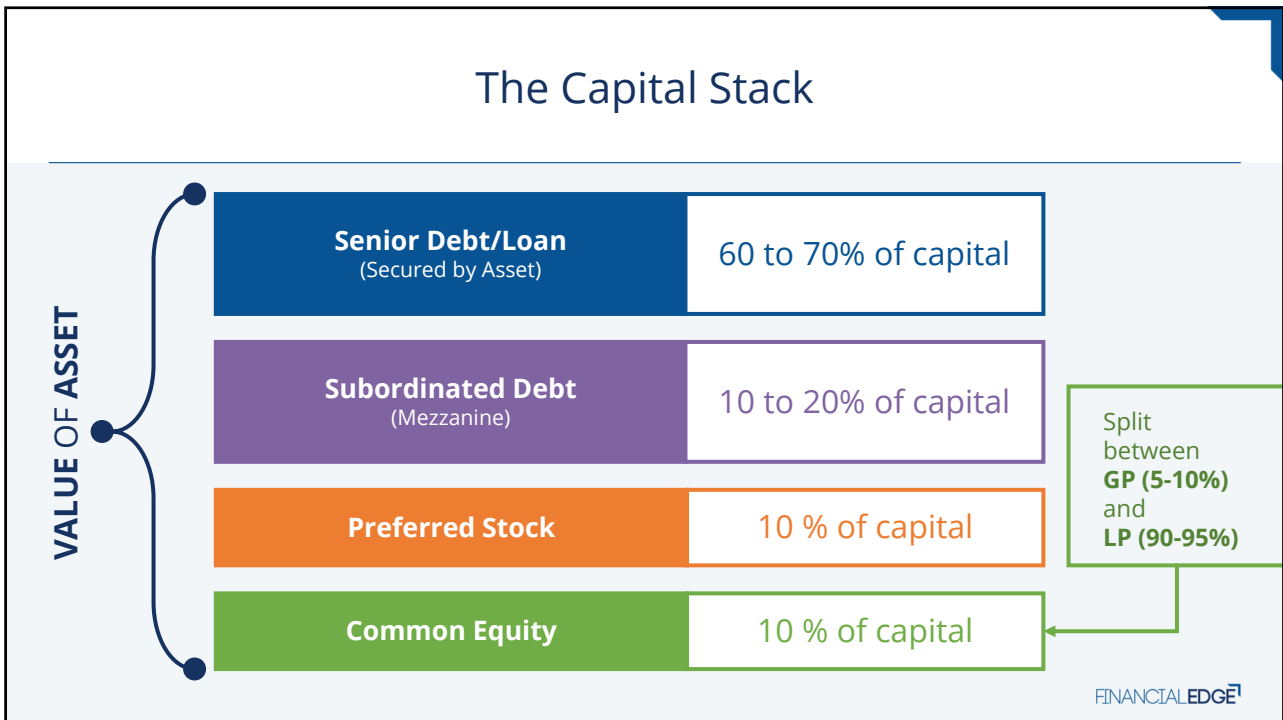
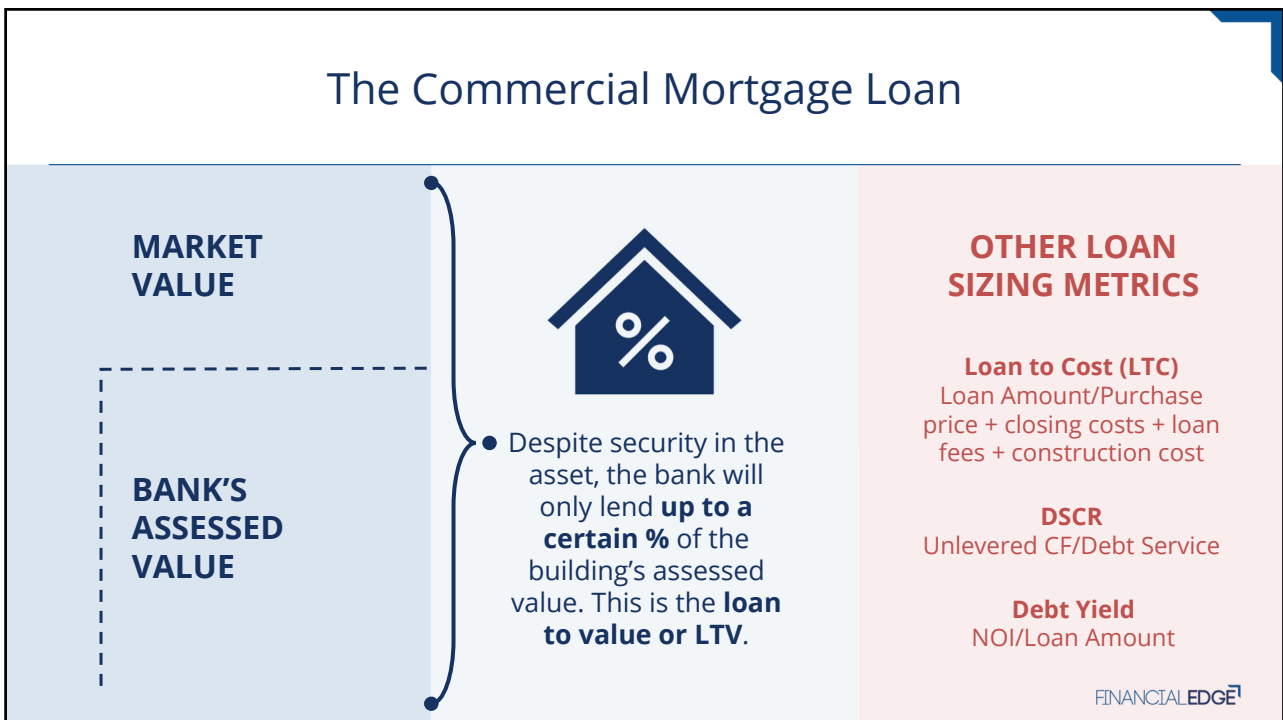


The Capital Stack



The Commercial Mortgage Loan



How Commercial Mortgages Work

LOAN TERMS	
Loan Amount	10,000,000.0
Amortization	30.0
Rate	4.3%
Term	10.0
Balloon Payment	7,944,323.4

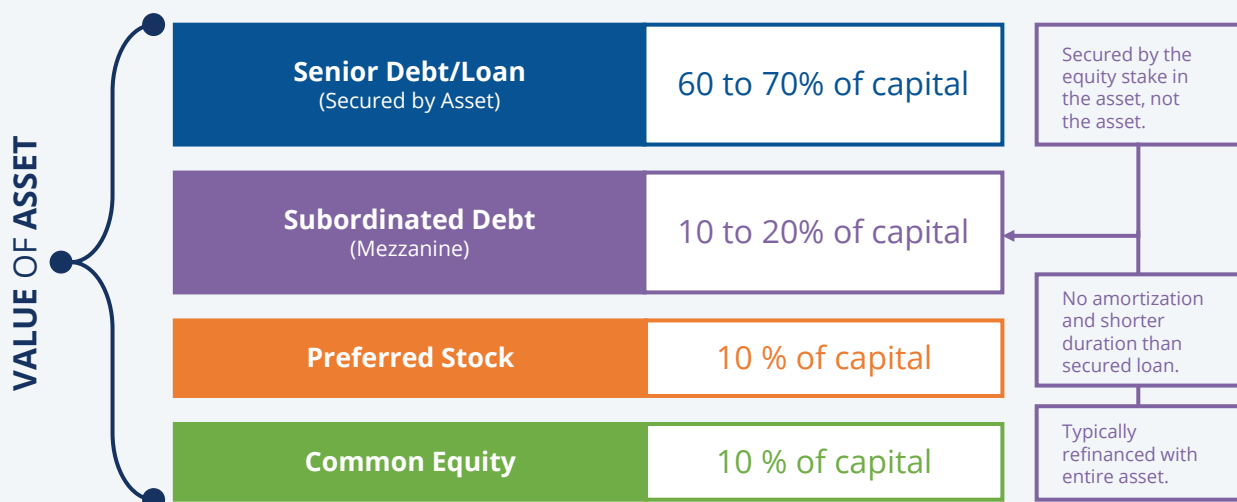
*Additional leeway can be given by establishing a period of interest only payments

Loan amount set using **LTV** or **LTC**

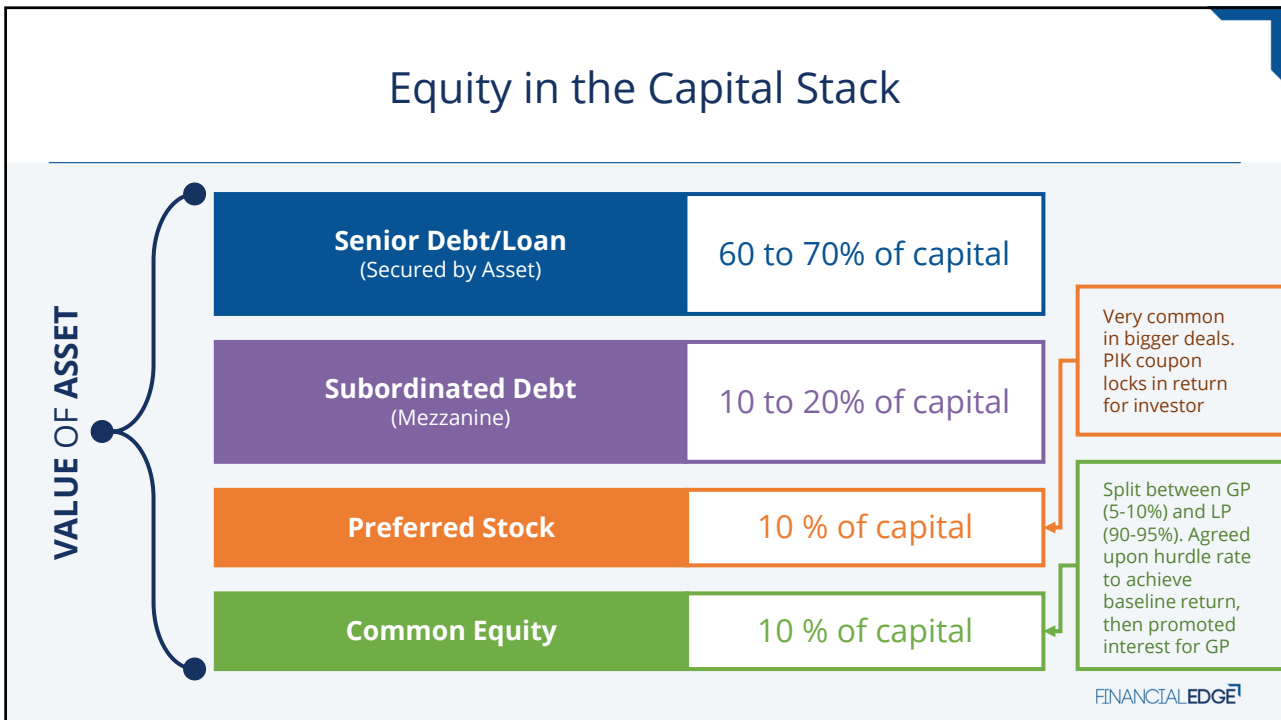
Amortization set for **25** or **30** years to **reduce strain on cash flow**

But the loan is a **bullet payment** at year **10!**

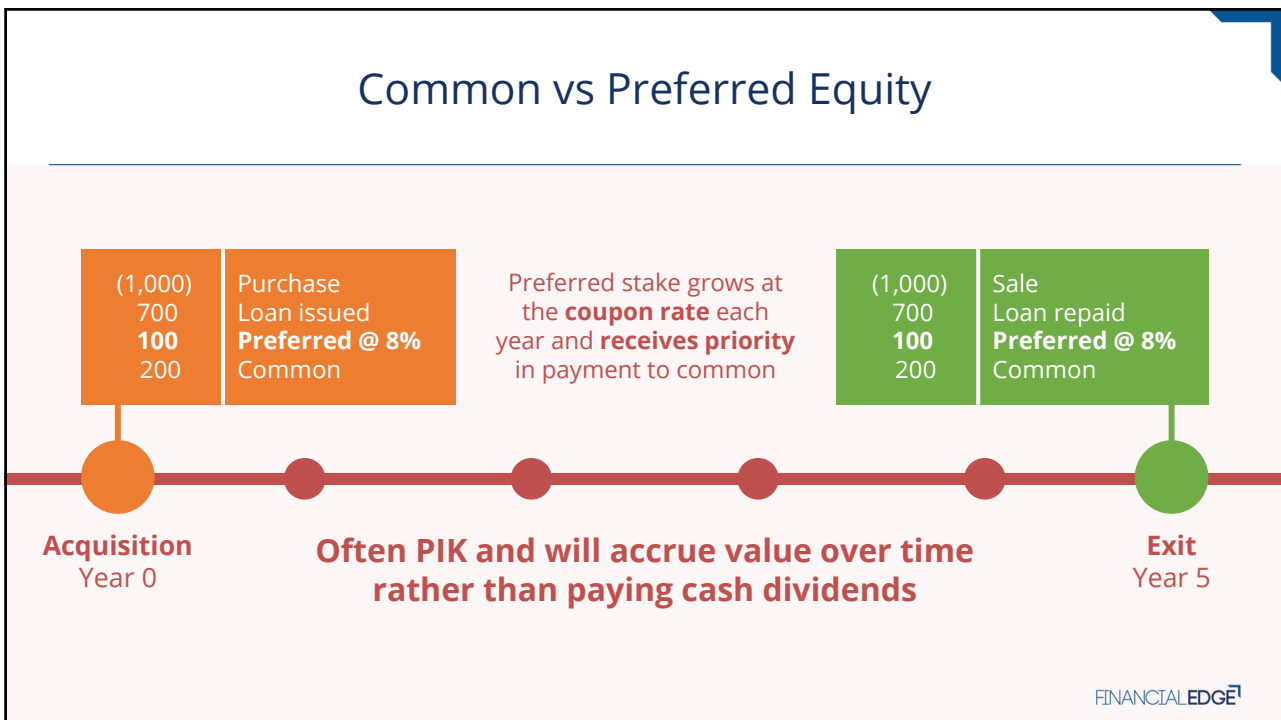
Mezzanine Finance



Equity in the Capital Stack



Common vs Preferred Equity



The Equity Waterfall

DEAL TERMS

Purchase price of building	1,000,000
Debt funding	60.0%
Equity Funding	40.0%
GP Funding of equity	10.0%
LP Funding of equity	90.0%
Debt funding	600,000
GP equity funding	40,000
LP equity funding	360,000
Hurdle rate	8.0%
GP promoted interest of LP share over hurdle	30.0%

The **hurdle rate** is a **guaranteed rate** of return for the investors before the promoted interest kicks in.

After the hurdle rate, the GP takes **30% of LP profits**.

The Equity Waterfall



LEVERED CASH FLOWS



GPs (10%)

LPs (90%)

Each investor groups gets 8% equally according to their pro rata investment



REMAINING CASH FLOWS



GPs (10%) + (30% x 90%)

GPs received a contractual 10% of profit leaving 90%



REMAINING CASH FLOWS



LPs (70% x 90%)

GPs received a promoted interest of 30% of the LPs profits after the 8% return

LPs retain remaining profits (70%)

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