

Increasing your Success Through Commercial Loans (Additional Questions to ask a commercial loan prospect)

By: Jeff Long, CPA

Throughout the last several Journal issues we have been exploring how to earn big commissions by originating commercial loans. I suggest that you review those articles and columns or contact me and I will send them to you. Here is a quick review of last month.

Meetings with clients will be most productive and profitable if you understand what information is relevant, the borrower's motivation for the loan, and what questions to ask. This information gathering allows us to be competitive and obtain the best loan terms for your borrower. Ultimately, this can be the difference between you earning a commission on a closed loan and wasting time while putting the file in your dead drawer.

We suggest that consultants conduct a short interview with the borrower to gather the pertinent information and the goals of the financing proposal so that we can quickly customize a loan structure to meet the borrower's objectives. These topics, when used in conjunction with the Executive Summary form (which can be found on our website), are designed so that you know what questions to ask and how to express the answers. You can never send us too much information. The more you acquire up front, the less we will need throughout the loan process. By providing these answers now, we will be able to minimize our time on a weak deal, or help spot problems early in the loan process.

In my previous column I addressed in detail the following key questions that should be asked of the borrower: (1) What type of financing are you seeking? (2) How much money do you have available for a down payment? (3) What are your goals and motivations in regards to the obtaining a new loan?

A typical interview should cover the previous topics and the following:

4. WHO HAS SEEN THIS DEAL? Have they gone to other brokers or lenders? If yes, who did they talk to and what were the terms that were offered? If other lenders turned them down, find out why. Are the borrower's requests logical and does it seem realistic for a lender. For example, a loan request for a 40 yr term, with no balloon, 7% interest, no closing costs, bad credit, and no down payment is not realistic and a waste of time.

5. DESCRIPTION OF PROPERTY? What is the age of the building, the occupancy percentage, type of tenants, and lease terms? Are there any environmental issues? Is the building neat in appearance or does it need some repairs? Tell us about the area and what is on either side of the building. Encourage the borrower to tell you of any problems with the property UP FRONT!! Let's avoid surprises.

6. POTENTIAL ISSUES WORTH AN INQUIRY? Here are some other general things to look for when working on a commercial loan.

***Potential title issues:** Are the property taxes current? Is anyone getting a divorce? Has any principal owner of the property recently died? Are any estates in probate? Are there any property code violations? Are there any IRS tax liens or pending lawsuits? Generally speaking, you should develop your instincts about the quality of the loan and the need to address all or some of these potential issues. On hard money loans you should ask about all of these potential issues just to be safe. However, on Grade "A" deals, touching on some would be a good idea.

***Environmental concerns:** Pay close attention to any companies that deal with chemicals, gasoline or oil products, such as: dry cleaners, gas stations, auto repair places, oil change shops, etc. Then ask if they are aware of any environmental issues with the property. Important!!! Has there been an environmental study done on the property and how old are the gas tanks (if any)?

7. KEY QUESTION TO ASK THE BORROWER!!! "CAN YOU THINK OF ANY ASPECT OF YOUR LOAN REQUEST THAT COULD CAUSE A PROBLEM AND PREVENT US FROM MAKING YOU THE LOAN?" In other words, we want to avoid any last minute surprises, so please tell us about any flaws now, especially before you spend money on appraisals, etc.

It is my hope that these interview questions will aid you in your journey to high profitability in commercial loans.

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