

Development Finance Marketplace Comparison Tool

Instructions & Analysis



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Funder Marketplace Comparison Tool

Spreadsheet Instructions & Analysis

What this spreadsheet does

This data gives you:

- Immediate sight of the top 35 funders in the UK marketplace
- An in-depth, up-to-date understanding of each lenders qualifying criteria
- A detailed breakdown of their headline rates, fees and overall costs
- The ability to filter and compare lenders in order to product a short list of funders you wish to approach



Quick start Instructions

1. Go to the MPlace GDV tab and input your loan requirement and GDV into the pink cells in cells D7 and D8. The blue cell will give you your % GDV. This tab is sorted by the highest % GDV lenders, so write down the lender numbers (column A), you initially qualify for. For example, if your loan is at 70% of GDV, you can rule out all the funders below 70% of GDV as their maximum ratio is too low for you to qualify.

The screenshot shows the 'DEVELOPMENT FINANCE MARKETPLACE COMPARISON TOOL Q2 2016 (FUNDING BUILD COSTS ONLY)' spreadsheet. It includes input fields for 'POOR PROJECT INFO' (GDV, Lending needed, % GDV) and a 'Next Steps' box. The main data table is divided into five sections: STEP 1 - LENDER APPLICATION CRITERIA, STEP 2 - RATE INFORMATION, STEP 3 - FEE STRUCTURE, STEP 4 - TOTAL COSTS AS % OF THE LOAN, and STEP 5 - ILLUSTRATIVE EXAMPLE (BUILD COSTS ONLY). The table lists lenders with columns for Min Lend, Max Lend, Geography Covered, Max Loan to Total Cost %, Developer Cash Stake %, % Build Cost Funded, Headline Interest Rate %, Calculated Monthly (M) OR Annualised Rate %, Rate a % of Total Facility or % of Current Drawn Funds, Annualised Rate %, Annualised Rate %, In Fees % of loan, Exit Fee % of loan, Total Fees as % of loan, Total Finance Costs as % of Loan (Fees + Interest), *See SP & Build Sheet*, Max Loan (Max GDV), Loan needed, Cash Deposit needed, In Fee, Exit Fee, Total Fees, Interest, Total Finance Costs (Fees & Interest), and Total Loan Costs.

2. Then double-check those lenders against their minimum and maximum lend, and the geography, to ensure you qualify against these parameters.
3. Finally check these lenders off against their total finance costs in column V, either on the same tab, or to see where they rank in the overall picture, on the MPlace%FinCost Tab.
4. If you would like to progress with any of these funders, or wish to consult us on the information provided, please email our MD, Chris Davidson, at chris@discoverandinvest.com, or call 0203 651 9595.

If you would like to understand the spreadsheet in more detail, please read on.



Advanced Introductions

Table of Contents

Overview of the 7 tabs	3
Tab 1 – MPlaceGDV	3
Tab 2 - MPlaceLTC	3
Tab 3 – MplaceARate.....	4
Tab 4 – MplaceFees.....	4
Tab 5 - MPlace%FinCost	4
The Drawdown and Info Checklist Tabs	4
Breakdown of the Marketplace Data	5
Step 1 : Lender Criteria – filtering out lenders.....	5
Step 2 : Rate Information – how does their rate actually work?	5
Step 3 : Fee Structures (and Total Fees as a % of the loan)	6
Step 4 : Total Finance Costs (as a % of the loan)	6
Step 5 : Illustrative Examples	6
Cash Stake vs. Total Finance Costs	7
Brief Analysis and Commentary	8
Next Steps	8

Overview of the 7 tabs

Upon opening the spreadsheet you will find 7 tabs.


Marketplace Data Tabs

The first 5 tabs cover the same marketplace data but are sorted by 5 different criteria for your convenience.

They are sorted by Loan to GDV ratio, Loan to Cost Ratio, Annualised Rate, Fees, and Total Cost of Finance, as below.

Tab 1 – MPlaceGDV

Funders sorted by those with the highest loan to GDV % first (Column F in Red)

 FUNDER MARKETPLACE COMPARISON Q2 2016 (For site owners/funding build costs only) <small>SORTED BY MAX LOAN TO GDV % (COLUMN F IN RED)</small>																		
<small>Illustration purposes only</small> YOUR PROJECT INFO (ENTER IN PINK CELLS) GDV £3,000,000 Lending needed £2,000,000 % GDV 67%																		
<small>Step 1 - See which lenders you qualify based on their criteria Step 2 - Analyse lenders by their headline rate and actual annualised (*based on 9 equal drawdowns over a 12 month term) Step 3 - Understand each lenders fee structure Step 4 - Understand each lenders total finance costs (Interest + Fees) as a % of the loan Step 5 - View illustrative worked examples (based on the previous info provided)</small>																		
STEP 1 - LENDER CRITERIA (DO YOU QUALIFY?)										STEP 2 - RATE INFORMATION				STEP 3 - FEE STRUCTURE & FEES AS A % OF LOAN			STEP 4 - TOTAL COSTS AS % OF THE LOAN	
Lender	Min Lend	Max Lend	Geography Covered	Max Loan to GDV %	Max Loan to Total Cost %	Developer Cash Stake %	% Build Cost Funded	Rate breakdown			Build Costs Only	Site Purchase & Build Costs	In Fees	Exit fees	Exit Fee a % of Loan or GDV	Total Fees as % of loan	Total Finance Costs as % of Loan (Fees & Interest)	Site Finance Costs as % of Loan (Fees & Interest)
								Headline Interest Rate %	Rate Calculated Monthly (M) OR Annualised (A)	Rate a % of Total Facility or % of Current Drawn Funds								
1	£1,000,000	£10,000,000	L,SE	75	90	10	100%	0.8	M	Drawn Funds	5.96	7.89	0.0	0.0	Loan	0.0	5.96%	7.89%
2	£1,000,000	£20,000,000	L,SE,E,W	75	90	10	100%	12	A	Drawn Funds	7.50	10.21	2.0	0.0	Loan	2.0	9.50%	12.20%
7	£750,000	£40,000,000	L,SE	70	85	15	100%	10	A	Facility	10.00	8.00	1.0	1.0	Loan	2.0	12.00%	11.80%

This is the best tab to start with because most lenders can be ruled out on the size of the loan required as a % of the project GDV.

For example, if your loan is at 70% of GDV, you can rule out all the funders below 70% of GDV as their maximum ratio does not allow.

Tab 2 - MPlaceLTC

Funders sorted by those with the highest loan to total cost % first (Column G in Red)

These are the lenders who need you to put in the least amount of money upfront.

It may be interesting to find that a lender with a higher interest rate but a higher loan to cost ratio comes out cheaper than a funder with a lower interest rate, but needs you to put more money in first. This is more a ratio for developers buying sites than owning them, as the land usually serves as the equity.

Tab 3 – MPlaceARate

Funders sorted by those with the lowest annualised interest rate (Column N if you're a site owner and funding build costs only. Sorted by Column O if you're purchasing a site and funding both the purchase and build costs. Highlighted in Red)

This has been calculated assuming 9 equal drawdowns of a 12-month term. For sites being purchased, it has been assumed that 50% is drawn down on Day 1, and the rest equally over 9 months of a 12 month term.

If your loan is over 12 months and will not be 9 equal draw downs, we provide more bespoke comparison data on those lenders that you qualify for.

Tab 4 – MPlaceFees

Funders sorted by those with the lowest fees first (Column T in Red)

Whilst not the whole picture, it gives you an idea of how fee structures look, and vary wildly again. Many Private Equity based funders now charge exit fees as a % of the GDV, not the loan for example, so you must be careful to understand the true total cost of finance.

Tab 5 - MPlace%FinCost

Funders sorted by those with the lowest total finance costs as a % of the loan (Column V if you're a site owner and funding build costs only. Sorted by Column W if you're purchasing a site and funding both the purchase and build costs. Highlighted in Red on the relevant spreadsheets)

THIS IS PROBABLY THE MOST IMPORTANT TAB TO VIEW, ONCE YOU KNOW WHICH FUNDERS YOU QUALIFY FOR.

This is calculated as the expected annualised rate (based on the above) plus arrangement and exit fees, and then expressed as a % of the loan.

The Drawdown and Info Checklist Tabs

The 6th tab is the Drawdown tab, which allows you to more accurately calculate your own annualised rate and total finance costs, taking into account when funds are drawn, and fee structures.

The example given is of a 1% per month bridger who, because of the how the rate is calculated (on drawn funds), does not annualise at 12% but 7.5%.

The 7th Tab is an Information Checklist should you wish to collect information for any funder.

Breakdown of the Marketplace Data

Let's go back to the MPlace GDV tab, which is generally the best place to start.

The data is split into 5 steps:

Step 1 : Lender Criteria – filtering out lenders

This is where you will initially be able to filter funders by those that you qualify for and those that you do not. You will notice that the criteria can vary wildly from funder to funder.

% GDV first - Most lenders can be ruled out on the size of the loan required as a % of the project GDV. For example, if your loan is at 70% of GDV, you can rule out all the funders below 70% of GDV as their maximum ratio.

Then % LTC – This is more important if you are funding the site purchase as well. This will tell you how much of your total costs (site purchase and build) the funder is able to lend. Senior debt funders vary from 70-90% of total costs. There is an interesting analysis between those with the best rates, and those with the highest Loan to Costs, as some funders with low rates can require you to put in a lot more of your own cash in on Day 1.

Now you should have ruled out a good number of funders.

Next, assess your application against the minimum and maximum lends and your geography (the initials stand for London, the South East of England, England, Wales, Scotland, Northern Ireland, Republic Of Ireland), which should rule out a few more.

In most cases, you are now left with 5 or 10 funders, whose products you now need to consider in more depth.

Step 2 : Rate Information – how does their rate actually work?

Development Finance lenders advertise and calculate their interest rates in a number of different ways.

Firstly, they can be calculated annually or monthly (column L)
Secondly, the rate can be calculated on drawn funds, or on the facility (column M).

It is important to have this info because it can dramatically affect the eventual annualised rate, and end up being much lower than you think. (Column N for build costs only, Column O for site purchase and build costs).

If the rate is calculated on the facility, then the annualised rate is the perceived APR.

If the rate is calculated on the drawn balance, then the actual annualised rate is determined by when and how the funds are drawn down.

If you quickly hop over to the drawdown tab, you will see how a 1% per month funder (based on 9 equal drawdowns over a 12 month term), annualised at 7.50% not 12%.

Once we decide on our top 5 or so funders, we use this information to help compare each of them more effectively.

Step 3 : Fee Structures (and Total Fees as a % of the loan)

This section gives you a breakdown of any arrangement fees (column Q) and exit fees (column R) being charged.

Arrangement fees are usually charged as a % of the loan.

Exit fees can be a % of the loan or a % of GDV, as is increasingly common.

GDV based exit fees are around 50% higher than the same % loan based exit fee (i.e. 1% of GDV is 1.5% of the loan typically), so your total cost of finance can rise significantly.

GDV based exit fees also have the extra issue of being a variable figure, as you won't know the final sales price of each unit until they are sold. This figure can go up as well as down, but is not a fixed cost, like a loan based % exit fee.

It is important therefore to know the exit fee structure, as it can greatly affect the total cost of finance, and rule in or out funders you would not ordinarily think were cheaper, or more expensive.

Step 4 : Total Finance Costs (as a % of the loan)

In terms of comparing funders, this is really the most important measurement, NOT the headline interest rate.

Column V gives you the total finance costs % for funding the build costs only (assuming site ownership)

Column W gives you the total finance costs % for funding the site purchase and build costs.

This is calculated as the expected annualised rate (based on the above) plus arrangement and exit fees, and then expressed as a % of the loan.

For funding build costs, we assume 9 equal drawdowns of a 12-month term.

For funding the site purchase and build costs, we assume 50% of the loan is drawn on Day 1 for the purchase.

Whilst these assumptions work well for comparing funders, we provide more bespoke comparison data for developers once we know projected cashflow schedules.

Step 5 : Illustrative Examples

Based on the previous data given in the rate and fee sections, we provide some worked examples for illustration purposes only.

The examples provides:

- The maximum loan available based on the % GDV criteria
- How that tallies against the loan requirement
- The likely cash deposit needed for site purchases
- The Fee and Interest breakdown
- Total Finance and Loan Costs

Cash Stake vs. Total Finance Costs

Important Analysis for Developers purchasing sites

Make sure you compare the cash deposit needed (Column AA) with the Total Loan + Costs (Column AG), given as a total sum in Column AH (only available on the site purchase & build spreadsheet).

This total tells you what the whole exercise will cost you, from deposits to interest to fees to the total loan.

Again, just because an interest rate is low, or fees are low, it doesn't mean that your cash stake won't be high. It can often be the case that a funder with a higher interest rate is cheaper overall because they require the developer to put less cash in on Day 1.

It's all about what's most important to you. Understand if your driver is cheap interest, or the lowest deposit down, or the overall picture.

N.B. Please note these numbers are based on previous data, which make a number of assumptions. Again we provide more bespoke information for each developer application. These numbers are also not indicative terms provided by lenders.

Brief Analysis and Commentary

You will have gathered by now the following:

- Funder vary considerably in terms of criteria and product sets
- Comparing funders by headline interest rate is an inaccurate practice
- Having a deeper understanding of the interest rate, and how it is calculated, is essential
- The funder with the cheapest headline interest rate may well not be the cheapest funder
- Compare funders by total cost of finance as a % of the loan for a more accurate evaluation
- If you're driven by deposit over rate, the cheaper funders may well be the ones with the highest Loan to Cost Ratio, not the cheapest rate
- Some of the cheaper funders are expensive looking bridgers, because they charge very low or zero fees.
- It is important to have the marketplace analysed properly and in-depth.

What to do in summary:

- Find the funders that will consider your project by filtering based on their set criteria
- Come up with a shortlist by assessing the remaining lenders on rate, fees, and total finance costs as a % of the loan

Next Steps

- Do you want to know who your shortlisted funders are?
- Do you want or need help comparing the options?
- Do you want to make sure you've found all the right options, and are able to accurately choose the best route?

If so, Discover and Invest can help.

Get in contact using any of the methods below, and we will help by doing the following:

- Arrange a 30 minute consultation to discuss your situation
- Highlight and agree on the likely suitable options
- If you wish to progress, we will collect all relevant project information
- We will make proposals on your behalf to the short-listed funders
- Introductions to lenders are made once both parties are happy to engage
- We gather indicative terms from all interested lenders and provide ongoing bespoke comparison information
- Once you've decided on the lenders to apply to, we help you through the process right up to completion

Pre-project consultancy

If you do not have a site, or want to know if you can qualify, we offer consultancy sessions to help you understand what funders look for, and what the maximum land price you can aspire to buy based on your own situation.

To explore further, please contact Chris Davidson as follows:

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