



## How builders and developers can conserve their cash while making equity injections into projects

November 14, 2008 - Financial Digest

When times get hard, investment bankers that can structure deals to mitigate risk thrive. Such is the case with myself and my company. We have developed a unique structure for developers and builders and investors that want to shepherd their cash in these hard times, yet continue to inject cash equity into their projects. The structure is really quite simple as can be seen in the following diagrams that accompany this article.

In diagram 1, we see Wawona's client deposits (structure available from \$8 million on up) cash and/or securities in Wawona's correspondent bank. Next the client purchases U.S. government-backed bonds that carry the full faith and credit of the U.S. government. In the instant case, U.S. government-backed bonds were used to earn a coupon of 6%-7% p.a. and afford minimal price volatility.

In diagram 2, we see the correspondent bank lends money for two to five years fixed at 3 - 4% to the developer based on the securities in his/her account. A developer can borrow up to 90% LTV on his/her collateral, and earn a positive carry or arbitrage on the loan.

Example: Suppose a client needs rapid funding of \$24 million within four to five days.

Solution: A client deposits \$30 million of U.S. government-backed bonds rated AAA that are paying 6% or more in Wawona's correspondent bank. The client obtains a loan against these securities for up to 80% LTV of the collateral. The loan is locked at a rate of 3 - 4%. The benefit is a positive spread or carry to the client. There may also be a beneficial tax effect: the client may be able to write off a portion of the interest expense from the loan on his/her tax return. In the instant case, the client earns \$1 million or so in net interest income on the transaction/year while he/she funds his/her project.

The math:  $\$30 \text{ million} \times 6\% = \$1.8 \text{ million}$  in interest income/year on securities in account.

$\$24 \text{ million} \times 3\% = \$720,000$  in interest expense/year.

Net positive carry or cash flow equals \$1.08 million per year.

Michael Kondracki, Chmn, is president & CEO of Wawona Worldwide Capital, LLC, Stamford, Conn.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540