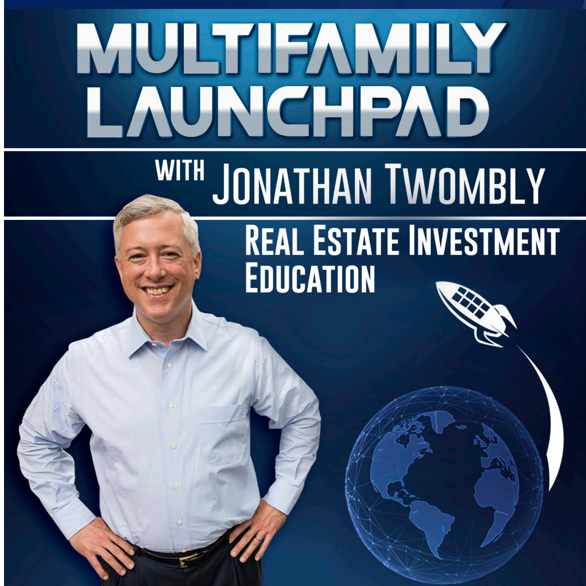

Finding a Balance Sheet Partner

Module 7 - Video 6

VIDEO OVERVIEW

What's covered:

- What a balance sheet partner does
- How to find one
- How to compensate the balance sheet partner

What's A Balance Sheet Partner?

What's a Balance Sheet Partner?

- If you don't have the requisite net worth, liquidity, or credit score to qualify for a loan, you will need a balance sheet partner (a.k.a. credit partner)
- Balance sheet partner provides the missing financial qualifications
- Signs the recourse loan or non-recourse carveouts (bad boy carveouts) with you
- You must compensate them in some way and protect them from a default
- Can be a critical member of your team, allowing you to do bigger deals until your balance sheet can sustain these deals on your own


How to Find
a Balance
Sheet Partner

Finding a Balance Sheet Partner

- Used to be very hard
- Now there are many investors who want to contribute their balance sheet
- They see this is a low-risk, high-reward investment that involves zero outlay of actual dollars
- However, it's not without risk – you are the risk
- So you must reassure the balance sheet partner that your risk is minimal

Finding a Balance Sheet Partner

- Any U.S. person with the requisite net worth can be your balance sheet partner
- Easiest is HNW relative or friend who knows you and trusts you already
  - ✓ Such a person may even sign for free, just to help you
- But if you have no such person, you will have to network to find them
  - ✓ Ask your investor friends to introduce their partners
  - ✓ Ask in online forums if anyone is willing to partner

Finding a Balance Sheet Partner

- To get a stranger to trust you, you will have to demonstrate trustworthiness
  - ✓Track record with real estate, even outside MFRE
  - ✓Track record in other business or career
  - ✓Preparedness to execute successfully – your team, professional management company, etc.
  - ✓Partnering with other, more experienced investors will also help you with balance sheet partners
  - ✓Your preparedness, professionalism, and plan will also influence potential balance sheet partners

Finding a Balance Sheet Partner

- You must also protect the balance sheet partner:
  - ✓You must indemnify them against any loss they suffer as your balance sheet partner
  - ✓In other words, if the lender comes after them, you will make good their loss
  - ✓You do this by executing a side letter indemnifying them and holding them harmless against all harms that come from their co-signing on the debt with you
  - ✓Guarantor liability is “joint and several,” so if there are multiple guarantors, side letter should specify they are only liable for their pro-rata portion of the debt

Compensating a Balance Sheet Partner

Compensating a Balance Sheet Partner

- How do you compensate a balance sheet partner?
  - ✓ This is a negotiation
  - ✓ No set “market price” for balance sheet partners
  - ✓ Signing fee equal to some percentage of the loan they guaranteed, plus
  - ✓ Some portion of the sponsor’s participation in the investment
  - ✓ Compensation will be higher if guarantor is signing full recourse loan rather than non-recourse carveouts
- It’s best to talk to people in your market about what is normal for compensation there
- Try to get multiple guarantors, so you can do bigger deals or play them off each other to get better terms on deals that only need one

Q&A in The Facebook Group

Next up:

Module 8 - Video 1
Introduction to Module 8 - Syndication