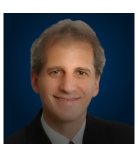
How Sponsors Can Pass 2026's Three Underwriting Tests

Lenders Are Drawing Sharper Lines: Here's How to Land on the Right Side



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By Ron Zimmerman

Commercial real estate is entering what Tepp's research team has called a "sorting year"—a period when capital is available, but lenders are increasingly selective about who gets refinanced. What separates winners from losers isn't just asset class or geography anymore. It's whether a deal can clear a series of underwriting hurdles designed for a world where rates stay elevated. As one Trepp analyst observed: "Higher for longer is here, and the market has adjusted."

In a recent episode of The TreppWire Podcast (summarized by GlobeSt), Trepp's analysts characterized 2026 as a year of "measured momentum": more deals will get resolved, but the process won't be any less painful as the backlog of maturities, workouts, and liquidations finally moves through the system. In that framework, deals with dependable income, strong sponsorship, and sensible leverage will find their way to refinancing or sale. Everyone else faces a harder road: lender-dictated extensions, sales at a loss, or walking away entirely.

For sponsors facing maturing loans or seeking new financing, understanding these three

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underwriting tests (and having strategies to pass them) has become essential. NetLeaseX Capital works with family office investors—private capital sources that can move quickly and structure flexibly—to provide the rescue financing and workout solutions that help sponsors pass these tests.

Understanding Stretch Loans.

A stretch loan or high leverage loan combine a loan and a preferred equity investment. Importantly, these loans are typically secured by first mortgages (known as a "senior stretch loan") on real estate projects owned by sponsors but can also be secured by second mortgages or UCC-1 financing statements on the sponsors' membership interests in limited liability companies (LLCs).

Stretch loans enable investors seeking preferred equity returns to deploy their capital in a senior priority position and earn a 14-16% or higher return at a loan-to-cost ratio of up to 93%, or in a junior priority position and earn 25% or higher return at a combined loan-to-cost ratio of up to the same 93%.

Stretch loans also share characteristics with bridge equity, typically enabling family offices to receive a return of capital and their earnings on the capital in only 2 to 3 years and allowing the borrower to use the funds for 2 to 3 years without servicing the loan (if the sponsor agrees to accrue the interest). This flexibility makes stretch loans an attractive option for both family offices and sponsors.

Test #1: Debt Service Under Today's Rates

The threshold question is simple but unforgiving: does the property cash-flow at today's interest rates, or only at the rates that existed when the loan was written? Many loans now facing maturity were underwritten at peak 2021 optimism with low base rates and aggressive rent growth assumptions that don't match 2026 conditions.

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Lenders at every level of the capital stack are demanding higher coverage cushions, recognizing that today's rate environment isn't a temporary detour. Banks and CMBS lenders are stress-testing coverage ratios against flat or declining rents. They're no longer giving credit for optimistic lease-up projections.

The Solution: A junior stretch loan (structured as a second mortgage or mezzanine loan) can work alongside the existing senior lender. This subordinate capital can pay down a portion of the senior loan balance, fund interest reserves, or cover operating deficits, directly improving DSCR while demonstrating to the senior lender that the sponsor has access to fresh capital and institutional backing. The family office capital provider enters into an intercreditor agreement with the senior lender, formalizing the arrangement and often facilitating additional concessions such as rate reductions, maturity extensions, or modifications to guarantee provisions.

Test #2: Fresh Equity and Sponsor Alignment

Assets that fall just short on coverage aren't automatically disqualified. Sponsorship can still push a deal across the line. As Trepp's analysts put it, lenders will "work very eagerly with the haves" in 2026: sponsors who have real equity at risk, a history of performing through cycles, and the financial capacity to write a check when circumstances demand it.

In practice, this means lenders are requiring sponsors to reset their basis, proving alignment with current valuations through fresh equity contributions at maturity or modification. Banks that sat on the sidelines over the past two years are selectively returning, but they're requiring equity contributions that demonstrate sponsors accept where values actually are today. On the CMBS side, special servicers are making sponsors pay to play. Extensions and modifications now come with requirements to inject fresh capital, whether to reduce the loan balance or cover deferred improvements.

The Solution: Preferred equity provides the "fresh capital" lenders want to see while allowing sponsors to retain more of their ownership and upside than traditional equity raises would require. While structured preferred equity typically includes an equity kicker giving the family office investor some participation in upside, sponsors preserve more of their promoted interest and maintain control compared to bringing in a traditional equity partner. Family office investors providing preferred equity receive priority returns and downside protection, while sponsors retain the majority of their ownership position.

Test #3: CapEx Runway and Business Plan Credibility

The third test focuses on whether sponsors have enough capital to finish what they started. This is especially relevant for value-add and transitional deals that were funded with bridge loans or CRE CLO debt. CRE CLO issuance topped $30 billion in 2025, a sign that lenders remain willing to finance transitional plays, but only when the capital expenditure plan is realistic and the dollars are already committed.

Underwriters want to know exactly how much renovation remains, whether the reserves will actually cover it, and how long stabilization will take if leasing comes

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in slower than projected. For office assets, this test is particularly harsh. Before committing to a refinancing or extension, lenders want hard numbers on what it will cost to lease the space: tenant improvement allowances, commissions, and the risk that tenants simply don't show up.

The Solution: Structured financing with escrowed capex reserves demonstrates exactly the "real dollars" lenders need to see. When family office capital is ring-fenced in escrow accounts with controlled disbursements tied to construction milestones, underwriters gain confidence that the business plan is funded—not just projected. This structure also benefits the capital provider through Dutch interest arrangements, which allow the family office investor to earn returns on committed funds not yet advanced, and milestone-based releases that ensure disbursements align with construction progress.

Becoming "The Haves" in Lenders' Eyes

The common thread across all three tests is access to flexible capital that can be deployed strategically. Sponsors who enter refinancing discussions or modification negotiations with capital partners already lined up have fundamentally different conversations with lenders than those who arrive empty-handed.

The mathematics are stark: with $4.5 trillion in commercial real estate mortgages maturing between 2025 and 2028, and current rates nearly 200 basis points higher than when many of these loans were originated, sponsors need partners who understand the gap financing, preferred equity, and rescue financing structures that pass today's underwriting tests.

Family office capital has emerged as a particularly effective solution for several reasons. Unlike institutional funds with rigid investment mandates, family offices can structure terms to fit specific situations. They move quickly, often closing in weeks rather than months. And they're motivated to find workable solutions because they profit when properties succeed, creating alignment between capital provider and sponsor. This stands in contrast to some private debt funds that have adopted loan-to-own strategies, positioning themselves to take control when sponsors can't meet obligations.

The Bottom Line

Trepp's "sorting year" framework is already playing out across the market. Lenders are drawing sharper lines, but those lines are predictable. Sponsors who can demonstrate adequate DSCR under realistic assumptions, bring fresh equity to the table, and show funded capex runways will find capital available, often on competitive terms as lenders compete for quality borrowers.

The sponsors who struggle will be those who wait until the last minute, arrive at modification discussions without capital solutions, or assume that yesterday's underwriting standards still apply. As Trepp's analysts put it: hope is not a strategy. In a year of sorting, preparation is the difference between refinancing and restructuring—or worse.

The opportunities are real, but so is the clock. With maturities accelerating and lenders increasingly selective, now is the time to assess your portfolio, identify assets that may face underwriting challenges, and secure the capital partnerships that will position you among "the haves" when those conversations begin. Trepp's advice to borrowers: refinance early, not heroically. A sound maturity plan executed ahead of schedule beats hoping rates grind lower.

Before Your Next Refinancing Conversation, Ask:

1. Can my property demonstrate adequate DSCR under realistic (not proforma) assumptions, and if not, how can I restructure the capital stack to get there?

2. Do I have access to fresh equity capital that satisfies lender requirements while preserving the majority of my ownership upside?

3. Is my capex runway funded with committed dollars, or am I relying on projections that underwriters will reject? ■