Fintech Is Bridging the Gap

Alternative platforms are creating opportunities to fund more loans

By Evan Gentry

The traditional commercial real estate loan underwriting process is less than efficient. The strict operating guidelines imposed on banks through regulations such as the Dodd-Frank Act and the Basel III capital-reserve rules make it difficult for them to approve many new commercial real estate loans, or even to refinance their maturing loans.

While traditional lenders often create an uphill battle for worthy borrowers to be approved, financial-technology (or fintech) lending platforms can operate more efficiently and speedily. They are moving in to fill the void. As a commercial mortgage broker, you should be aware of — and, to the extent possible — participating in this emerging sector to ensure your future business success.

No longer a new field, the fintech industry produced $17.4 billion in investments globally in 2016, with projections for 2017 far exceeding this number. In addition to providing more flexibility for brokers representing borrowers who may not be able to go the traditional financing route, technology-based lending platforms make underwriting a more convenient, quick and transparent experience for brokers and borrowers.

As a result, many more brokers are now choosing alternative-lending platforms instead of traditional lenders, which benefits brokers and allows them to better serve clients by speeding up the loan-approval and closing process.

Technology benefits

The advanced technology employed by fintech-lending platforms vastly increases the transparency of loan transactions and streamlines the process for brokers and their borrowers. Brokers and borrowers can be updated during each step of the underwriting process, improving communication and providing easy access to the latest information so appropriate parties are notified about additional requirements in a timely matter.

Alternative-lending platforms with direct-lending capabilities use technology to quickly fund borrowers' loans and match the loans with various investor requirements after funding. While banks, issuers of commercial mortgage-backed securities and other more traditional lenders can take two to four months to close a deal, technology allows many marketplace lenders to have a more streamlined process that results in loan closings in as few as two to four weeks.

> **"The fintech industry produced $17.4 billion in investments globally in 2016, with projections for 2017 far exceeding this number."**

Of course, technology is only as good as the people behind it, and human judgement should always be at the center of every loan. Technology is a good starting point, but lending platforms should always have a team of qualified professionals with experience in real estate financing to walk brokers, borrowers and investors through the process and answer any questions. During the underwriting phase, which often has complex requirements and terms that are unique to each deal, professionals should be part of the process of educating borrowers and brokers.

Borrower evaluation

Marketplace lenders that are direct lenders not only can close quickly, they also can offer greater flexibility in underwriting than banks and traditional lenders, and can work with brokers to structure transactions that work well for all parties involved. Brokers appreciate that marketplace lenders can offer multiple product types, ranging from bridge loans to permanent loans, so they can be a one-stop shop for their borrowers.

Continued >>

Evan Gentry is the CEO and founder of Money360, the leading commercial real estate marketplace-lending platform that caters to institutional and accredited investors. He has nearly two decades of experience in the real estate industry and also currently serves as CEO of G8 Capital, a real estate private-equity company he founded in 2007. Gentry can be reached at evangentry@money360.com or (949) 528-3615.

Reprinted from *Scotsman Guide* Commercial Edition and **ScotsmanGuide.com**, June 2017

<< Continued

As with traditional lenders, fintech-lender rates run the gamut from bridge rates (8 to 10 percent) to permanent financing (4 to 6 percent) and everything in between. Fintech companies, like traditional lenders, typically pay brokers fees for loan referrals. Each company's fee may vary, but brokers don't have to worry about sacrificing their own fee structure when placing their borrower with a marketplace lending platform instead of a bank or traditional lender.

As with traditional lenders, credible fintech-lending platforms thoroughly vet borrowers through credit evaluation, background checks, financial analysis, third-party valuations and other due-diligence measures during the underwriting process. The efficiency in completing due diligence, however, is paramount in facilitating a timely closing.

Fintech platforms offer opportunities to brokers' clients who may not be able to access loans through traditional means. Successful closings will vary based on an alternative lender's underwriting criteria and funding sources. The greatest success will come from fintech lenders with direct-lending capability that can close loans very quickly with capital they control.

Personalized service

One benefit for borrowers using a fintech platform that often isn't found with larger banks and other traditional lenders is the consistent communication and personalized service. This allows underwriters to evaluate each situation as it comes up, instead of imposing overarching rules that may not apply to a given situation.

Business and real estate cycles vary. Fintech lenders are often able to make decisions on a case-by-case basis, which isn't always the outcome with larger banks and other traditional lenders.

After the loan is underwritten, online marketplace lenders can work with borrowers to ensure they are in compliance with all loan provisions. If there are any issues, lenders can work with the borrower and broker to resolve the situation, often providing more flexible and creative solutions than are typically found with banks and traditional lenders.

■ ■ ■

The one-size-fits-all underwriting process inherent in traditional bank lending is often overcome with alternative-lending platforms. Marketplace and other fintech-lending platforms are changing commercial real estate underwriting for the better, giving brokers and their clients better access to loans, and quicker loan closings. ■