

4 Ways To Uncover Risk With Financial Diligence & Forensic Analysis

Between a timely mortgage payment and default, a range of issues can occur, which may be outside asset managers' typical scope of work. Here are four deeply hidden risk factors that forensic accountants with specialization in distressed CRE assets are uniquely positioned to catch.

1. FINANCIAL INCONSISTENCIES

Unexplained changes in assets and liabilities can be caught through a dive deep into monthly balance sheets, income statements, bank statements, general ledgers, rent rolls, accounts receivable and accounts payable.

2. MISAPPROPRIATION OF CASH

Distressed loans can trigger cash management, in which all revenue is swept into a lender-controlled lockbox, and funds disbursed to pay operating expenses. But borrowers may still try to hide income, stiff vendors, or misdirect funds toward unapproved expenses or other properties.

3. GUARANTOR FINANCIAL INSTABILITY

Guarantors typically certify their ability to support loans on a quarterly basis but don't supply proof. It's prudent to validate the guarantors' liquidity and net worth by scrutinizing financial statements to confirm assets and liabilities – and request additional backing in the case of deficiencies.

4. NOI INFLATION

Borrowers may hide or shift expenses below the NOI line at the time of origination, obscuring the true picture of the asset, and negatively impacting ongoing asset management.



SitusAMC offers a comprehensive suite of services designed to help alternative lenders originate, transact, and manage commercial real estate debt with confidence and ease. Our Financial Diligence & Forensics Analysis provides CPA-led forensic diligence to proactively identify and mitigate risk in large, complex loans and portfolios. We scrutinize financials and identify deeply buried risk factors that could negatively impact loan value and business profitability. For more information, visit:

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