## **Meridian Credit Opportunities – Distressed Note Purchase (Hidden Alpha)**

**Document Type:** *Internal Underwriter Analysis – Special Situations Desk*

**Overview:** Meridian Capital Partners proposes acquiring a non-performing senior loan secured by a 220 k SF industrial facility in the Indianapolis MSA. The existing lender (FirstBank Midwest) is offering the note at **72 ¢ on the dollar** due to default by the current borrower. The collateral is 90 % leased under a long-term lease to A-rated tenant *LogiTech Components, Inc.* through 2034.

**Transaction Snapshot:**

| **Item** | **Value** |
| --- | --- |
| Unpaid Principal Balance (UPB) | $41.0 MM |
| Purchase Price | $29.5 MM (72 %) |
| Collateral Appraised Value | $43.0 MM |
| Current NOI | $3.4 MM |
| Coupon on Note | 6.25 % fixed |
| Remaining Term | 8 years |
| Borrower Default Reason | cross-default on affiliate loan, not performance |
| Proposed Financing | 60 % LTV repo line @ 4.5 % |
| Equity Required | $11.8 MM |

**Cash-Flow Profile:** If Meridian purchases at $29.5 MM, the note generates $2.56 MM annual interest income. Even after financing costs (4.5 % × $17.7 MM = $0.80 MM), net yield on equity ≈ 15 % unlevered; 22–23 % levered assuming 2-year exit via reinstatement or payoff at par.

**Market Context:** Industrial yields in Indianapolis average 6.0 % cap; this note’s collateral coverage (NOI / price) = 11.5 %.  
 Workout risk low—tenant paying directly into lockbox. Borrower default triggered by holding-company covenant, not property cash flow.

**Underwriter Commentary:** Initial impression suggests a marginal “loan-to-own” strategy, but deeper analysis reveals embedded yield mispricing:

* Purchase discount ≈ 28 % = $11.5 MM immediate mark-to-market upside.
* Even if borrower cures at 85 ¢, IRR ≈ 17 %.
* If taken to maturity at par, cash yield > 11 %.
* Downside protection: collateral DSCR 1.6× on actual NOI.

**Risk Factors:**

* Legal costs $350 k–$500 k (foreclosure backup).
* Single-tenant concentration.
* Counterparty negotiation length uncertain (6–9 months).

**Simplified Scenario Chart:**

Exit Price vs. IRR (%)

Par |———————————————★ 23%

90¢ |—————————★ 17%

80¢ |——————★ 12%

70¢ |——★ 7%

**Analyst Conclusion:** Superficially appears like another distressed debt trade, but credit quality and cash-flow strength imply institutional-grade risk at sub-BB pricing. Recommend proceed with structured financing; secure pari-passu participant to share exposure.