



By Igor Zhizhin
President
American Street Capital LLC

The Summary of All Deals

Get lenders' attention by drafting effective executive summaries

PERHAPS THE MOST SIGNIFICANT FACTOR that differentiates successful commercial mortgage brokers from their competition is their ability to draft effective executive summaries of their deals. The executive summary serves as an elevator pitch on paper; it needs, therefore, to immediately grab the attention of a lender. This document should include the details of the story behind the requested loan, as well as the underlying criteria for credit in a single page that is clear, professionally stylized and accurate.

Many commercial mortgage brokers mistakenly assume that sending all pertinent documents will lead to an approval. Nothing is more common or damaging than a commercial broker who sends a mass of documents to a lender's e-mail and expects that lender to immediately organize the mess, understand the entire transaction and then come to a decision within five minutes of first receiving the e-mail.

What commercial mortgage brokers often forget is that many lenders receive between 15 and 20 qualified requests per day. To truly grab a lender's attention, commercial mortgage brokers must present a detailed and solid overview of a deal to the lender's underwriting department and senior members, who in turn ideally will move it ahead to the credit and management department.

The following is an overview of the critical components of a proper executive summary that will significantly improve a commercial broker's position to get deals reviewed and closed.

Design and style

The executive summary should not only convey the facts of a transaction; it also should reinforce the brand, professionalism

and organizational skills of its commercial mortgage broker. It's imperative to present the document on the broker's letterhead. Because many lenders have had challenges with commercial mortgage brokers in the past, they likely will conduct basic due diligence on the brokerage if it's their first time working with the company.

With that in mind, including the corporate address, contact information, and most importantly, a website in the footer can help to expedite the process and establish immediate legitimacy. Further, the header should have a clean and legible logo. Remember, each time employees at the lender's office touch the executive summary, they will see the logo. By the time the transaction closes, the lender's personnel will start recognizing it. Something this small is enough to help turn two-week feedback into two-day feedback in the future.

The body of the executive summary should be in a table format that is concise, exclusively based on facts and one-page long. Always bear in mind that lenders base their decision to decline or accept applications on this document. Often busy and understaffed, if lenders can move a request off their desks in 30 seconds instead of hours, then they are operating efficiently.

The summary's ideal format is one page with a two- or three-column table that uses basic fonts and design, which allows the document's key details to be quickly found and noted. Most important, the summary's information needs to have a logical progression, as any confusion in the information increases the possibility of a rejection. A preferred approach is to use the document's top section to address property-specific information, the second section to address the key principals, the third section

to address financials and the bottom section to summarize the deal's highlights and the specific terms requested.

People and places

Understanding how lenders view assets and borrowers is paramount to a successful executive summary. Commercial real estate lending in its simplest form is giving money to people that you trust for properties that you can quickly sell to recoup outstanding principal. By providing the property details (address, property type, number of units, etc.), lenders can immediately verify the property's neighborhood, get an image of the property, verify if they have nonperforming assets of similar characteristics and evaluate the quality of the asset. Having this level of accurate detail at the top of the document reaffirms the competency and professionalism of the commercial mortgage broker.

When describing the key principals, it's important to address the areas of greatest concern for a lender. Each person that has active involvement as a managing member or general partner and any individual historically with at least a 25 percent interest in the borrowing entity must be documented

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Igor Zhizhin is president of American Street Capital LLC (AMSTCAP). AMSTCAP is a national advisory firm with institutional correspondent relationships specializing in debt placement for stabilized multifamily, owner-occupied and investment properties. Zhizhin has owned financial service companies over the past decade focusing on the commercial real estate finance needs of the small- and medium-enterprise market. Reach Zhizhin at (312) 224-1390 or izhizhin@amstcap.com.

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in the executive summary. Not including them will confirm a lack of understanding by the broker of what defines a key principal or will imply that the broker is trying to hide someone from the lender.

Specific information must include the principals' industry experience in years, net worth, personal liquidities and credit scores from each bureau. Because personal credit is a key factor for almost all programs, providing this information in advance is greatly appreciated and considered a sign of a seasoned commercial mortgage broker.

Numbers and details

Once a lender feels comfortable with the real estate and individuals, the next step will be to confirm how loan payments will be made. If the source of repayment includes a company and rents generated from a different entity, both sets of financials need to be provided.

The next line item is the debt-service-coverage ratio (DSCR). It's important that you do not use actual financials but underwritten financials for this calculation that utilize all the appropriate holdbacks like vacancy factor, replacement reserves and management fees. Include a line item that describes the assumed loan amount, rate and amortization to derive the annual debt payments for this calculation. It is advised

to get a good understanding of the general rates and amortization for each lender before completing this section. Nothing is more frustrating for commercial mortgage brokers than presenting a deal that seems to have a strong DSCR only to have it rejected because they used unrealistic rates and terms for their underwriting.

Finally, provide a capitalization-rate or income-derived property value. Make sure to verify acceptable cap rates for the asset class from each prospective lender or risk having deals declined for exceeding loan-to-value thresholds.

The final section of the document should highlight the key strengths of the deal and what terms are requested. Although it may seem redundant, it must be remembered that each overview is one of dozens read that day. By repeating the attractive aspects of the deal at the end, the lender will walk away with a positive impression.

This typically should include four points to six points with at least one-line item dealing with the strength of the asset, strength of the sponsors and strength of the historical financials. These should be short bullet points that preferably address the key areas of interest or concern for the lender. At the bottom of the document, there must be an independent line item that clearly addresses requested terms. It

should have the loan amount, amortization, loan term, lender origination, broker origination and broker yield-spread premium, if applicable. This way, the broker can avoid a three-week delay if it's learned that what the client requested simply is not available.

In constructing an executive summary, brokers must have a solid understanding of what the market is willing to accept in loan rates and terms; otherwise, they're setting themselves up for failure.

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A professional and accurate executive summary can be a skeleton key for opening lenders' doors. Although it does not guarantee an offer, it will guarantee that a lender will look at the deal and develop instant respect for the commercial mortgage broker's understanding of how to present a prospective transaction.

Each executive summary should be customized to the parameters, rates and terms of each respective lender so that the broker demonstrates a strong understanding of their specific appetites. Although the creation of proper executive summaries takes significantly longer to complete and verify, in a world where grabbing a lender's immediate attention and shortening the review process is 50 percent of getting an approval, that time and effort is well spent. ■