

Tsunami Warning:

How To Profit from the Massive Wave of CRE Defaults and Historic Decline in Values

A Whitepaper Addressing Market Challenges and Positioning Foundation Specialty Finance as the Solution

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Introduction

The commercial real estate (CRE) market is undergoing a period of significant transformation. With post-pandemic market dislocations, rising interest rates, and distressed asset portfolios, lenders and investors face mounting challenges. Foundation Specialty Finance (“FSF”) is uniquely positioned to provide solutions via its technology-driven platform, designed to fully integrate and streamline loan origination, special servicing, and asset management platform. By integrating advanced data analytics and AI-enabled fraud detection and process automation with our state-of-the-art LOS and CRM, FSF addresses market inefficiencies and provides lenders, borrowers, and investors significantly improved outcomes.

Tsunami Warning

A tsunami of CRE defaults and maturities is about to come ashore in the CRE Market:

- **Generation:** The CRE market was dramatically impacted post-Covid, as the Federal Reserve drove interest rates to historical lows to stimulate the national economy. Concurrently, CRE Values increased ~ 35% over 18 months from mid-2021 to mid-2023.
- **Propagation:** Savvy investors sold into this huge swell, realizing gains of +25% as annual MF transactions peaked at nearly \$400b in assets sold.
- **Inundation/Landfall:** The run-up has now come ashore, causing valuations to significantly decline as interest rates spiked, demand disappeared, and credit availability dried up. \$2t of CRE loans are now maturing over the next three years (MBA).
- **Re-build:** There is a now immediate and substantial opportunity for Investors to acquire sub-performing and distressed CRE assets at significantly lower values (CRED IQ).

Original Valuation Groupings	Ave. 2022-2024 Value Decline
< \$5m	-51%
\$5m - \$10m	-47%
\$10m - \$25m	-38%
\$25m - \$50m	-32%
\$50m - \$100m	-44%
>\$100m	-37%
2024 Average Valuation Decline	-43%

Foundation Specialty Finance: Technology-Driven Solutions to Reshape Specialty Finance

The Industry Problem: Market Dislocation and Inefficiency

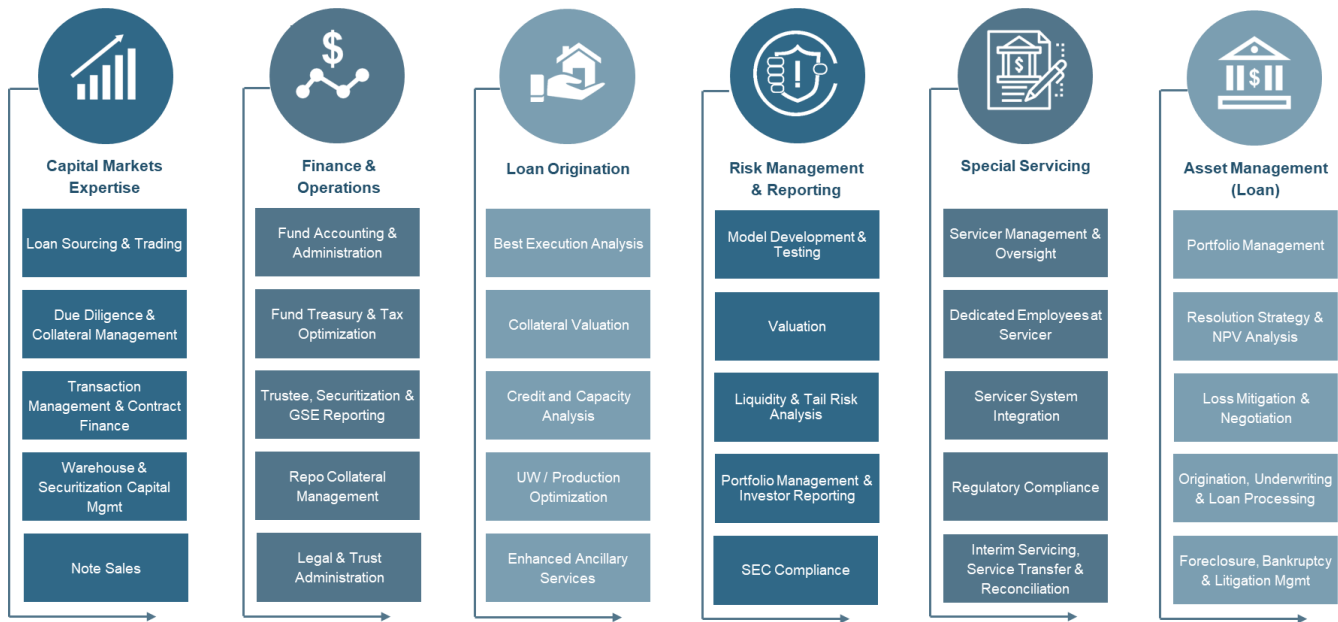
The COVID-19 pandemic introduced significant volatility into the U.S. real estate market, especially in the commercial and multifamily sectors. Government intervention, low interest rates, and economic stimulus led to asset price inflation, only to be followed by aggressive interest rate hikes from the Federal Reserve by mid-2022. This reversal has caused a severe correction in property values, particularly in multifamily and small-balance commercial properties, where valuations have dropped 25%-40%.

Lenders and borrowers now face the challenge of refinancing at significantly higher rates or selling assets at distressed values. More than \$2.2 trillion of commercial real estate debt is set to mature by 2027, putting considerable strain on both investors and lenders.

Problem: Traditional CRE financing models are failing to adapt to rapid market shifts. Borrowers struggle with distressed assets, while investors and lenders are overwhelmed by inefficient loan management and servicing processes.

FSF’s Solution: Tech-Driven Innovation and Advanced Technology Integration to Streamline Operations

FSF addresses industry pain points through its cutting-edge, vertically integrated technology platform. By leveraging AI and automation, the Company enhances efficiency in loan origination, underwriting, and asset management.



PropertyPortal™: A Real-Time Marketplace for Distressed Assets

The **PropertyPortal™** is FSF's proprietary digital platform designed for seamless asset management and disposition. The Portal provides real-time data access to stakeholders, enabling transparent decision-making and faster transaction outcomes, reducing transaction delays, improving investor visibility, and enabling real-time financing offers for asset buyers.

Key Benefits:

- **Real-Time Data Sharing:** Eliminates manual intervention and allows stakeholders to access critical asset information at any time.
- **Immediate Financing Offers:** Investors can receive financing options on-the-spot, speeding up the process for both buyers and sellers.

Decipher LOS: Efficiency in Loan Origination

Foundation Specialty Finance's **Decipher LOS** platform is fully automated, integrating third-party data sources for real-time risk assessment and loan approval processes. Decipher reduces loan approval times by over 50%, addressing the inefficiencies seen in traditional loan origination models.

Key Features:

- **Automated Underwriting:** AI-powered underwriting tools ensure accuracy and consistency.
- **Integration with Third-Party Data:** Seamless integration with services like fraud detection, property valuation, and borrower vetting.

Ocrolus AI: Reducing Fraud and Speeding Up Processes

The **Ocrolus AI** module automates borrower document verification, ensuring stringent fraud detection throughout the loan lifecycle. This reduces the risk of human error while accelerating underwriting.

Special Servicing and Asset Management: Managing Distressed Portfolios

FSF excels in special servicing, offering a comprehensive set of solutions to manage distressed CRE assets. The company's unique approach blends technology with hands-on asset management, allowing for faster resolutions of problem loans and distressed portfolios.

Core Capabilities:

- **Loan Default Management:** Restructuring loans, workouts, and refinancings to minimize losses for lenders and investors.
- **REO Disposition:** Managing real estate-owned properties efficiently, utilizing the PropertyPortal™ to expedite sales and reduce holding costs for investors.

Conclusion: A Technology-Driven Future for Specialty Finance

FSF's tech-enabled approach to distressed asset management, loan origination, and special servicing offers a clear advantage in today's volatile market. Via innovative platforms like PropertyPortal™, Decipher LOS, and Ocrolus AI, the company is positioned to deliver superior returns to investors while solving the critical challenges facing the CRE market today. As the market continues to evolve, FSF is poised to lead the way in specialty finance, offering clients streamlined processes, transparency, and improved efficiency.