



Before You Telephone About That Commercial Deal...



Every broker wants to close a quick commercial loan, and many believe that as long as they place a telephone call

to their commercial lender, they are on your way to the big bucks. However, the reality of life and the commercial loan deal is that you only get out what you put into it. If you are unprepared to deal with the multitude of questions surrounding any commercial loan, you will just be spinning your wheels.

What if I called a residential Mortgage Broker and wanted to finance a new home? I may be asked questions about the source of my downpayment, income, longevity in the community, job, and credit history, among other factors. If I cannot answer satisfactorily, I will probably not get my loan. However, I still receive calls about commercial deals from residential brokers who are unable to answer these very questions, often responding with, "This is a great property, the borrowers are great, and they only want umpteen million dollars..."

Let us consider some possible questions:

WHAT CAN YOU TELL ME ABOUT THE BORROWERS?

- What is their experience with the property type we are discussing?
- What is their net worth, and how much actual cash or cash equivalents do they have?

Even if they always write recourse loans, brokers should still be interested in the bor-

rower. As one loan officer said to me, "Every borrower tells me that they are millionaires." In other words, the borrower's financial statement, which may be a bit optimistic, says that they are millionaires. There is an old saying: Borrowers have three different financial statements—one for the IRS, one for the bank and one that they keep for themselves. Unfortunately, in some instances, that is still the case. Cash is king, and it is very important to have a substantial amount of it in the statement. If someone says they are worth \$10 million, but only has \$10,000 in cash, you should look twice.

WHAT CAN YOU TELL ME ABOUT THE PROPERTY LOCATION?

- Where is the property located?
- How is the community?
- What are the demographics?
- What makes the community prosper?

The stability of the community is important and brokers need to know about the average income, competing communities and location of the project within the community. The local Chamber of Commerce office is a good source to begin amassing all of the necessary facts and figures. Actually, the first question in this category that you should ask is: "Have you seen the property?" You will be surprised at how often the answer is no.

WHAT CAN YOU TELL ME ABOUT THE ACTUAL PROPERTY?

- What is the actual net operating income (NOI)?
- What percent is the NOI of effective gross income?
- What are the expenses taken?
- Who are the credit, regional and lease tenants, including length, rates, turnover and anticipated T & I costs?

The NOI is the effective gross income, minus operating expenses, reserves, and

tenant improvements and leasing commissions prior to debt coverage. It could be a factual statistic or one that is projected; it cannot be assumed that any one figure is superior. The statistic is inaccurate due to inconsistent and flexible factors, so calculations should be based invariably upon the community and average property type. If an apartment complex is showing expenses that amount to 25 percent of effective gross income, and every other apartment complex in the community is showing 30 to 35 percent, there may be a problem. Do not overlook the fact that some borrowers may not include a vacancy factor, because the property is completely occupied. You need to be aware that it is possible to show a two percent management fee, even when the average for the community is five percent.

What is an anchor? What is a credit? What about the leases? Is there a clause in the lease of the major tenant which requires them to stay open during the lease term, or can they simply close their doors and continue to pay rent? If so, how does that affect the other tenants and the center? What are the S & P ratings of the tenant? Are there any concessions in the leases? You may not know the answers to these questions, but should be prepared to find out.

WHAT CAN YOU TELL ME ABOUT MANAGEMENT?

- Is the owner the manager?
- Does he have experience?
- How many properties of this type has he operated?
- Is there a backup management team in case of death?

These questions, while seemingly obvious, are important and often overlooked.

WHAT ABOUT ACTUAL COSTS IF THE PROPERTY IS NEW OR RECENTLY PURCHASED?

If the property is new, be prepared to discuss the actual cost of the project and the amount of the borrower's actual cash. Eliminate the fluff and get down to brass tacks. Brokers need to know the actual dollar amount that the developer has invested. A borrower may be able to obtain a loan of 75 percent loan-to-value, but they also may have 80-85 percent loan-to-cost, depending upon the property type.

WHAT ABOUT THE COMPETITION?

How is the competition? How will our property fare in a competitive or depressed market? What happens if someone builds a competing project down the street from our property? Can the community absorb the increased number of apartments and offices? You need to be able to understand

and to explain if and how your property will fair in the marketplace.

WHAT IS THE BORROWER EXPECTING IN THE WAY OF RATE, POINTS AND TERMS?

Ask the borrower, so you can relate the information to the commercial broker. If the deal cannot be done at the terms that the borrower is expecting, do not waste more time with further discussion? Do not quote rates and terms if you do not know what is happening in the marketplace. You will turn your borrower off by giving them inaccurate information.

WHAT DO YOU WANT OUT OF THE FEE? WHAT WILL BE THE FUTURE RELATIONSHIP? HOW ARE YOU GOING TO CONTRIBUTE? HOW SHALL WE PROCEED?

Assuming that the borrower has answered all of the previous questions satisfactorily, and the deal looks possible, where do we go from there?

It comes down to preference—do you want a simple referral fee, or do you want to contribute to the deal and secure a larger percentage?

It may be much more profitable for you simply to refer the prospective borrower's name and phone number, receive a small finder's fee at the deal's close. You will spend no time on the deal and can focus on what you do best.

Your future with the borrower will be determined by the current relationship you have with them. If it has been long-standing, you may want to maintain contact. However, it also may be easier to simply turn a new client over to the commercial lender.

Please do not send a complete loan package to your commercial lender until he asks for it, but make sure to complete an executive loan summary which explains the essential aspects of the deal, and fax it to the commercial lender after you have had a chance to discuss the deal over the phone.

A commercial deal can be both fun and frustrating. If you have an opportunity to work on one, give it a try, but with one small piece of advice: Know what can be done, and do not say you can do it until you know for sure.

Good Luck.