

## WHAT MAKES FINANCING A REVERSE EXCHANGE SO DIFFICULT?

### 1. Replacement Property is titled under an LLC or Special Purpose Entity.

- Not only is the property owned by the EAT via the LLC, but typically the taxpayer is only a 1% owner or not even a member at all inside the LLC.
- Any loan written on the transaction becomes ineligible for bundling, and therefore cannot be sold off to FNMA or securitized.
- Commercial lenders are often familiar with LLC titling, but Residential property lenders are generally not affable to the arrangement.

### 2. The Non-Recourse language that protects the 1031 Exchange Company.

- Sample Language that "ABC Exchange Facilitator Company" will insert into the loan documents. Notwithstanding anything to the contrary contained herein or in any other loan document or document related to this loan, Lender expressly acknowledges that any and all liability hereunder is intended to be fully non-recourse as to Borrower's /Trustor's initial sole member, ABC Exchange Facilitator Company, a (any State) corporation. Lender acknowledges and agrees that ABC Exchange Facilitator Company shall have no liability for any obligations, indemnities, representations and /or warranties expressed or implied herein, nor shall it be obligated to perform any covenant expressed or implied herein nor shall it be obligated to perform any covenant expressed or implied herein. It is expressly understood that Lender shall look solely to the Property or to any other collateral or guaranty for this loan for the repayment of the Note and Indebtedness. ABC Exchange Facilitator Company makes no representations and warranties with respect to the matters stated herein, and Lender is not relying on any representations or warranties of ABC Exchange Facilitator Company (except that ABC Exchange Facilitator Company represents and warrants that it possesses full power and authority to execute this instrument.)
- The above Non-Recourse language has tremendous shock value the first time it is reviewed by a lender.

### 3. If an exchange will result in a permanent mortgage, and only Interim financing is used to purchase the Replacement property, then a second financing and second settlement adds costs. Permanent financing without prepayment penalties is rare.

## SOLUTIONS

**Some lenders are familiar with Reverse Exchanges, the Non-Recourse language and also have the ability to offer "Portfolio Lending" for the transaction.**

### Here's how to find them:

- Larger transactions usually bring into play commercial lending sources, and some are either familiar and experienced with reverses, or willing to learn about the procedures involved with reverses.
- Your 1031 exchange company may have local, smaller banks that they have worked with already. Some may prefer commercial or residential, and depending on the location of the relinquished and replacement properties, may only want to cross-collateralize a local relinquished property. Out-of-state purchases may be turned down by some of these lenders.
- A Nationwide, dedicated source available to the average Reverse Exchange client is Reverse 1031 Financing Solutions. By matching lenders that can do reverses to the specifics of the transaction, it efficiently arranges financing and settlement services for residential properties and small to medium sized commercial properties.