

## Increasing your success through Commercial loans (Part 1)

By: Jeff Long, CPA

By now hopefully you are aware that our company, Financial Resources, makes residential loan originations and can help you make money as outlined in my previous articles. However, in this article I want to explore commercial loans and how you can make the BIG money!

Financial Resources, is a full service residential and commercial mortgage company. We have been in business since 1989. The main office for the company is in New Hampshire and there are branch offices in Oklahoma and many other states. I have worked out of the Oklahoma office for the last 11 years. Recently, I was transferred and promoted, to the main office in Meredith, New Hampshire, as the Director of Commercial Lending & Private Mortgages.

There is a lot to know about commercial loans that is why it is my goal to make it easy to understand. Thus to open up new horizons for you in this new year I will explore the many facets of commercial loans in a series of articles. In this article I will begin with the basics so you can have an overall understanding of commercial loans and increase your confidence level when you find a commercial deal. In future articles I will explore how commercial loans are underwritten and show you how to recognize a good commercial deal from a bad commercial deal. I will also give you some marketing ideas on how you can find good deals and make the big money. Throughout some of the articles I will provide you with some case studies to show you the full loan process.

Commercial loans are very similar to private mortgages or factoring deals in the aspect that it is a numbers game. No matter how long you have been in the cash flow industry, I am sure you are aware that not all of the deals you come across are going to close. Well, commercial loan originations are the same way. We have found that typically, out of 100 new loan requests we find that about 25 of the loan requests have no merit at all with a 0% chance of closing; 25 of the loan requests have some merit with perhaps a 33% chance of closing; 25 of the loan requests have a lot of merit with perhaps a 66% chance of closing; and a final group of 25 of the loan requests that have strong merit and have a 100% chance of closing. Realistically, though, only about 10 out of a 100 loans actually close. The other 90 do not close for one reason or another.

Over the years we have had the pleasure of closing many loans that were brought to us by Cash Flow Consultants. I say pleasure, because it is fun to cut a 4 to 5 figure commission check to a consultant who really didn't think they had the ability find a closable commercial loan. Most consultants are surprised to see the large amount of money they can earn for doing relatively little work. For in the typical closed loan case that results in a commission, a consultant has between 2 and 10 hours invested. An example of a

recently closed loan was a 62-unit apartment complex where the consultant earned a \$15,000 commission.

Some consultants have had a tough time understanding the underwriting differences between a residential private mortgage and a commercial private mortgage. Likewise, the same consultants often have a tough time understanding the differences between residential loans and commercial loans. The best place to start in bridging this divide is by comprehending the fundamental difference. With residential loans the underwriting focus is typically about 80% on the borrower and 20% on the property. With commercial loans the focus is opposite in that 20% is on the borrower and 80% on the property. For example, if a person wishes to buy a typical Single Family Residential house and the appraisal meets the normal underwriting standards then the vast majority of the underwriter's attention will focus on the qualifications of the borrower. Such residential loan borrower qualifications include: credit scores, debt ratios, job history, gross monthly income, etc. Although these borrower qualifications help when underwriting a commercial loan, once it is determined that a borrower fits then all of the remaining focus is on property. The key aspects of the property are as follows: income generated by or at the property, location, type of construction, zoning, actual use of the building, potential uses for the building, age of the building, surrounding properties, deferred maintenance needed, potential environmental issues, and many more. Thus we would encourage you to make the mental shift when faced with a commercial deal and really focus on the property.

If you only remember one thing about commercial loans after reading this article it should be that the value of a piece of property is mainly a function of the income that the property generates or is capable of generating. For this fact will then become the focus of the loan, the LTV, the Debt Service Coverage Ratio, terms & type of loan available. In order to expand on this concept it is important to understand that there are two main types of commercial properties. One type is an income producing property such as an apartment complex, an office building, a marina, a mobile home park, etc. This type of property generates income as a result of leasing out the space to tenants. The second type is a commercial business property. This type of commercial property generates income as a result of the business activity that takes place on the property. Examples of this type of property would be: restaurants, gas stations, dry cleaners, medical clinics, bowling alleys, etc. Both types of commercial properties are underwritten in similar manners. However, as with residential borrowers, no two commercial properties or borrowers are the same, thus underwriting needs can vary from one property type to the next.

Financial Resources is very aggressive with commercial properties, thus we will consider most commercial real estate loans. Our ideal loan range is between \$250,000 & \$30,000,000 for purchases and refinances. In order to begin evaluating a loan request we ask that you fax over a detailed and well thought out executive summary for your loan request. Sometimes brokers send us a deal indicating that it is "commercial" but they don't tell us what kind of property it is. For example, is the "commercial" property a bowling alley, a hotel, or salvage yard? Thus, not telling us what kind of commercial property we are dealing with is like you asking me what do I drive, and I reply "a car."

You can obtain a fill-in-the-blank executive summary form from page 4 of our consultant information package found on our website at [www.financialresourcesinc.net](http://www.financialresourcesinc.net) or by sending me a request by email or fax. However, if the borrower has already provided you with a detailed summary of the loan request, we will gladly review it.

Key point on filling out an executive summary: Many consultants have found it easier to summarize their deal if they pretend they or a close family member were loaning their own money to the borrower. With protection of your assets in mind, please provide all of the details that you would want to know if you or your family were making the loan.

You are now on your journey to understanding commercial loans. There is a lot more information that I am looking forward to sharing in future articles. The commercial loan world can be very exciting and the commissions you can earn can be many thousands of dollars. If you have any questions please call, send a fax or send me an email.

*Jeff Long, CPA, is the Director of Commercial Lending and Private Mortgages of Financial Resources, is now in the main office in New Hampshire and can be reached by calling (603) 279-1133, or fax (603) 279-4278 or email [jlong@franh.com](mailto:jlong@franh.com) If you have a residential loan request please contact Cindy Buckmaster in the Tulsa, Oklahoma branch office at (918) 307-1949 or by fax (918) 294-1913 or by email [cindybuckmaster@hotmail.com](mailto:cindybuckmaster@hotmail.com). Consultant Information packages can be obtained by mail upon a faxed request, by email or from the Web site at [www.financialresourcesinc.net](http://www.financialresourcesinc.net).*