Spot the Signs to Avoid Scams

Illegitimate fees give legitimate bridge lenders a bad reputation

By Corey Curwick Dutton

One of the biggest problems in commercial bridge lending is upfront-fee scams. These scams are more commonly found in the area of consumer loans, but they have started to gain serious momentum in the realm of bridge lending.

Allured by fancy offices and terms that almost seem too good to be true, and sealed by the false testimonies of former clients, the victims of upfront-fee scams can be easy prey. The surge of such scams in bridge lending has given legitimate lenders a bad reputation, because borrowers find it impossible to place trust in reputable lenders after being taken by such a scam.

Upon paying upfront fees, borrowers may immediately encounter lender delays, excuses and, all too often, complete disappearance by the crooks. Not only are these scams destroying real lenders' reputations, but also those of the brokers who represent them. So how do commercial mortgage brokers maintain their good names and prevent their clients from falling into the hands of these predators?

Understand legitimate fees

A term sheet, also called a letter of intent, is a preliminary offer for financing, similar to a pre-approval letter. Do not confuse these tentative loan offers with a final loan commitment. The typical order of events in the bridge-loan approval process is as follows:

1. **The lender performs preliminary underwriting** on a loan file and determines if it fits the lender's guidelines.
2. **The lender issues a letter of intent, or a term sheet**, to the borrower with the final items requested for a loan funding.
3. **The borrower provides the lender with the final items.**
4. **The lender reviews the final items,** which typically include a property inspection.
5. **The lender provides either a final loan commitment or a loan decline.**

What makes bridge-lending waters so difficult to navigate is that all commercial bridge lenders charge some kind of upfront fees to consummate a deal. Once a letter of intent is accepted by a borrower, a bridge lender actually does incur real costs to finish funding the loan. And this is exactly why bridge-lending predators exist, because every scam artist knows fees are implicit to getting a loan funded.

Take, for example, a borrower who wants a bridge loan to purchase a commercial building but is short on personal funds for a downpayment. The borrower, however, owns two other properties with zero debt that can be used as collateral to cover some of the downpayment, but each property is in a different state. Before funding the loan, site visits are necessary to each property — and those visits result in real costs.

Should bridge lenders incur all of these costs in hopes that the borrower will actually stay committed to closing the loan? Many borrowers say yes, but consider the lender's point of view. Nothing prevents borrowers from taking another loan offer with a lower interest rate or lower fees, stiffing the lender after all of its costs have already been incurred — nothing, that is, unless the borrower has something to lose.

Ask the right questions

For this reason, legitimate bridge lenders charge some kind of an upfront fee, not only to cover costs, but also to keep borrowers committed. This can make it difficult for commercial mortgage brokers to tell the legitimate fees from the scams, but asking a few questions can help:

■ **Has the lender properly evaluated the deal?** If a commercial mortgage broker feels a lender hasn't done any pre-underwriting before tossing out a term sheet with a large upfront fee, this is the first cue to find another lender. This is why a broker should never give a bridge lender the entire loan file upfront. A good broker should deliberately leave important information out of the loan file, labeled as "available upon request."

Many brokers pride themselves on providing their lenders with the entire loan file in the first e-mail. This is a mistake in the world of bridge lending. These loans are not the same as traditional bank loans, so it's not necessary

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to provide a bridge lender with the same documentation you would provide to a bank. If a bridge lender has only asked a few questions, or is missing crucial documentation required to properly evaluate a loan, this could be a sign the lender is just tossing out term sheets to collect upfront fees, or that the lender may be too busy. If this happens, find another lender right away.

■ **Is the upfront fee excessive?** An upfront fee of $25,000 or more is excessive and unreasonable unless the loan is to fund the construction of a massive development. A reasonable upfront fee can range from $1,500 to $7,500. A lender should be able to provide a final loan commitment with an upfront fee within the said range. Remember, there are plenty of other legitimate lenders offering bridge loans with smaller upfront fees. Skip the term sheets with excessive upfront fees and move the deal over to another, legitimate lender.

■ **Does the lender seem too busy?** Once a bridge lender establishes a solid reputation or launches a new, sought-after loan product, the lender may become overloaded with loan requests. Busy lenders may start to charge excessive upfront fees, just to take a first look at a deal. This practice is safe for the lender but extremely risky for the borrower. If you sense a lender is too busy to fully evaluate a loan request, take the deal to another lender.

■ **Does the fee cover tangible costs?** Once a term sheet is provided to a borrower and an upfront fee is requested by the lender, a broker should inquire as to what the fee will be used toward. Some examples of tangible costs paid for with an upfront fee include travel expenses, appraisals, brokers' price opinions and legal-document preparation. If it's not clear why the lender needs the upfront fee, request an itemized list of the uses for that fee. You may also request that the lender refund the unused portion of the upfront fee based on the itemized list. This way, there are no gray areas regarding how the funds were used.

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Many good loans never consummate because of skeptical borrowers who have fallen prey to upfront-fee scams. These borrowers refuse to proceed with the terms provided by legitimate lenders after previously being taken by such a scam.

Don't let a borrower fall prey to an upfront-fee scam and be forever shy when it comes to a real loan offer from a legitimate bridge lender. Use common sense, not a hope and a prayer, to get a bridge loan across the finish line. ■