

The Well-Rounded Broker

Residential-loan originators should consider adding commercial loans to their repertoire

By Joe Mardesich

A client calls with a request for a commercial loan. This is a great opportunity, but there's just one small catch: You are a residential broker who has never closed a commercial loan before. Can you still help your client get the loan, all while earning a nice paycheck?

The answer is, yes. More and more residential mortgage brokers are beginning to realize the natural synergies of adding commercial loans to their menu of services. Before jumping into commercial loans, however, residential brokers need to know about the challenges and opportunities these loans present.

Opportunities

According to the Mortgage Bankers Association, commercial loan debt at the end of this past first quarter stood at almost \$2.7 trillion. A large percentage of commercial loans mature every year, and most are written for short terms of three to 10 years. This creates a lot of loans that need refinancing each year — and it doesn't even count new purchases, new construction and non-real estate commercial loans in which a broker can participate — such as equipment financing, lines of credit and business-acquisition loans.



Joe Mardesich is senior vice president at M5 Commercial Funding LLC, a commercial mortgage brokerage. He does a broad variety of commercial-loan types and has helped numerous residential-loan officers fund commercial loans. M5 offers free educational information for those interested in entering the commercial arena. Reach Mardesich at (801) 833-6641 or joem@m5funding.com.



Illustration by Dennis Wunsch

Amazingly, despite the enormous demand, there are relatively few commercial loan brokers. The need for brokers' services, however, is great.

Much commercial loan origination isn't done by brokers, but it should be. Most origination in this space is done directly by banks and other lenders, but this doesn't produce the best results for most borrowers.

A bank that may offer exceptional terms for one type of loan is often way over the market rate on another. Borrowers often seek

loans at the bank where they keep deposits, but just because it happens to be "their bank," that doesn't mean the bank will do a good job with their particular type of loan. Their need may be to finance a student apartment project, gas station, golf course or hotel. It may be something their bank does poorly, or doesn't do at all.

In addition to this mismatch that often results in poor results for borrowers, brokers often have access to wholesale pricing offered

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by lenders, just like in the residential mortgage industry. Commercial wholesale pricing, however, often includes rebates to brokers and rates that aren't available to a direct borrower. A good broker who knows the market can often save a borrower a ton of money.

The need for brokers is great, and yet there are relatively few out there. Someone is needed to fill the gap. Why not you?

Advantages

A lack of competition isn't the only reason commercial-loan brokerage is such a great opportunity. In many cases, referral fees are allowable and there are few limits on where you can do business, so you can draw from a wide geographic area. Commercial loans also are typically larger in dollar amount than residential loans, which translates to potentially larger commissions.

There also is a lot of variety in commercial lending. Residential is limited to a few property types, but commercial loans are done on a dizzying array of projects, many with their own

sets of structures and guidelines. These include multifamily, office, retail and light industrial/industrial flex space as generic-use property types. Special-purpose properties include hotels and motels, gas stations, restaurants, car washes, RV parks, marinas, golf courses, churches and more. In addition, there is a large variety of equipment that can be financed, for businesses, nonprofits and municipalities.

How to begin

All of this may sound like a great idea. Interested brokers should take several steps before jumping into commercial loans.

- **Learn all you can.** The best ways are to read industry publications and to interact with lenders.
- **Get your feet wet.** Start with one or two deals, and work your way through them. Don't do too many at a time, and don't quit your day job. The learning curve for commercial is challenging, but if you make small, consistent efforts, you will learn more from doing actual deals than any other way — and by starting slowly, you won't lose your shirt in the process.

■ **Get a mentor.** This is the fastest way to learn the ropes. A mentor can shorten your learning curve by years and help you make money along the way. Think of it as a paid internship.

■ **Specialize.** The variety of commercial deal types is vast, and the various types are more different from each other than a residential broker experiences. One way to get competent more quickly is to narrow your efforts until you master one type of property or loan program, then gradually expand your focus from there.



Many mortgage professionals of the future will likely be adept at residential and commercial loans. Often, when things are slower in the residential industry, things are bustling with commercial and vice versa. There are natural synergies, and clients will look to brokers as a source to help with all their financing needs. By learning the commercial ropes now, you may be setting yourself up for long-term success. ■