

Time For a Commercial?

By David Kleinman, Senior Vice-President, *Intel Mortgage Company*

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Jordan playing professional baseball, Deion Sanders playing professional baseball, and Tony Gonzalez playing professional basketball—these were the three most feared athletes in their respective sports. Opposing teams would come up with strategies just to neutralize the impact of one player. But, when these three athletes tried to diversify and moved away from the very thing that put them at the top of their fields, each was just another player. Rarely is there an exception such as Bo Jackson.

Similar to athletes in sports, structuring deals in two diverse areas requires different skill sets. In residential lending, the approval of a loan is most often based on the strength of the individual. Working on a commercial financing situation is not filing a 1003. There are certain lenders that will look at the strength of the borrower as the determinate factor in a commercial loan, but that is the exception rather than the rule. The approval of a commercial loan is most often based on the strength of the deal, utilizing the Income Capitalization Approach (Net Cash Flow/Direct Capitalization rate); the borrower's financial strength becomes secondary.

Numerous lenders work with mortgage brokers, but there are also many lenders that refuse to do so due to previous experiences with brokers. A broker can get a reputation from the types of deals he/she presents. If the broker presents strong deals, then the loan officer will jump at the opportunity to work with him again, but if the broker brings in questionable deals and attempts to present them as high-quality transactions, the loan officer will eventually avoid contact with the broker. Either way, the broker earns a reputation. Once a broker's reputation is tainted with a loan officer, it is very difficult to remedy.

I have the opportunity to work with and talk to various loan officers about common mistakes that mortgage brokers make when presenting potential commercial transactions. Listed below are some of the issues these officers have with commercial mortgage brokers.

Countless times a broker will present any deal that is given to him/her, regardless of whether it is a good fit or not for the lender. Before presenting it to a loan officer, the broker should review the deal. He/she should do a net cash flow analysis and ask himself the following: "If I was a loan officer, would I fund this deal based on its strength?" If the answer is "no", then the broker should move on and save himself time, effort, and embarrassment. A loan officer expects the broker to use discretion in presenting a situation.

Countless times a broker will try to negotiate with the loan officer on behalf of the client without truly knowing the parameters of what the client will and will not do. Part of a broker's job is to negotiate, but, at the same time, the broker has to know when to take a step back and allow the two parties to communicate and negotiate with each other. As a third person, it is very easy to misrepresent the borrower's needs and willingness. As a broker, you do not want a bad relationship with a lender because it is a fairly small community and the loan officers do talk among themselves.

The final issue is to ask the loan officer the best way to make contact with him/her regarding a potential situation. Some people prefer e-mail to phone calls. This is another way to show loan officers you respect their time.

When showcasing a deal, you are trying to build a long-term relationship and create credibility with the loan officer because the officer has the ability to fund multiple transactions. The following question arises: "To whom is the broker

loyal—the client or the loan officer?" The answer is "both". If the broker promotes a bad deal, the opportunity lost for all parties involved is great, and, at the end of the day, no one will be satisfied. Ultimately, the broker will lose the relationship and respect of both the client and loan officer.

You have to be committed to commercial lending in order to be successful. In the October 2003 issue of *Scotsman Guide*, Bill Sparkman (The Coach) said, "Don't get so much going at one time that you don't do anything well." If you are not going to put in the time and effort necessary to work on commercial loans, co-broker the deal with someone who will. Commercial lending may be a similar industry, but there is still a significant learning curve.

Know your loan officers and what they are looking for. Create credibility. Now, time for a commercial?

David Kleinman is a Senior Vice President at Intel Mortgage Company, headquartered in Atlanta, Georgia, with branch offices in New York, NY, and Tampa, FL. Intel Mortgage Company originates commercial loans in all 50 states. The company provides intelligent and quick solutions for all types of commercial financing needs. The company also co-brokers commercial financing situations with residential mortgage companies. For more information, you can reach Mr. Kleinman at 404.259.9926, e-mail at dkleinman@intelmortgagecompany.com, or visit www.intelmortgagecompany.com.

