



Deal Process Flow in RE Financing



Knowledge Bytes S1-E6

Recap

✓ Ep 1 : Introduction to Investment Banking

✓ Ep 2 : Debt Products in RE- Plain Vanilla CF

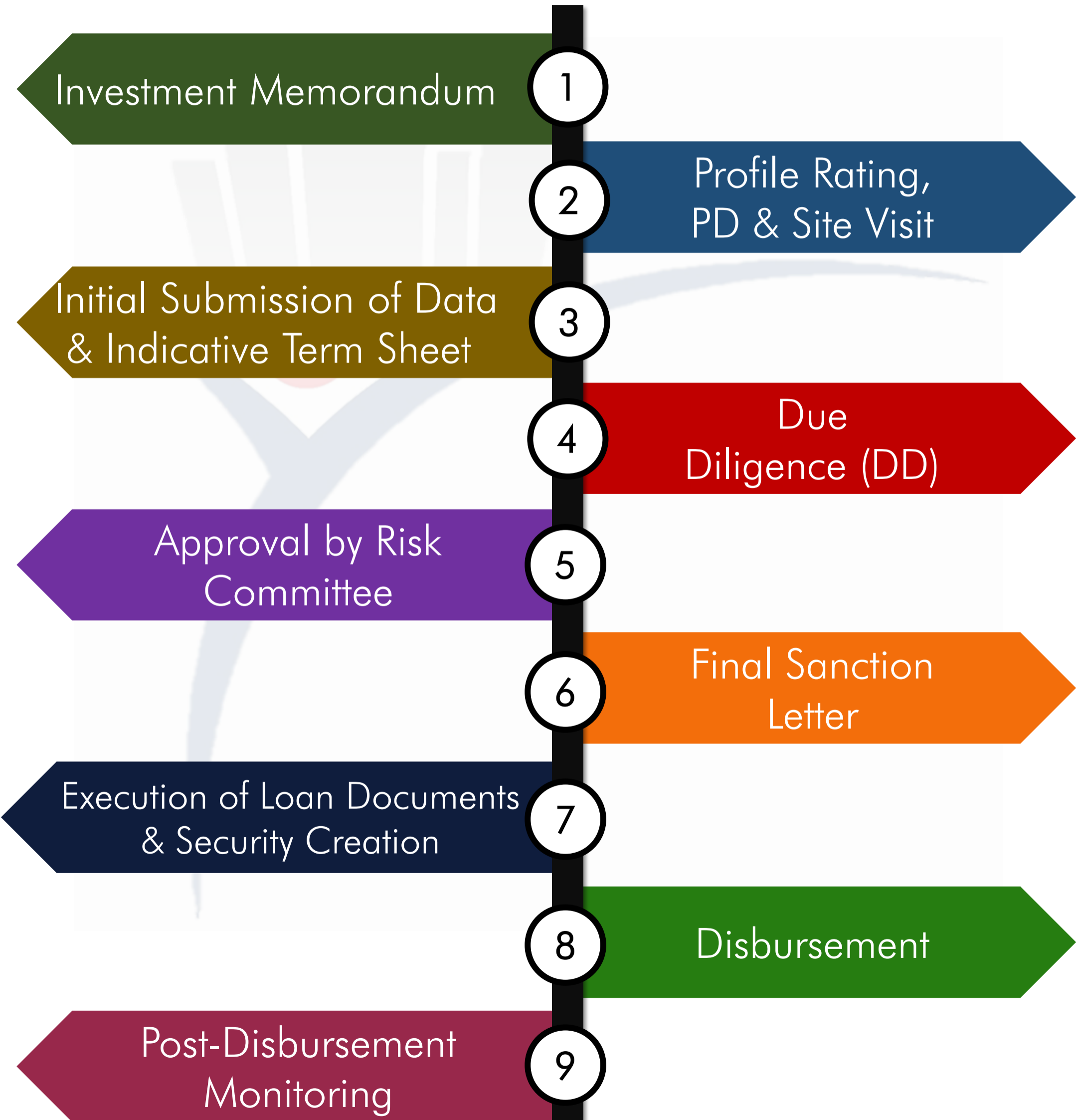
✓ Ep 3 : Receivables Funding & LAP

✓ Ep 4 : Structured Financing in RE

✓ Ep 5 : LRD & Vanilla CF + LRD

Ep 6: Deal Process Flow in RE Financing

Process Flow



Investment Memorandum

An IM is a document that is presented to potential investors to explain the objectives, risks, and investment terms surrounding a funding round.

In RE proposals, it should include details on project performance and information which depicts the borrower's strength as a developer in terms of –

- Delivery of units
- Sales
- Credit history



Profile Rating

The Lending FI then assesses the investment proposal as per its internal criteria. If all parameters are satisfactory, a name clearance is issued for the developer and the transaction is taken forward.

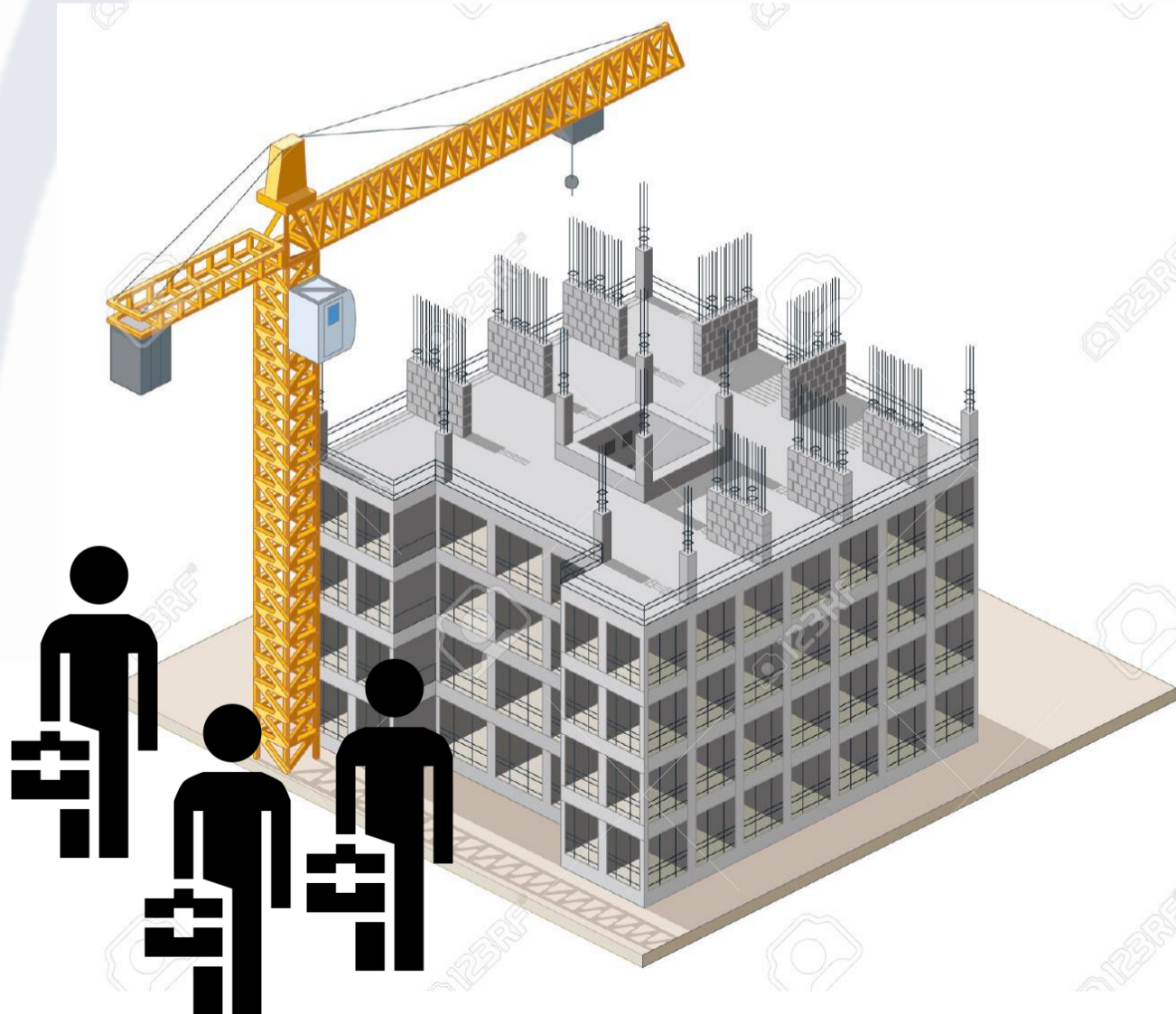


Prime Rating Parameters:

- Developer experience
- Investment amount proposed
- Location of the project

Promoter Discussion & Site Visit

After a 'Go-Ahead' is received from the top management, the Credit and Relationship team officials of the FI hold a Site Visit along with discussions with the Promoter(s).



Initial Submission of Information



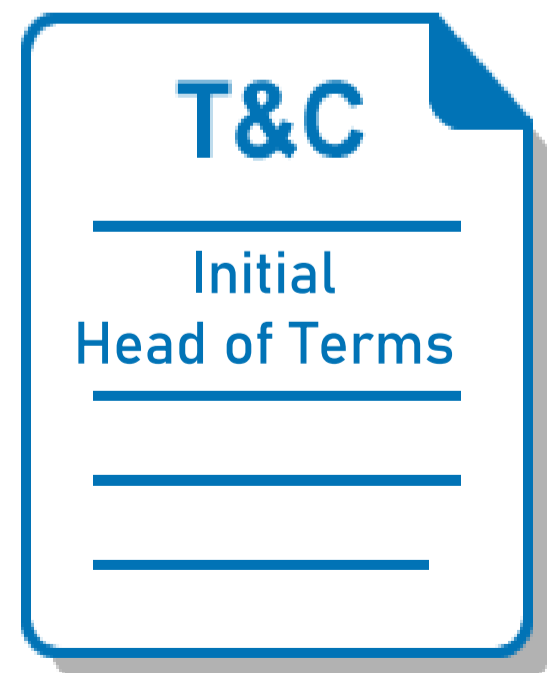
Information Submitted:

- Cost & Means of Finance
- Sales Data
- Approvals Received
- Group Projects Information (Completed/Ongoing/Upcoming projects)
- Group Company Debt Profile
- Future Repayment Schedules

Indicative Term Sheet

Based on the IM shared, promoter meeting, and site visit, the FI issues an Indicative Term Sheet to the borrower.

This Term Sheet is issued subject to clearance of all due diligence as per the FI's satisfaction.



Indicative Term Sheet (Condt.)

Contents of a Term Sheet:

Indicative Term Sheet

- Borrower/Entity
- Loan Amount
- Rate of Interest
- Tenor
- Processing fees
- Security
- Disbursement Conditions
- Terms & Conditions

Due Diligence (DD)

Due Diligence refers to an audit, or a review performed to assess –

- Credibility of the Borrower
- Facts of the Transaction
- Valuation of the project

All FIs conduct various types of Due Diligence. (At times outsourced to professionals).



Few types of Due Diligence performed in RE transactions:

Legal DD

To check for a clear & marketable title of the land/asset

Financial DD

To validate the books of the borrower to ascertain revenue drivers and identify potential risks

Technical DD

To check if the developer has obtained all relevant regulatory approvals

Credit DD

To check the financial viability of the project cost and sales projections + credibility of the borrower

Approval by Risk Committee

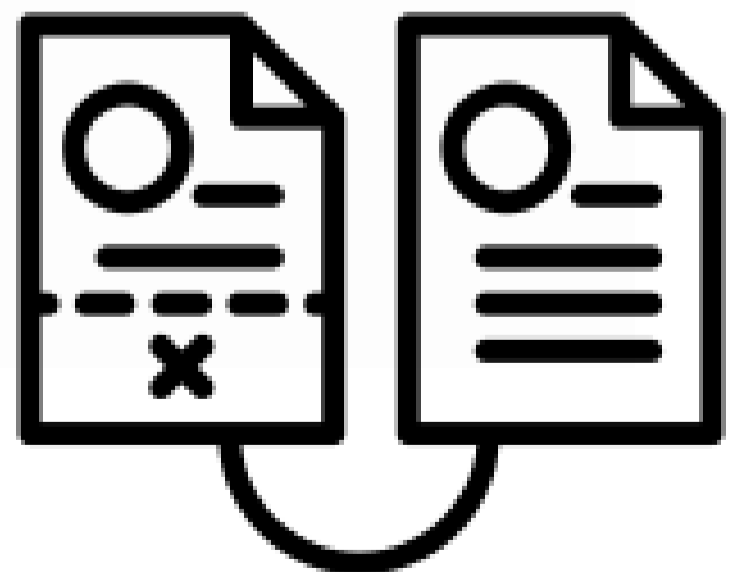
Once the Credit team receives the DD reports, they submit a Credit Assessment Memorandum (CAM) to the Risk team proposing the terms of sanction.



The Risk team appraises the CAM received, assesses the viability of Credit team's assumptions and makes recommendations to the Lending Committee for final sanction.

Final Sanction Letter

Lending Committee discusses the recommendations of the Risk team and makes necessary alterations in the terms of the transaction and issues a final sanction letter.



Transaction may need to be approved by more than one lending committee (depends on FI/Loan Amount)

Execution of Loan Documents & Creation of Security

Sanction Letter issued is shared with the borrower for acceptance. Borrower may sign & accept the terms unconditionally or ask for further modifications.

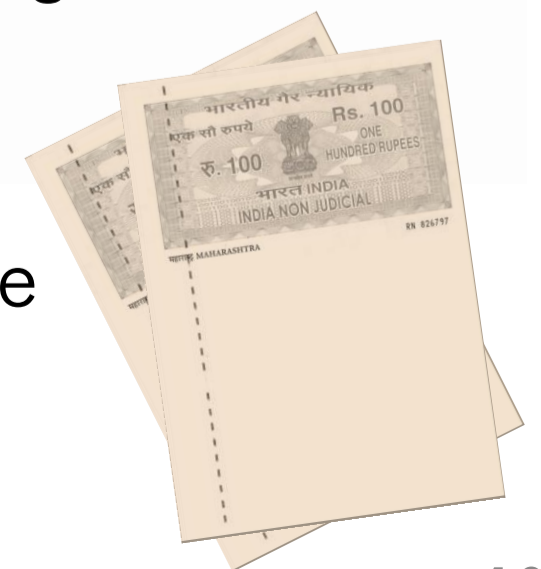
Post this, the borrower and FI sign a number of legal documents for creation of security in favor of the FI.

These documents include the following:

- ✓ Loan Agreement
- ✓ Mortgage Deed
- ✓ Demand Letter
- ✓ Negative Lien Undertaking



In addition to signing these documents, the developer also needs to get the Mortgage Deed registered with the Sub-Registrar by paying applicable stamp duty as per the respective state laws and submit the Title Deeds to the FI.



Disbursement

A loan is only disbursed once loan documents have been executed and pre-disbursement conditions have been fully satisfied by the borrower.

In case of a Balance Transfer (Refinance) transaction, the mortgage deed is registered after the release deed for the project property has been registered by the existing lender.

A Construction loan is generally disbursed in tranches based on various milestones. These milestones are related with sales, collection, cost incurred and construction stage of the project.



Post-Disbursement Monitoring



As a matter of prudence, lenders monitor the project by quarterly reviewing the progress of sales, collection, cost and construction status of the project.

Generally, monitoring assignments are outsourced to external professionals.

“
There is only one good,
Knowledge,
And only one evil,
Ignorance

- Socrates”

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