60%, 6-12% more efficient. The same savings can be replicated for ASCs and hospitals. Make every second count!

John A. Marasco, AIA, NCARB
As a principal/owner of Marasco & Associates (Denver, CO), John oversees the design/development of over 250,000 square feet of healthcare architecture annually. Mr. Marasco is a nationally known lecturer on the design/development of healthcare facilities from physician practices to hospitals.

Level the playing field

Better Seller Outcomes for Sale / Leasebacks - *Trident MRE - A New Approach*

Three of the foremost companies involved in medical real estate transactions have come together in an alliance to improve the net benefits of a sale / leaseback to the seller.

CMAC Partners of Winter Park, Florida, **Somerset CPAs** of Indianapolis, Indiana and **Fairfield Asset Advisors** of Denver Colorado will each lend their respective expertise to implement a process that **delivers sellers better outcomes more quickly and at a bundled lower cost.**

The collaborative effort is known as TRIDENT MRE (Medical Real Estate), a division of CMAC Partners. It is a highly efficient and effective process in which proposals are requested, analyzed and delivered at lower cap rates and with more flexible leaseback terms than would normally be attainable.

Each phase in the TRIDENT process is managed by at least one of the Trident partners, applying that partner's expertise and relationship base to further assure the optimal outcome to the seller. The TRIDENT partners will work with the seller to:

1. **Strategize** – Prior to the writing of any Executive Summary or Request for Proposal, the TRIDENT team will meet with the seller to identify its primary objectives. While price is always paramount, there are several other important factors that can have big economic or operational impacts. Each RFP will be customized to achieve the seller's goals.
2. **Identify Most Likely Buyers** – Based upon the criteria established in the strategic session, Fairfield Asset Advisors with Somerset will review their combined global inventories of institutional, private equity and REIT bidders to determine which of those are the most likely candidates.
3. **Immediately Test The Market** – Prior to the seller making a major investment of time and resources to prepare itself for sale, the TRIDENT team will selectively test the market using hypothetical lease terms agreeable to the seller. After an initial round of discussions, Trident will provide the seller with a dependable valuation range that provides a better assurance of outcomes before moving forward.
4. **Issue an RFP and Negotiate Terms** – Trident is uniquely capable of issuing an RFP to an array of the most likely buyers and then simultaneously negotiate competitive proposals to most closely meet the stated objectives of the seller.
5. **Analyze** – Upon receipt of the final terms, Trident will analyze the economic and operational impact of the terms and construct a comparative breakdown of the proposals. Somerset will also weigh in on the comparative potential tax consequences of the offers.
6. **Report** – Finally, Trident will meet with the seller to report its findings and assist the seller in making its final selection.
7. **Close** – Getting to closing can, at times, be tricky and arduous. The TRIDENT team is there every step of the way to serve as a conduit between the parties and their respective advocates to make sure that the deal closes in accordance with the agreed terms, that it closes promptly and that the associated fees with the closing are constantly monitored to assure reasonableness.

Because all parties are dealing in their respective core competencies, the process is highly efficient and superior outcomes are delivered more quickly and at below market costs to the seller.

Go to www.tridentmre.com or call (407) 264-7255.

Unprotected Borrowers Face Major Risk as LIBOR Replacement Looms – Fed Targeting 2021

Chris Tollinchi

In the summer of 2017 Andrew Bailey, CEO of the Financial Conduct Authority (FCA), called for the phasing out of the London Interbank Offer Rate (LIBOR) by the end of 2021. LIBOR is a primary benchmark rate tied to over $350 trillion dollars' worth of financial products ranging from derivatives, mortgages, and commercial loans. The frailties of LIBOR have been widely demonstrated in the last several years as evidenced by the highly publicized pricing manipulation scandals.

Although there has not been an official decision on its replacement, a national group known as the Alternative Reference Rate Committee (ARRC) with the support of the US Federal Reserve have proceeded to identify appropriate indices. The leading candidate at the present time is something known as SOFR (Secured Overnight Financing Rate).

The Problem

The replacement choice is not what puts borrowers at risk. It is the language in their loan documents that needs attention. Most LIBOR-based loan documents give banks wide latitude in naming a replacement should LIBOR be unavailable. And, while it is reasonable to assume that banks will select something that is relatively close to the intended LIBOR + loan spread benchmark, there is no guarantee.

Where things get particularly dicey is with those borrowers that have fixed rates using interest rate swaps. Here's why:

- With a swap, the borrower ends up signing two sets of documents, loan documents and swap documents.
- Currently, both the loan and the swap rates are based off of LIBOR.
- Currently in a swap, the bank pays the borrower LIBOR and the borrower uses that to pay the LIBOR portion of its loan. It is a wash, leaving the borrower to pay only the fixed, swap rate.
- However, when LIBOR is replaced, the language in each contract may result in disparate new indices. If that occurs, the borrower would be legally responsible for any difference, which could be catastrophic

The Solution

Because a LIBOR replacement process and timeframe has not yet been defined, it is unrealistic to expect agreement on a specific replacement within the documents. However, it is reasonable to negotiate language that avoids disparity between the loan and swap replacement. Because the Master ISDA documents are universal, the replacement language within those documents is unlikely to be modified. That means the bank must agree to insert language within the loan documents. Andy Johnson, a Principal at CMAC Partners, has worked for several months on this issue and is reporting increased success with many banks around the country. For further information, Mr. Johnson may be contacted at (407) 264-7264 or by email Andy@CMACPartners.com.

CPOMP
CONGRESS OF PHYSICIAN-OWNED MEDICAL PROPERTIES

The Congress of Physician-Owned Medical Properties ("CPOMP") is an organization comprised of physician groups that have an ownership interest in their real estate. The purpose is to provide a platform where medical real estate related issues and solutions can be shared among the membership.

The inaugural annual meeting's agenda at the Grande Lakes Ritz Carlton / JW Marriott resort in Orlando, Florida included topics such as:

- Alignment between practice partners and real estate partners
- Owning versus leasing medical real estate
- Financing Strategies for new and existing real estate
- Planning a new construction project
- Selling versus Holding real estate, and
- Real estate in a practice roll-up.

Membership is by invitation only and is limited to groups that either own their own real estate or are planning a physician-owned real estate project. If your group is qualified and is interested in membership, Email - info@cpomp.org

Interactive Model Reduces Cash to Buy-In

Prospective partners who have to come out of pocket to purchase an interest in their practices real estate now have a model that can help reduce the needed cash. The interactive model tells CMAC how much personal debt can be borrowed while ensuring that the new partner will have sufficient money from distributions to pay both personal taxes and debt service.

As an example, a partner who needs $300,000 to buy a full share may learn that she needs only $80,000. CMAC will arrange terms so that she can borrow the $220,000 with the assurance that her distributions will pay both taxes on her distributions and her loan payments. While there is no cash out in year one, she may have increased equity of $35,000 from repayment of principal.

For more information and to utilize this model, contact Peter Kokins at (407) 264-7255 or Peter@CMACPartners.com.

HVCRE – Five Letters which can Kill your Return on Investment in a New Project

Doctors who are planning to construct a new medical facility have historically been a sought-after demographic for banks. Physician groups have been able to develop new projects with little to no cash equity required, by arranging high Loan-to-Value (LTV) financing, or by using equity in the land, or in another practice location, as equity and additional collateral. The Return on Investment (ROI) on a medical office building constructed with no cash out of pocket is infinite; who doesn't love that?

Physicians need to be aware of a new acronym in commercial lending which makes it more difficult to develop a new project with little or no cash. **HVCRE** stands for "High Volatility Commercial Real Estate", and is a category of loans identified by Basel III Federal banking regulation (January, 2015). This appellation applies to certain acquisition and development commercial real estate loans. No matter how wonderful your new project may be, you can expect more pushback from your bank on new loans which fall into the HVCRE category.

So what makes a construction real estate loan HVCRE? The most common triggers are:

- Loan amount of > 80% LTV for a medical office building or 75% LTV for a surgery center,
- Cash equity of < 15% of the "appraised as completed" value put into the project prior to the bank loan.

Federal regulators, in their wisdom, are using banking policy to urge banks to require more cash on these "riskier" new construction projects. But this ignores the fact that physician-owned real estate often has robust cash flows, strong guarantors, and long term leases, limiting the risk to the bank.

Let's define "equity". Historically banks allowed equity to be contributed as cash, but also non-cash sources like appreciated land value, equity in another property added to the collateral, "sweat equity" from developers waiving their fees, and things like grants from municipalities, or state or federal agencies (TIF funds, for example). Under **HVCRE, equity now means cash**, or cash used to purchase land (but only the cost of the land, not any appreciation since purchase).

Why are banks dis-incentivized to make HVCRE loans?

- Banks must reserve 50% more capital for these loans,
- Federal auditors scrutinize these loans more carefully.

Like many other regulations, each bank interprets HVCRE rules differently, and establishes various policies to categorize, limit and often charge more for HVCRE loans. Many bankers are unsure of how to interpret and enforce the policies. Some bankers seem well versed on the regulation and others seem completely unaware. Some banks increase their rates to cover the higher reserves needed, whereas others do not. But for doctors planning a new construction project, it is important to have a general understanding of HVCRE regulations

Giving Birth to a New Medical Office Building

Women's Healthcare Associates – delivering quality OB/GYN options to Oregon

Women's Healthcare Associates (WHA) of Portland, OR is the largest integrated, independent OB/GYN practice in the country. WHA is also the largest women-owned business in the Portland metro area, and it delivers nearly 15% of the babies born in the state of Oregon.

When WHA wanted to open a new birthing center in the Gateway area of Portland, no suitable buildings or parcels were available; so the doctors and management of WHA opted to lease a vacant Mexican restaurant that was being marketed for redevelopment, and was to be built out for WHA. Based on the occupancy date on the lease, WHA began hiring staff and booking patients and deliveries at this location. Unfortunately, shoddy workmanship by the landlord began immediately, causing delays, permitting problems, and disputes over cost overruns. The landlord then listed the property for sale mid-redevelopment; essentially washing its hands of the project. The doctors of WHA realized they needed to step in and purchase the property and complete the renovation themselves, in order to ensure it was done to their standards.

WHA faced challenge after challenge with issues over easements, shared parking agreements, and environmental hazards. The twists and turns of this new project were so legendary, that the project was awarded the Bill Natio Award, one of the most coveted honors in the real estate industry. This award recognizes the most noteworthy transaction, demonstrating the initiative, ingenuity, and ability of all the individuals involved. CMAC was proud to assist WHA with its financing of the Gateway birthing center, via a ten-year loan with no personal guarantees to the owners.

The new birthing center opened in February 2017, and joined WHA's network of 15 clinics across the Portland area. Congratulations to WHA for its beautiful new location, despite the difficult labor!

PRINCETON ORTHOPAEDIC ASSOCIATES

Princeton, NJ

$18,250,000

Refinanced debt on 4 medical office buildings at a fixed rate of 3.39% for 10 years

PACIFIC CATARACT & LASER INSTITUTE

Chehalis, WA

$30,000,000

Arranged financing for the purchase of a new medical office building while consolidating and improving debt on 8 other properties, with no personal guarantees

WOMEN'S HEALTHCARE ASSOCIATES

Portland, OR

$3,420,000

Arranged non-recourse financing with a 10-year fixed rate to reimburse the ownership for a facility that had previously been purchased with cash

WISCONSIN INSTITUTE OF UROLOGY

Neenah, WI

$10,625,000

Arranged financing for a new construction project with a 14-month interest-only period followed by a 10-year term at a fixed rate of 4.20% with limited personal guarantees

CORAL RIDGE OUTPATIENT CENTER

Oakland Park, FL

$4,887,500

Refinanced existing debt on a medical office building for a 10-year term at 85% loan-to-value while significantly reducing the pricing

THE OREGON CLINIC

Southern Gastroenterology Division

Tualatin, OR

$4,343,500

Refinanced debt on a medical office building at a reduced rate while equity was pulled out to minimize cash injection required for a new MOB project

CALIFORNIA EYE INSTITUTE

Fresno, CA

$11,670,000

Refinanced debt on a medical office building with a significant reduction in interest expense while pulling cash out to help facilitate partner re-syndication

ST. MARY'S ORTHOPEDIC HOSPITAL

Evansville, IN

$51,200,000

Secured financing for a new construction project with a 2-year interest-only period followed by an 8-year term with limited personal guarantees that burned off to a non-recourse loan upon completion

CMAC Partners

WE KNOW MEDICAL

Urology

Idaho Urologic Institute, PA
Meridian, ID

Urology San Antonio
San Antonio, TX

Urology Associates, Inc.
Nashville, TN

Arkansas Urology, PA
Little Rock, AR

Southeastern Urological Center, PA
Tallahassee, FL

Wisconsin Institute of Urology
Neenah, WI

UroPartners
Westchester, IL

Oregon Urology Institute
Springfield, OR

Central Ohio Urology Group
Gahanna, OH

Ophthalmology

Retina Consultants of Southern Colorado
Colorado Springs, CO

North Carolina Eye, Ear, Nose & Throat*
Durham, NC

Eye Associates of Colorado Springs
Colorado Springs, CO

Ocala Eye Surgeons
Ocala, FL

Eye Associates of Boca Raton
Boca Raton, FL

LaserVue
Orlando, FL

Huntsville Laser Center
Huntsville, AL

Eye Institute of West Florida*
Largo, FL

St. Louis Eye Surgery and Laser Center
St. Louis, MO

Eye Center of North Florida
Panama City, FL

Virginia Eye Institute
Richmond, VA

Ophthalmology Consultants
St. Louis, MO

Bay Eyes Cataract and Laser Center
Fairhope, AL

Eye Specialists of Mid-Florida*
Winter Haven, FL

Visual Health
Lake Worth, FL

Laser & Surgery Center of the Palm Beaches
Palm Beach Gardens, FL

The Eye Clinic of Florida
Zephyrhills, FL

Eye Surgeons Associates
Bettendorf, IA

Pacific Cataract & Laster Institute
Chehalis, WA

The California Eye Institute
Fresno, CA

Hospitals

Arkansas Surgical Hospital
Little Rock, AR

The NeuroMedical Center Surgical Hospital
Baton Rouge, LA

Lafayette Surgical Specialty Hospital
Lafayette, LA

Catholic Health/St. Francis Hospital
Colorado Springs, CO

Rothman Orthopaedic Specialty Hospital
Philadelphia, PA

North Carolina Surgical Hospital*
Durham, NC

Springhill Medical Center
Mobile, AL

The Breast Cancer Center at Physicians Medical Center
Houma, LA

Heritage Park Surgical Hospital
Sherman, TX

Cardiology

Florida Heart Group*
Orlando, FL

Orlando Heart
Orlando, FL

CardioVascular Associates*
Birmingham, AL

Southern Cardiovascular
Gadsden, AL

Northeast Georgia Heart
Gainesville, GA

Abilene Cardiology
Abilene, TX

Savannah Cardiology
Savannah, GA

Pima Heart
Tucson, AZ

Sutherland Cardiology Clinic
Memphis, TN

Alabama Heart & Vascular Medicine
Tuscaloosa, AL

Clearwater Cardiovascular
Clearwater, FL

Other Specialties & MOBs

Austin Diagnostic Clinic
Austin, TX

The Doctors' Clinic
Salem, OR

The Oregon Clinic
Portland, OR

Austin Regional Clinic
Austin, TX

Valley Medical Center
Lewiston, ID

Northeast Georgia Diagnostic Clinic
Gainesville, GA

Medical Care PLLC
Elizabethton, TN

Audubon Medical Office Building
Colorado Springs, CO

The Lexington Clinic
Lexington, KY

Black Warrior Medical Center
Tuscaloosa, AL

Surgery Centers

Hilton Head Surgical
Hilton Head, SC

Same Day Surgery Center
Zephyrhills, FL

Palmetto Surgery Center*
Columbia, SC

TLC Outpatient Surgery
Lady Lake, FL

Surgery Center of Southern Oregon
Medford, OR

Hollywood Surgical Center*
Hollywood, FL

Southpoint Surgery Center
Jacksonville, FL

Surgical Solutions
Covington, LA

Blue Water Surgery Center*
Port St. Lucie, FL

Carolinas Center for Surgery*
Morehead City, NC

*** Repeat Clients**

W.I. Phew!

Success at Wisconsin Institute of Urology

Cliff Marvin
Business Development

Have you heard of Neenah, Wisconsin? Well, I don't blame you if you haven't. I had no idea this hidden gem existed before meeting the doctors and management at the Wisconsin Institute of Urology (WIU). My colleague, Andy Johnson, and I struggled through a cold, grey evening to meet with their Administrator and physician team to present some financing solutions for their new build.

It started a couple of months earlier when the WIU Administrator had clearly stated her expectations: "I want a high LTV, I want the absolute best rates and terms, and I want to make sure we are protecting our physicians with low-buy-ins." She went on to say that she wanted our help to win her next marathon!

We rolled up our sleeves and discussed strategy. It's always a bit of a challenge going into a new market. But even when we do journey into a new area, we have data from all over the country to support our requests. Armed with that data, we were able to share with the Wisconsin local, regional, and national banking institutions methods of how they could best meet the needs of our friends at WIU.

With the results of our work in hand, Andy and I drove up to the enormous white WIU building, parked in the pitch-black of night, and went in to present the outcomes to the partners. Andy is multi-lingual, he can speak proper King's English (hailing from Great Britain), a bit of American, but mostly, he speaks bank-ese. We opened our session with the physicians by saying that they had set the standards for success extremely high – in fact, we were a little nervous about accomplishing all their goals. Their administrator looked at us inquisitively but Andy showed before-and-after comparisons of what we had accomplished on their behalf. The physicians were pleased with the options presented, and asked us to close their top choice loan.

We shepparded the closing process for them and executed the loan with a 90% LTV on a ten-year term with twenty-five year amortization. The physicians were happy, the Administrator was happy, and the new bank was happy. CMAC was extremely pleased at an outcome that exceeded expectations. I hope to get back to the lovely city of Neenah for the Grand Opening and just hope it's not in February.

Thank you, Neenah!

Personal Guarantees

THE REAL RISK

Andy Johnson
Partner

While most of us are aware of the most obvious reasons for loan default (not paying back the money), a more common risk of default comes with the breach of covenants. Many borrowers are routinely in default without even being aware and are putting themselves in harm's way. Personal Guarantees are the primary cause of such defaults.

Personal Guarantees generally include a requirement that updated personal financial statements be provided by each guarantor on an annual basis. Beyond the hassle factor for whoever is charged with the collection of these documents is the reality that at least one of the partners will invariably fail to submit financials on time. That is a technical default. While your local banker who has always serviced your account may turn a blind eye, that can change in an instant when the bank gets acquired or a regulator comes in to inspect documentation. Many loan documents don't have a "cure period", so turning in late financials doesn't automatically end the default.

While the idea that a bank would call the loan based on this type of technical default sounds farfetched, CMAC has witnessed a spate of such actions by banks who may be looking for an excuse to remove or improve a loan that was added through acquisition or that does not meet its current portfolio standards.

Personal Guarantees are just one of the many technical defaults to be aware of. Others such as loan-to-value (LTV) or Debt Service Coverage (DSC) ratio also trigger defaults. Consider the case of a doctor-owner in Fort Myers, Florida who was cited for a breach when his property's value declined below the specified LTV in the documents. The bank used this technical default to terminate the loan. Of course, the borrower could not come up with funds to immediately pay, so the bank offered a new loan at a much higher rate. In this way, the bank was able to legally increase the yield on a long-term client.

Another common technical default is not meeting the specified DSC ratio. Even with the most lenient DSC of 1.0x (every penny made that year can be distributed) may be inadvertently broken if a practice estimates net income when making year end distributions.

It is important not to leave yourself unnecessarily exposed to technical defaults. It's like having your head on the chopping block: even if you trust the person wielding the axe above you, it's an uncomfortable situation.

What CMAC Clients Have to Say...

I wanted to let you know the process to refinance our loans was great. A very professional effort. I thought the coordination between all the parties was outstanding right down to the very last minute. I think you under sell the value of the service your group provides to both the borrower and the bank.

William Hyncik, CEO
Princeton Orthopedic Associates

I want to take a moment to thank you and your team for your hard work on our behalf. We mostly brought CMAC on board to gain a more favorable rate but I have been incredibly impressed by all of the other assistance you have provided. I am sincere in saying that we couldn't have done this without you, so thanks.

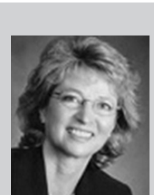
Brian Applebaum, M.D.
The Oregon Clinic

I want to personally thank you and the rest of the CMAC team for all of your assistance throughout this project. Your knowledge of the industry was expected, but your service orientation and professionalism were exceptional and made a world of difference to me. You have a great team and I would not hesitate to recommend you to any other medical practice!

Susan Bader, CFO
Connecticut Orthopedic Specialists

You have been awesome through this process. I appreciate and admire how you have handled this transaction; keeping us all on track and paying attention to the details.

Kathy McWilliams, Director of Finance
Pacific Cataract & Laser Institute



I appreciate your exceptional responsiveness and efforts. I'll definitely share your name with other colleagues.

Scott Kallemeyn, Executive Director
Surgery Center Cedar Rapids

Just a thank you for the excellent work on this and your amazing availability for discussion. Your council has been very valuable. Much appreciated.

Houston Payne, MD
Georgia Hand, Shoulder & Elbow, PC and Georgia Surgical Center on Peachtree, LLC

Thanks to you and your team for the great service. We have done a few financings over the last several years and none have gone as smoothly as this. We would be happy to recommend you to colleagues.

Ron Thompson, CFO
Cancer Specialists of North Florida

Thank you to you and the whole CMAC team. You all definitely earned the business. Our owners are very pleased with the outcome of the refi.

Dave Argenzio, CFO
Orthopaedic Associates of Michigan

I appreciate all of your service and support!

Jeff Kidwell, Director of Finance
Olympia Orthopaedic Associates

Low Rates – Borrowers Beware

Three Ways to Prevent Being "Jobbed" by a Bank

Peter Kokins

In 1972, Steve Jobs was given a particularly difficult project by Atari who offered $700 if he could reduce the number of chips required for a computer game. Because Jobs felt the assignment was a bit beyond his own capability, he reached out to his friend, Larry Wozniak, and offered to split the promised $700 fee evenly. Wozniak so far surpassed expectations that Atari paid $5,000 to Jobs rather than the $700. Jobs said nothing to Wozniak and paid him $350, which Wozniak thought was 50% of the fee. Wozniak didn't find out until years later and said he cried when he learned the truth.

The same thing is happening to a growing number of borrowers having fixed rates (not swaps) with banks. With the precipitous fall in rates over the last several years, banks are "Jobbing" these borrowers by offering substantial interest rate reductions on current or terming loans. However, these reductions represent only a portion of what the borrower could receive in the open market with the bank pocketing the difference.

Consider the example of the Illinois-based medical group that had a $15,200,000, 4- year old loan with a fixed rate of 4.95% with 6 years remaining. The group's bank came to them and offered to proactively drop their rate by 60 basis points (.60%) for a minor modification fee and a resetting of the prepayment penalty. The bank pointed out that the reduction amounted to more than $535,000 in interest savings and the borrower was thrilled; at least until the borrower learned that the same bank had provided a new loan to a different medical group at a rate that was yet another full 1% less, which would have resulted in an additional $892,000 that the bank retained. The problem, however, was that the borrower could do nothing because the bank had just reset the prepayment penalty. When the borrower questioned the banker, all it received was some double talk regarding rate variations.

How then, as a borrower, are you supposed to know where the new market level should be and what you can do to avoid being "Jobbed" by your bank? There are three basic rules:

1. Vet the market by issuing an RFP to at least eight competitive lenders. Don't ever trust market data that isn't validated by a large number of market sources.
2. Don't reset the prepayment penalty! If you have been with a lender and the lender wants to keep your business, let the banker earn it. The bank's initial investment in you has been repaid.
3. Don't be rushed or bullied. The markets didn't get to these levels overnight and they aren't going to grow any quicker. Take your time to receive and evaluate the offers before making a decision.

By following these guidelines, you will be positioning yourself to take the fullest advantage in favorable market fluctuations and assuring yourself your full due.

T-I-F + H-V-C-R-E Spells a Great Financing Deal

Indiana Orthopedic Specialty Hospital Shows the Way

Creative solutions allowed a group of Orthopedic surgeons to prevail and secure favorable financing to build a new orthopedic specialty hospital to be leased to St. Vincent's Health (part of the Ascension system). CMAC was hired to arrange this financing and negotiated a structure with the bank that substantially mitigated the initial equity contribution to the physicians with no meaningful tradeoffs on other loan terms.

The borrower had approval from the County to receive $5.5 MM of Tax Increment Financing ("TIF") funds due to the significant economic impact the project would impart on the community. Understanding how to best monetize the TIF funds up-front to assist in funding the project was the goal.

The vast majority of lenders were unwilling to consider TIF funds as contributed equity when assessing the borrower's cash injection. The majority considered it as a reduction in the cost of the project. However, CMAC was able to convince one bank to use TIF funds as part of the contributed equity thus allowing the owners to substantially reduce their individual capital contribution. This may seem like a subtle distinction, but it actually reduced the cash required by nearly $200,000 per owner. Not a subtle result!

CMAC had to resolve how to use the TIF funds in conjunction with the High Volatility Commercial Real Estate ("HVCRE") regulations. We needed to understand the HVCRE and its application to the project:

1. The loan-to-value (LTV) ratio could not exceed 80% for commercial construction loans;
2. The borrower has contributed capital to the project in the form of cash or unencumbered readily marketable assets (or has paid development costs out-of-pocket) of at least 15% of the real estate's appraised "as completed" value; and
3. The borrower's 15% capital is contributed to the project before the bank advances any loan proceeds, and such capital is contractually required to remain in the project until the loan is converted to permanent financing, sold, or paid off.
4. Grants from municipalities, state agencies, or federal agencies cannot be considered as cash provided from the grant as a capital contribution because the cash did not come from the borrower.

With the structure negotiated with the bank, it was clear that the loan would have to be considered HVCRE since the bank was not requiring that the borrower put in 15% of the value in borrower cash (since they were allowing the TIF funds as equity in their internal requirement and they were sizing the loan on a Loan To Cost parameter after a very high appraisal). When a construction loan is considered HVCRE, the bank must assign a 150% reserve requirement, which makes the loan much less profitable for the bank. Most banks will therefore refuse to lend under this classification. However, after arduous negotiations, the bank was able to justify allowing the loan to be an HVCRE loan during construction and thus the substantially mitigated equity requirement remained intact. The loan terms were structured with a 24-month, interest-only period followed by an 8-year term with 25-year amortization. $50MM of the $51.2MM loan had the rate fixed at 4.00% through an interest rate swap. The remaining $1.2MM was allowed to float. The interest rate over the construction period was Libor + 2.25% switching automatically to a rate of L + 1.60% after construction. The borrower, the bank, and the community all benefited from the creative financing and use of TIF funds to complete this project.

CASE STUDY

California Medical Real Estate: Shifting Ownership, Same Great Results

Fresno, CA now holds a special place in the CMAC team's heart; the city of complex real estate ownership transitions! It was three years ago that CMAC concluded one of its flagship ownership re-syndication transactions in Fresno for a prominent Orthopedic group in town. It was a situation where the operating entity and real estate entity ownership had become so inconsistent that something had to be done to ensure sustainability and a unified vision going forward. CMAC devised a unique financing structure, aligned the interests of all the doctors, and provided a method of integration and retirement funding that would work for the group well into the future.

When CMAC was hired by the doctors of California Eye Institute (CEI) in Fresno, and learned about the ownership changes that were being contemplated, the immediate reaction was of "Déjà vu". Fresno had provided yet another challenge for CMAC to wrap its arms around. A group with retiring partners needed to better align its real estate ownership with that of the medical tenant operating entities' ownership. This deal had several challenges:

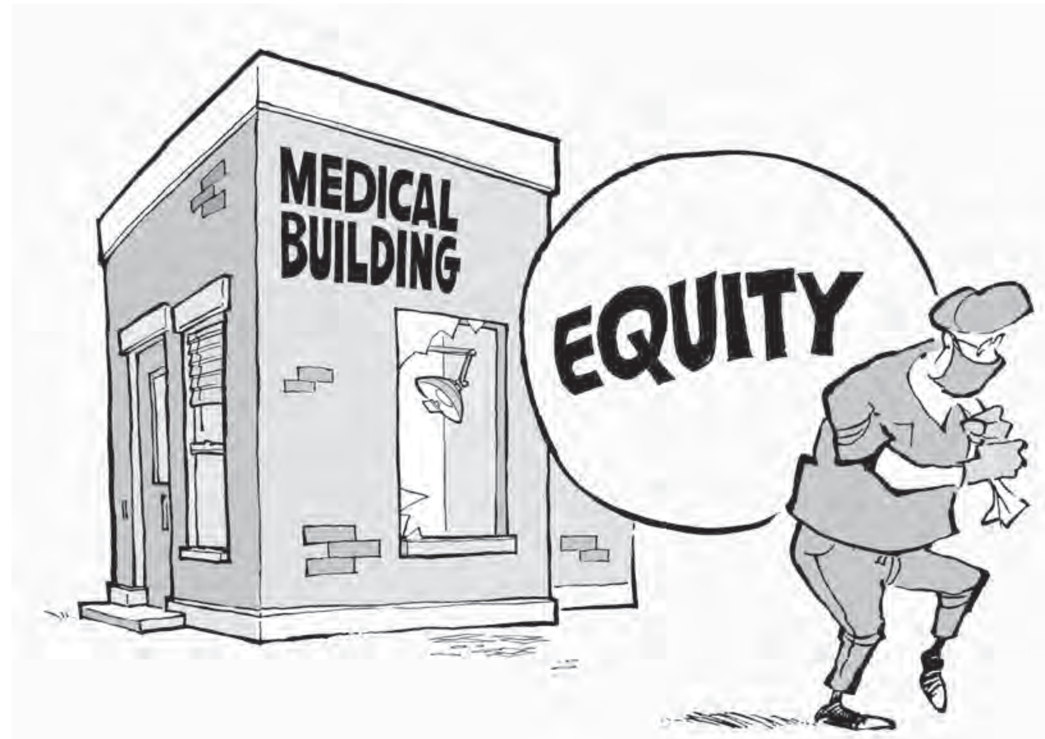
1. A few doctors with significant ownership were retiring and wanted to be bought out entirely for cash upon sale.
2. The new ownership group was not purchasing the available shares proportionally; only certain doctors were purchasing the shares that were being sold.
3. Significant equity had built up in the building, making the buy-outs very expensive.

The solution? CEI's existing debt was refinanced with a new real estate lender that was willing to allow cash out up to 85% Loan-to-Value. The financing was bifurcated into two loans: The first structured as a regular refinance facility, and the second provided the cash out needed to buy out the retiring partners. Simultaneous with the bank loan closings, the real estate entity lent corresponding funds to the purchasing partners at identical terms to the bank facility. This enabled the real estate entity to transition to a more sustainable ownership structure. The retiring partners received their full cash buyouts, the new owners buying in received vastly superior financing terms to those which could be procured through unsecured personal loans (lower rate and longer payback period), and the partners who maintained their previous ownership levels were unaffected by the pass-through loans. The icing on the cake? The interest rate was cut by 1.84% (with a reduction of 1.00% in the bank's loan spread), the attractive financing was locked in for a long term, and the personal guaranty levels were slashed. Another great result in Fresno for all involved!

Are Your Retiring Partners Stealing Your Equity?

They May Be If Your Swap Is Underwater

"THIS ARTICLE ORIGINALLY APPEARED IN AN EARLIER EDITION AND HAS BEEN BROUGHT BACK BECAUSE OF ITS TIMELY IMPORTANCE."



A North Georgia real estate LLC consisting of 10 equal partners recently bought out 3 of the partners. Under the terms of the Operating Agreement, the property was appraised and the partners were paid their respective portions based on the equity available. The appraised value was $10,000,000 and the remaining debt was $7,000,000, leaving $3,000,000 of equity. Each partner received $300,000 (10% of the equity).

Sounds fair, right? Far from it. In this case, the outgoing partners received TWICE the amount that they would have realized had the building been sold and the equity distributed. This occurred because the calculation of equity failed to consider the worth of the interest rate swap at the time of valuation. In this example, the interest rate swap had a Mark to Market (MtM) value of negative $1,500,000. If the partners had sold the building for the appraised value of $10,000,000, they would have had to repay the remaining debt of $7,000,000 AND the termination of the swap of $1,500,000. Each partner would receive $150,000 from the sale as their portion of the equity… NOT $300,000.

Not only did they overpay the retiring partners a total of $450,000, but each remaining partner was left with only $85,714 in equity as opposed to $150,000. If the buyouts had been calculated with the all-in value considered, each remaining partner would have retained his true equity of $150,000. This pitfall can easily be avoided by obtaining an MtM value from a reputable third party such. In this case, it's a reversal of the old adage which should now read "let the SELLERS beware".

CMAC in the Community

Every year CMAC Partners collaborates with numerous outreach and non-profit organizations, inspired to build a stronger and healthier community. Our continuous partnerships with groups such as New Hope For Kids, The Davis Phinney Foundation for Parkinson's, Canine Companions, and Children's Home Society allow the CMAC team to personally connect with and support our community through charitable organizations. Highlights from the year include:

New Hope For Kids and the Orlando Magic

New Hope For Kids grants wishes for children who suffer from life-altering illnesses. CMAC Partners and New Hope For Kids partnered with the Orlando Magic NBA basketball team in granting the wish of Nicholas Hurley, a 15-year old Orlando resident with Type 1 Diabetes. Nicholas is unable to play sports due to his health conditions, but is devoted to the Orlando Magic. CMAC Partners sponsored Nicholas' wish to attend a game and meet his favorite player, Nikola Vucevic. In addition to courtside game tickets and the private meet-and-greet with Vucevic, CMAC arranged a limousine for Nicholas and his family to cruise to the game in style. CMAC Partners wishes the Hurley family and the Orlando Magic many victories in the years to come.

Canine Companions and Workout 32789

Each year CMAC Partners is the lead sponsor in Dog Fest, an event to raise money on behalf of Canine Companions for Independence with its mission of providing properly trained service dogs for those with disabilities or those who are in need of assistance with their day-to-day activities. Organized by Workout 32789, a local Winter Park fitness center, the event pairs armchair athletes and service dogs for a day of fun and fitness. We are pleased to announce that over $10,000 was raised during this year's event, a doggone good result.

CANINE COMPANIONS FOR INDEPENDENCE®

Three Keys to Getting the Best Rates and Terms

Tips from a Banker: An Interview with CMAC's Director of Finance

Liz Allport
Partner

As CMAC is responsible for placing nearly a half billion dollars a year in medical real estate debt, we've had vast opportunity to determine what works best to obtain favorable loan terms. It comes down to three key items outlined below. These assume that we start with a good credit healthcare client. While an individual borrower may not have the same resources as does CMAC, everyone has some degree of these resources to apply.

1. Cast a Wide Net

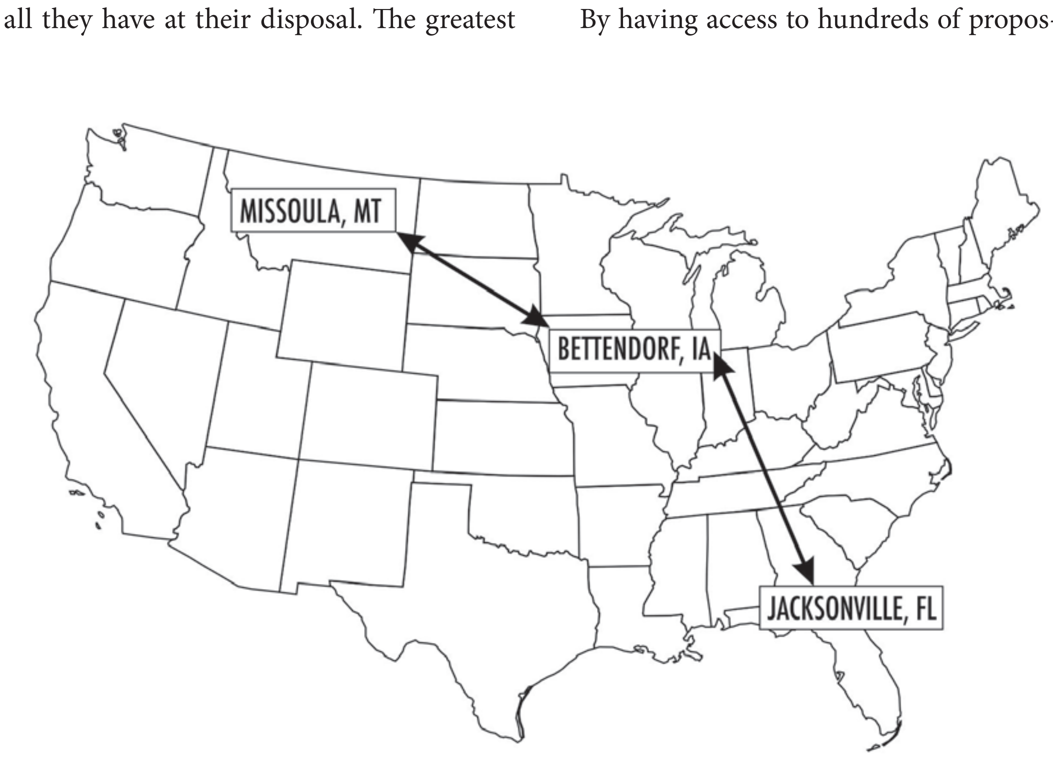
In today's lending environment, we never know which lender is going to be most competitive. In one instance, it may be a small local lender that wants to make a big splash in the market, and the next may be a large national lender looking for inroads into a new territory. We typically issue an RFP to over a dozen banks, because we have the staff to handle communications and negotiations with all bidders simultaneously. A single borrower should put out an RFP to a minimum of 8 potential lenders.

2. Employ Leverage

A half billion dollars in annual placements carries significant weight. While a single borrower can't manage that kind of leverage, they can ensure that they are using all they have at their disposal. The greatest leverage a single borrower has is the related depository business of the practice and the personal banking of the partners. By invoking that potential, the borrower has meaningful leverage to improve the real estate loan terms.

3. Utilize Data

By having access to hundreds of proposals from across the United States, CMAC knows what the best deal terms look like and can direct the banks toward those benchmarks. Recently a proposal in Florida helped impact a proposal from the same bank in Missoula, Montana to the substantial benefit of the Montana borrower. Prior to that, the Florida borrower's loan was improved using leverage from a previous deal with the same bank in Iowa, which was influenced by a previous proposal from that bank on a deal in Idaho. While a single borrower won't have the availability of that amount of data, they can exchange information with other groups which have recently financed to get a sense of what they have accomplished. The more data a borrower has, from similar borrowers both in their market and around the country, the better positioned a borrower is to negotiate meaningfully.



By focusing on these three items, we have seen some remarkable outcomes that far exceeded initial expectations. Using this "Three Key" approach on an individual basis will, without question, give single borrowers better results than they could otherwise expect.

Physician-Owned Hospital "Malcom Butlers" Lender for $111,739

Savvy CFO Makes Move as Time Runs Out

In 2015, the Seattle Seahawks were about to claim their second consecutive Super Bowl victory when the Patriots' Malcom Butler stepped in front of a last-second Russell Wilson pass to snatch the win away from Seattle. It was much the same story (finance style) recently as a physician-owned hospital's CFO snatched back more than $100,000 in hidden bank charges on a $15 million loan hedge with less than 24 hours on the clock. Here's the back-story in real time.

Thursday - 10:49 AM – CMAC receives a call from the Borrower who explains that their loan closed the prior day and that the Loan Agreement requires the Borrower to hedge the interest rate within 2 days. The bank had provided a fixed rate using a swap contract. The CFO had just learned that banks price-up swaps for the borrower from the bank's actual swap cost. These costs (the "swap spread") cannot be seen by the borrower who is typically unaware that the rate quoted is higher than the bank's cost. Is this proposed pricing fair?

Thursday - 11:12 AM – CMAC reviews the proposed pricing and, utilizing live data from its Bloomberg terminal, finds that the bank is pricing up the swap to a level where there should be room for improvement.

Thursday - 1:16 PM – CMAC reports its findings to the Borrower and the parties pull the bank into a conference call. CMAC advises the bank that it had a recent proposal from that same bank with a significantly lower swap spread. The Bank holds firm on its pricing. It states that its pricing is fair and reminds the Borrower of its obligation to hedge by the following day. The Borrower seems road-blocked.

Thursday - 2:00 PM – The CMAC derivatives team huddles for a strategy session. In a review of the documents, it is noted that the agreement requires an interest rate hedge but does not specify a swap. The team arrives at a possible alternative in which Borrower would comply with the requirement by purchasing a low-cost rolling cap. Because caps can be purchased from any bank, the lending bank now stands to lose a substantial swap profit.

Thursday - 4:47 PM – CMAC and the Borrower call the Bank and advise them that the Borrower will comply with the requirement by purchasing a cap as opposed to a swap and that the Bank will be given an opportunity to bid on the cap. The Bank pushes back, stating that a cap is not preferred by the Bank. It will, however, look at the proposed swap to see if there is any room for improvement. The Bank understands its leverage has been weakened.

Friday – 9:15 AM – With all parties on the phone, the Bank says that as a matter of goodwill, it will agree to cut its swap spread in half. CMAC and the Borrower express sincere thanks for their cooperation.

Friday – 10:12 AM – The swap is executed at the agreed spread. During the execution call, CMAC is seeing a cost that is a fraction of a basis point below what is being quoted by the Bank. CMAC asks the bank to please round to three decimals and thereby picks up an additional ½ basis point. Total present savings from the original spread - $111,749. SNATCH! Well played.

Sell versus Hold

The Solution When Both Answers are the RIGHT Answer

It's a great time to be a physician-owner of the medical property housing your group, ASC or hospital. The continued credit worthiness of healthcare tenants has translated into aggressive purchase offers for those properties and the perpetual question; do we hold or do we sell?

Unfortunately, there generally is not a clear-cut answer because what may be the proper decision for one partner may be the wrong decision for another. Here is what is generally known.

- **SELL** - If a partner is going to be leaving the real estate entity within the next 3 to 4 years, it may be best to sell because further upside is limited in that short time frame and this could be a missed opportunity if the market turns.
- **HOLD** – If a partner is going to be in the real estate another 7 years, it is generally better to keep ownership, taking continued cash flows, as the returns would not be able to be matched outside the closely held investment.

Those in the middle might find reasons to go either way. Unfortunately, the building, much like the baby in the story of King Solomon, can't be divided with half being sold and the other retained… or perhaps it can?

The continued low interest rate and high loan-to-value environment enabled the creation of unique financing structures that can provide assurance of a buyout at the offered price while retaining ownership for the remaining members at returns that continue to eclipse other like investment options. As important, the management of the property continues under the sole discretion of the practice partners to be run for the benefit of the practice.

The price is generally set in accordance with the agreed cap rate of the bona fide offer, making sure that the lease terms are within market. The buyout can come immediately or at a date set in the future and at an agreed price that is in line with the current offer. And the financing is structured to accommodate the terms of the buyouts. For further information, contact Greg Warren at 407-252-5123 or at Greg@CMACPartners.com.

CMAC Partners

CMAC Team Celebrates Latest Edition

After going to press, the CMAC team gets together to take a deep breath, congratulate themselves and then get back to work making more news for the next edition.

From left to right:
Sirena Madden, Michelle Samadany, Liz Allport, Chris Tollinchi, Peter Kokins, Greg Warren, Cliff Marvin and Andy Johnson

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