# There's Always Room for Small-Balance

## Maximize your business with loans of less than $5 million

By **Salomon Wancier,** senior vice president, marketing communications, Silver Hill Financial

Whether you prefer to focus on large-balance originations or are new to the commercial industry, there's a place for small-balance loans in your book of business. It may surprise you to learn that the market for commercial loans of $5 million and smaller is on par with the larger commercial-mortgage-backed-securities market, as widely reported by industry analysts.

Although conventional wisdom has long been that closing a small-balance loan takes the same amount of time and effort as closing a multimillion-dollar deal, that perception is no longer reality. In today's market, ignoring small-commercial deals is simply leaving money on the table.

Take, for example, the opportunity in multifamily housing alone. In December 2006, the Mortgage Bankers Association (MBA) released its "2005 MBA Annual Report on Multifamily Originations," citing that 49,727 multifamily loans closed in 2005, with an average size of $2.7 million.

Of that number, 22,605 loans were $1 million or smaller, and 17,436 were in the $1 million to $3 million range. These smaller loans represented 80 percent of all commercial multifamily loans. Less than 10,000 loans fell within the $3 million-and-more categories.

The point is that there are more opportunities to originate small-balance-commercial loans than larger deals; and thanks to innovative lenders in the market, the time has never been better to do it efficiently.

**Salomon Wancier** is senior vice president, marketing communications, for Silver Hill Financial, a nationwide wholesale commercial real estate lender with a common-sense approach to small-balance loans from $100,000 to $1.5 million. Look for Silver Hill's new Broker Referral Program this month, offering commission for closed deals referred directly to Silver Hill, which handles the entire transaction on the broker's behalf. For more information, visit www.silverhillfinancial.com or call (888) 988-8843.

### Advancing the process

With the surge of available small-balance programs, many experienced commercial brokers have leveraged the ability to close smaller deals in less time than their large-balance counterparts. Such brokers are finding that small-balance loans in the sub-$1.5 million range provide a welcome income flow while they work on closing larger commercial transactions.

This "diversified" approach works especially well now because of advancements in the small-balance market. Many of the universal requirements of commercial lenders are simply not relevant in today's small-balance-commercial transactions, as demonstrated by several lenders' processes for such deals. Programs have grown to include specialty lenders and streamlined options that make brokering small loans easier and faster than in the past.

For example, with small-balance deals, some lenders have incorporated efficiencies and even a level of standardization to the traditionally individualized loan process.

As a result, some small-balance lending programs feature preapprovals, less-stringent appraisals, more-flexible terms and faster closings than conventional programs.

Consequently, mortgage professionals are harnessing these efficiencies to close small deals expeditiously and profitably rather than ignoring them.

The payoff is three-fold: incremental income from deals that previously would have been passed over; improved customer-relationship management as a result of serving additional needs; and more referral opportunities.

### Easing the transition

Brokers new to the commercial industry are also discovering these programs facilitate a smooth transition into the business. Some small-balance lenders have modeled their approach after the residential mortgage process — from forms to underwriting to closing. This can make commercial transactions more comfortable for novices. Brokers can gain valuable experience by leveraging these innovative programs to close small-commercial deals.

It is also interesting to note that the small-balance category encompasses a wide variety of property types as well as programs that provide alternatives to traditional financing options. These attributes present opportunities for brokers to specialize in areas that make sense for their business.

For example, some small-balance loan programs are favorable for owner-occupied properties, presenting a viable alternative to Small Business Administration (SBA) programs. Or you might look for a program that lends on unique property types and position yourself as an expert (through marketing and networking efforts) on financing for a particular property type.

### Creative partnerships

Small-balance-commercial loans can also present opportunities for brokers to align themselves with referral partners and other industry professionals. Banks and credit unions, for instance, frequently encounter small-commercial loan opportunities they cannot serve, but they want to keep their depositor base happy by offering financing alternatives.

In the same manner, it may be beneficial for brokers to team up with a company that offers only SBA loans. That way, you can provide a home for the investment-property deals they cannot originate. By talking with loan officers at these institutions about their turn-down business, brokers can build promising referral sources.

Brokers who prefer to keep large-balance loans as their sole focus may want to consider an additional incentive of small-balance programs. Some lenders now offer referral programs whereby they handle the entire transaction but allow the referring broker to receive financial compensation at closing. This is an attractive opportunity for commercial brokers to serve clients while adding a revenue stream that does not require additional work.

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Ultimately, small-balance-commercial deals can be a productive and valuable part of any commercial broker's business mix.

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