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# Making Lenders Whole

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*How to Manage Troubled Assets, Limit Loss and Maximize Recovery*

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*Created for the purpose of defining troubled assets and identifying strategies lenders can use to mitigate their losses and liabilities.*



## Understanding Troubled Assets

The term “troubled asset” has been tossed around a lot in recent years, but what does it really mean? Perhaps you’ve also heard these assets referred to as “special.” In this white paper, we will attempt to demystify such terminology and provide lenders with an understanding of how these assets impact the bottom line.

“Special” and “troubled” are used interchangeably when referring to assets that are not performing as outlined and agreed upon in the loan documents. The two most common types of default are as follows:

### Payment Default

Payment default occurs when the borrower is unable to service the debt on time.

### Maturity Default

Maturity default occurs when the borrower fails to pay the principal balance due at maturity of the loan. The traditional source of such payments is through a refinance. Many borrowers facing maturity are now finding that refinancing is more difficult due to the uncertainty of real estate values and the credit crunch.

When it comes to real estate assets, no product type is immune from trouble. EpiCity has worked directly with private and institutional lenders as well as their borrowers to manage a wide variety of troubled assets including single-family homes, apartment communities, office buildings, warehouses, and self-storage facilities.

“After one of its borrowers experienced a maturity default, Cornerstone Bank sought out professional help. We began working with EpiCity with Clear Creek Cottages, a Charleston-style home development located in Norcross, when the current real estate developer needed to get out. Jim and his team turned the project around, came in ahead of budget and have done a wonderful job. Jim has done everything we have asked him to do – faster, less expensively and independently. Our relationship with EpiCity now goes well beyond Clear Creek and construction. We are working with other members of the EpiCity team in additional areas such as asset management...I think the world of Jim, and his team is proving to be thoughtful, knowledgeable, capable, and effective — not to mention fast!”

### Hank Almquist

Senior Risk Management Officer, Cornerstone Bank



## Understanding The Consequences

When a property is identified as troubled, the lender is saddled with a heavy burden. Internally, there is an enormous investment of time and resources committed to the asset to (hopefully) minimize liability and loss with the ultimate goal of making the lender whole.

While a specialist at the bank is assigned to manage the case, someone must also go and physically inspect the asset to determine potential liabilities such as environmental contamination, life-safety hazards, and operational risks. Such issues can create costly obligations for the lender and must be closely evaluated and monitored.

Someone within the bank is also typically assigned to coordinate maintenance on the asset. For most lenders, the goal is to quickly sell the asset and recover the highest possible dollar amount.

In some cases, when a sale isn't possible or minimally beneficial, lenders will engage an outside company (such as EpiCity) to operate the asset. Depending on the asset type, EpiCity may employ strategies designed to begin generating income or make the asset more capable of being sold.

In recent years, for example, lenders holding troubled lots have typically been unable to sell them as-is. With the help of Epic Development, EpiCity's partner in residential construction, some of these lenders have been able to turn their empty lots into profitable investments by building new homes on the land, making the asset more attractive to buyers.

### See Case Studies:

- EpiCity Improvements Help National Bank Recover Foreclosure Debt
- EpiCity Identifies Mismanagement at Midtown Apartment Building
- EpiCity Helps Local Bank Net Seven Times More on Sale of Foreclosed Property

When lenders fail to appropriately manage their troubled assets, the financial consequences can be devastating. It's critically important that lenders understand their options. While foreclosure can sometimes save a portion of the investment, depending on the state of the asset, it can also result in greater liabilities. At times, the wise decision may be to simply walk away.

EpiCity helps financial institutions weigh the alternatives, prevent further losses and maximize the dollar amount recovered.

### See Case Study:

- EpiCity Helps Regional Bank Prevent Heavy Potential Losses and Liabilities

*Tom and his team are the type of people who take the bull by the horns, walk into the most difficult situation and calm everyone down to think it through. Tom surveys a situation and he does what needs to be done. They have stepped into projects on the day of foreclosure and turned them around with much thought and energy.*

**Jay Kessler, President, Lib Properties**

## When (and How) to Get Help

Lenders with troubled assets must take a proactive approach. The best results happen when trouble is identified early and action is taken quickly.



## Signs that an Asset Is Headed for Trouble

It's important that lenders understand the early warning signs that an asset may be headed for trouble. When you know what to look for, it's easy to spot.

Is the asset properly cared for and maintained? Look at the lawn, the gutters, and the roof. Are there repairs that need to be done? A borrower who fails to invest the time and money needed for basic upkeep may soon struggle to service the debt as well.

Keep your eye on rental rates and occupancy. If these numbers decline, there may be trouble on the horizon.

Is tenant turnover high? Are new tenants less creditworthy? This may indicate a problematic trend.

In short, do your best to stay aware of what is going on. Look at the situation with a broad perspective. An asset can descend into trouble quickly but there are usually at least a few indications that it's happening. Some savvy bankers tell us they simply get a "gut" feeling.

From our experience, we can confidently say that lenders who seek assistance right away have a significantly better chance of recovering the investment and minimizing losses. It's the same advice you'd get from any medical provider: Early diagnosis and fast action are your best bet for overcoming a health issue. When the health of your asset is on the line, don't wait.

EpiCity is available at any stage to help identify options and design a plan for managing the asset. We can catch problems before they snowball and prevent them from becoming unsalvageable situations. In the early stages, such problems are typically easier, faster and less expensive to fix. With our assistance, many properties have been resuscitated.

*"The project has had a pretty phenomenal transformation. I give Tom and EpiCity credit for the vision and we are pleased with the physical appearance of the corporate campus. Tom and his team have helped market the project with an aggressive marketing approach, including a website, billboard and third party calling.... We need this asset stabilized, as we must ultimately sell it, and we're grateful to EpiCity for making it a vibrant asset."*

**Freddie Deutsch, CEO & President,**  
*Signature Bank of Georgia*

## Saving a Troubled Asset

Troubled assets don't have to result in serious losses or liabilities. In fact, with prompt, strategic action, they can often be saved. If your company is currently holding troubled assets, EpiCity would love to learn more about your situation and discuss ways we can help. To learn more about our past successes, please review the case studies cited in this white paper available on EpiCity.com.

To schedule a free consultation with troubled assets expert, Tom Stokes, Director of Property Management and Commercial Leasing at EpiCity, please call 404-995-9494 or email [TStokes@EpiCity.com](mailto:TStokes@EpiCity.com).

*"Our bank, Cornerstone Bank, works with EpiCity and they have performed exceptionally well. Not only do they build an excellent product, they are doing a good job in marketing and getting the houses sold for us."*

**Tuck Perkins, Cornerstone Bank**