Be Prepared to Close the Deal

Ensure all the bases are covered prior to approaching a lender

By Stephen A. Sobin

Many new commercial mortgage brokers, especially residential brokers who do not regularly place commercial loans, do not adequately prepare themselves and their clients before contacting a commercial mortgage lender and submitting a commercial mortgage loan application.

This leads to a high level of rejection for the broker. It also results in a lot of wasted time by the lender's underwriting staff.

Following is an overview of the major steps a broker should take before submitting their client's application to a lender, as well as a look at some key factors to be aware of during the loan-review process. As a mortgage broker, if you can stay on top of these variables, the odds of successfully shepherding a deal through to completion will improve tremendously.

Financial check

If a borrower has open credit problems, such as currently delinquent mortgages, judgments or tax liens, almost every conventional lender will issue an immediate rejection. Any and all such issues should be resolved satisfactorily before application. Brokers should have their borrowers prepare a clear and well-written explanation of all such issues.

Lenders may consider these applications if the issues are resolved and in the past. If any issues are recurring, or likely to reoccur, the only likely option for the borrower would be a higher interest-rate loan through a private or hard-money lender. Conventional commercial lenders do not want to get involved with such a borrower unless all such issues are in the rearview mirror.

Photo illustration by Karen Steichen

Lenders today demand that a borrower has sufficient net worth and cash liquidity to qualify for a loan. Lenders do not want a borrower to invest all available cash into a property and leave nothing in reserve, in case of emergency, for unexpected property repairs or other expenses.

Without adequate remaining cash reserves, the borrower could be stuck. Lenders will expect to see about 5 percent left in reserves after closing to cover potential emergencies.

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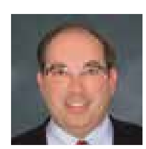

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In addition, lenders will want to see sufficient total net worth before making a loan. Many lenders require some degree of a personal guarantee from the borrower. If the borrower does not have sufficient net worth, they will not able to cover the necessary guarantee. Most lenders will expect to see that a borrower has net worth at least equal to the new loan amount.

Management experience

One of the first items lenders look for is a borrower's experience owning or managing similar properties in the past. Let's say a borrower wants to buy a motel or gas station but has never managed a similar property in the past.

Most lenders will not entertain such a request unless the borrower is willing to hire a professional property manager or key employee who has a demonstrated ability to manage a similar property. Lenders are not willing to take the chance of a new borrower learning on the job.

A borrower will need to furnish a resume that details past experience. Additionally, if the borrower has failed in the past, as demonstrated by a foreclosure or short sale, a lender will expect to receive a well-written letter of explanation before giving the borrower another chance. Don't go in blind and hope that a lender won't uncover past problems. The lender will, and to ignore that reality on the front end will only waste everyone's time and money.

Meet the guidelines

Before you apply with a lender, make sure to understand and meet the lender's guidelines. Lenders typically lend up to 75 to 80 percent of the purchase price of the property. The days of lenders making loans equal to 100 percent or even 90 percent of a property's value are long gone.

Lenders have guidelines concerning loan amounts, the locations where they lend and the types of loans offered. Make sure to understand a lender's guidelines before submitting a loan application. Make sure the lender offers the type of loan you are seeking. Lenders do not want to waste time looking at loan applications that do not meet their lending objectives.

No lender wants to waste hours of time wading through reams of useless paperwork to ascertain whether or not to approve a loan. If a lender does not understand your request within a couple minutes, the loan will be passed over in favor of someone else's application. The typical lender receives far more loan applications than they can actually close.

This means a lender is not going to waste time on your application if the loan request does not stand out and demand attention. Your application needs to state all of the important information clearly and concisely. Many first-time or residential brokers do not understand the importance of a good loan package. Many worthwhile loans have been rejected because the broker did not present the request properly. A well-prepared request will contain the following:

- **A cover letter or executive summary** explaining the transaction and the loan request;
- **A personal financial statement** showing assets, liabilities, net worth and real estate owned;
- **A financial statement for the property** that includes a summary of operating income and expenses; and
- **A current rent roll,** as well as a financial pro forma and digital photos of the property.

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Be available

Lenders will invariably have questions after they review the initial submission. Make sure the lender can reach you easily. If a lender gets no answer, a child answering a home phone, or a mailbox that is full, they will likely move on to the next deal. Most importantly, do not make up answers you think the lender wants to hear.

Answer truthfully. If you do not know the answer, speak to the borrower and find out. Don't assume anything. Wrong answers up front usually derail the loan process later after a lot of work has been done.

As a broker, your job is to manage the borrower's expectations and keep them informed. If the borrower requests terms that don't meet the lender's guidelines, say so up front. Don't wait until a commitment letter is issued to tell your client that the terms a lender offered differ from the client's original request.

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Borrowers who use the services of a commercial mortgage broker expect the broker to act professionally, understand the loan process and to know which lenders to approach. An experienced broker will understand how to prepare a loan package that covers all of the necessary information in a concise and well-written package.

That broker will understand each lender's guidelines and requirements, and choose only those lenders that are likely to approve the loan on terms acceptable to the borrower. The mortage broker will be expected to demonstrate a skill set that the borrower lacks, or else why would the borrower agree to a broker fee in the first place? Most importantly, a good broker will guide the transaction from start to finish, ensuring that both a lender's and borrower's needs are met in an expeditious manner. ■