Q&A

CHRISTINA OCHS, CORPORATION FOR INTEREST RATE MANAGEMENT

The Corporation for Interest Rate Management, a Chicago-based advisory company, has been working with real estate developers and corporate borrowers to mitigate interest rate risk since 1981. The company sees itself as an extension of its clients' treasurer or chief financial officer functions, digging in deep at the outset and then charting the numbers across a portfolio or single project over the long-term.

The company works with a wide swath of clients in the public and private sectors, advising developers with just a handful of assets to large real estate investment trusts or investment funds. There is, however, a commonality. "The people who tend to want our services are very concerned with making sure that all aspects of the project are being adequately and expertly managed," said Christina Ochs, president.

REFI: What's the two-minute overview of CIRM?

CO: We are an interest rate risk management company that advises companies on interest rate risk as it intersects with different stages of a project, investment or debt facility. We work with real estate development and investment management companies and real estate investment trusts.

While we do one-off contracts, most of our clients are long-term relationships and we work with them to manage risk across their portfolio. Our clients range from smaller developers with two or three projects to much bigger players that are working on 50-60 projects. One thing that makes us unique is that our role often includes being a kind of outsourced or additional treasury function of a company.

REFI: What is the scope of your services?

CO: We perform many different functions, including budgeting for a project, scenario analysis and reviewing term sheets and loan agreements, in addition to developing and implementing hedge strategies. We deal with issues such as timing of cash flows and debt service coverage levels and how they intersect with the risk tolerance of our clients. We help clients to analyze options to fix LIBOR within a floating-rate loan, which also impacts hedging strategy. We'll also monitor the effectiveness of that hedge over time for performance and accounting purposes.

As time moves on and the project and the macro environment for the deal evolves, we look at the best way to respond in turn. Anyone can put an interest rate cap on something and then think that there is no more interest rate risk but as a project evolves so does its risk profile and tolerance. The performance of the project is going to change because property is a living, breathing organism – it's not just bricks and mortar.

The bottom line is that interest cost is a big line item for any deal and our job is to look at the interest rate risk and make sure that the debt service is in line with the original expectations.

> "THE FIRST THING WE DO WHEN WE'RE LOOKING AT A PORTFOLIO IS LOOK THROUGH THE MODELS AND THEN ACTUALLY GET ON THE PHONE WITH OUR CLIENT TO TALK THROUGH IT"
> CHRISTINA OCHS

REFI: How do you interface with the other parties involved in making a loan, such as the lenders or mortgage brokers?

CO: Often, if a client is working with a mortgage broker, the broker will provide our client with a breakout grid of relevant terms. We'll use the information on relevant covenants such as debt service coverage levels, what kind of rates are being projected, and what the investment horizon is for a preliminary analysis. A mortgage broker may refer us to potential clients but there is no formal relationship there. We're a good complement to what they do.

We also work with our clients to try to make the language of loan documents more beneficial to them. We're not attorneys, but we can help to measure the impact of the language on different covenants of their deal. We have seen more restrictive covenants on the interest and debt maintenance side.

REFI: Is there a common element among your clients?

CO: The people who tend to want our services are very concerned with making sure that all aspects of the project are being managed. If rates rise to 5%, and it wouldn't move the needle much for an 18-month bridge loan, you probably won't hire us. But if you're thinking about a longer-term period and don't want to leave costs to chance, then you'll want to actively manage that risk.

REFI: What is the first thing you do with a new client?

CO: The first thing we do when we're looking at a portfolio is look through the models and then actually get on the phone with our client to talk through it. We're concerned about what keeps our clients up at night. We can help monitor debt service covenants, we can look at budgeting for IRR – everyone has their own area of sensitivity and it's impossible to discern that from a piece of paper or excel model. All of the numbers are in there, but when you talk to your client, you find what really keeps them up at night.

REFI: How often do you report to your clients?

CO:

Our reporting is always done in a way that suits the system of our clients. If they have a format in which they need to present we populate the report with the necessary data. It runs the gamut—we track and report based on what they need.

REFI: Do you have a geographic focus?

CO: Although we are predominately U.S. based, we work with Canadian, Australian, European and U.K. clients. That said, 95% of what we advise on is U.S. dollar-based and we are all over the country.

REFI: How is the rising use of technology affecting your business?

CO: I think technology does affect the larger portfolios. As a firm, we need to stay abreast of the changes with individual assets. We receive monthly draw and cash flow statements and as groups become more sophisticated, it makes it easier to be responsive. For example, if we're included in a memo released during the disposition process, we can be responsive to changes in cash flow. It's great to be in an automated world that is data-heavy. It's not very complicated to integrate that, to the extent that we have a lot of this information released monthly or quarterly.