



## **INTRODUCTION to COMMERCIAL LENDING for RESIDENTIAL MORTGAGE PROFESSIONALS**

- 1. Review the “State-of-Affairs” in Commercial Lending**
  - Recent History – It’s “Booming” for THIS Year and NEXT
  - Portfolio Product – NO ‘Fannie-Mae’ nor ‘Freddie-Mac’ at road’s end.
  - Strictly a FINANCIAL Decision – Income (or equivalent) Based ONLY.
  - Deals take “Forever” – Spend time ONLY on those YOU can Close.
  
- 2. Customer/Realtor “SHOCK-FACTORS”**
  - Prepayment Penalties (“Soft” vs. Rock-Hard)
  - Up-Front Appraisal Costs
  - Higher Interest Rates
  - Origination Fees
  
- 3. Typical Deal “Time-Line”**
  - Magic Questions
  - Proposal – Terms Sheet
  - Letter-of-Intent
  - Required Documents
  - BINDING Loan Commitment Letter
  - Appraisal and Appraisal Review
  - Documents, Closing and Funding
  
- 4. Marketing and Sales Opportunities**
  - Current Client Base
  - Current Realtor Contacts
  - Title Company Lists – “Owner of Record” for Comm. Zoned Parcels
  - Local Bank Turndowns (FICO/Low Deposits/Ratios/etc.)
  - Commission Recommendations
  - Key Competitors – Nationally and Locally – Our Advantages!!
  
- 5. “OPTIONAL” Commercial Calculations Introduction**
  - Many Deals are OVER-Priced by “New Realtors” or for “Newby” Buyers
  - KEY Number – Net-Operating-Income
  - KEY Ratio – Capitalization Rate
  - Prepayment Penalty Options



## - **Basic Terms, Basic Math**

- **Example Property Transaction** – Purchase Price of **\$1,000,000**      - Loan Amount of **\$650,000**
  - Gross Rents/Yr. of **\$100,000**      - Owner Cash Exp. of **\$15,000**
  - Loan Interest Rate of **8.375%**      - P.I. Payment of **\$5,180/mo.**
- **Net-Operating-Income** = Gross Rents/Yr. – (minus) Owner Cash Expenses  
**N.O.I. = \$100,000 - \$15,000 = \$85,000**
- **Capitalization Rate** = N.O.I./ (divided by) Purchase Price (or Appraised Value IF seasoned 24mos.)  
**Cap. Rate = \$85,000 / \$1,000,000 = 0.085 -or- 8.50%**
- **Debt-Service-Coverage-Ratio** = N.O.I. / (divided by) Total Annual Mortgage Payment (P.I. x 12)  
**DSCR = \$85,000 / \$62,160 = 1.36x**

## - **Business Environment**

- **Big Deals are Dead** for now – over 10 stories and/or over \$25,000,000. These are tied to T.Bills (usually financed at 10 Yr. T-Bill plus 2.5 to 3.0 points) and “don’t work” above 5.00% or so.
- **Land and Development for Resale are Dead** – highly speculative and just can’t finance right now.
- **Greatest Opportunities are in YOUR Current “Place”!!**
  - Residential Investors “Moving-Up” to Commercial Deals (1031’s too)
  - Small Business Owners wanting to BUY a building or office space rather than lease
  - Small Business Owners needing to ESCAPE a rapidly escalating loan (SBA, Prime, etc.)
  - Local Bank “Turn-Downs”
- **DO the ‘Deals’ We can Get Done Easiest and Quickest**
  - **Existing Buildings** – Most All Income Producing Commercially Zoned Property
  - **Construction/Development** for Long-Term Hold (NOT Resale)
  - Building Types (see loan grid on our Rate Sheet)
- **Commission Recommendations** – **YOU set YOUR own Fees (up-front), it’s YOUR deal!**
  - “UP-FRONT” – 1.5% Collected by the Bank on Your Behalf (NOT disclosed).
  - TOTAL Commissions – 1.5% on Loans from \$100,000 to \$5,000,000 (Max. of \$37,500).
- **“Softest” Prepayment Penalties in the Business - Protect Your Client’s Financial Flexibility!**
  - Add to the Original Loan Amount in the Future without Penalty and WITH Commission (Add’l Fee)
  - 1.50% Loan Assumption (and Optional Loan Amount Add-On) Makes Selling the Property Easier.
  - Waive the Prepayment Penalty in the last year (or two) of the Fixed Term as part of a refinance.
- **Our Competitors (especially Silverhill, Interbay and Velocity) - “Lock-Out” YOUR Borrowers**
  - Lock-Out, Income Replacement, Guaranteed Interest and Defeasance all Mean **“1 Thing”**:
    - Borrower (YOUR Client) is “Locked-Out” of Selling and/or Refinancing the property.
    - IF they want to sell or refi. they have to pay ALL of the Interest that would have been charged during the Lock-Out Period (5, 7, 10 or 15 Years) - plus Principal.
    - This could be as much as **\$400,000 on a \$750,000 loan!!**
  - **YOU want Repeat Clients - NOT enraged borrowers with “Dead Money” Properties!!**