Know Your Deals

When searching for a lender, be sure to master six key points about your clients' loans

By **Gardy Bloemers,** vice president, Anglo-American Financial LLC

Executive Summary

Here are six points you should understand about each deal you submit to lenders:

1. Collateral
2. Collateral value
3. Project description
4. Loan amount and purpose
5. Loan type
6. Timing

Commercial brokers do not need management consultants to ensure a lender notices their deals. They must, however, know their deals before marketing them to lenders.

From a lender's perspective, brokers must converse intelligently about a deal when shopping for financing. Mastering six key points about their deals allows brokers to make best use of their 60-second pitch opportunity to lenders. These points include: collateral; collateral value; a project description; loan amount and purpose; loan type; and timing.

Understand the key points

When shopping a loan to lenders, brokers must be able to answer an array of questions about each factor. This will help ensure that lenders will take the brokers and their deals seriously.

1. Collateral: What is it? Where is it? How big is it? Does the property have improvements? If yes, what are they, and what is their size in square feet? Is it an income-producing property? Are borrowers willing to cross-collateralize the loan with other property? If so, brokers must provide an accurate description of this, too.

It also is important to provide the exact street address, including ZIP code and county. The parcel-identification number also is useful because it lets the lender look up the real estate in the local tax assessor's database and to learn more about the property's ownership history and its tax-assessed value.

For income-producing properties, provide a current rent roll and the past three years of financial history, if available.

2. Collateral value: Is there an appraisal available? When was it completed, and for whom? When you give a value, label it. Is it the liquidating value, the as-is value or the as-completed value? A number without a label is meaningless.

Lenders usually are willing to make loans based on a percentage of the liquidating value or of the market value. It is important to understand the timeframe on which the definition of each is based. Some lenders may consider the value based on a 90- to 120-day sales and marketing period, while others may indicate a 120- to 180-day sales and marketing period. This is often described as a cash sale to a bulk buyer within a specified time period.

3. Project description: Along with top-level financials, you should provide an overall big picture of the development project. What is the plan? What is the developer attempting to do, and how does this compare to other developments in the same area? Why will this development fly?

If a lender asks you why a particular project is so great and you don't respond, then you will have knocked the wind out of your own sails. All brokers should determine their deal's positive points, just as they should know the less-appetizing elements.

4. Loan amount and purpose: How much do borrowers need, and what do they need it for? Is this a loan to facilitate the collateral's acquisition? For the project's construction? To cover infrastructure costs?

To assist borrowers, make sure that the loan includes all fees that must be paid to close the loan, such as legal costs, commitment fees, funding fees and broker fees. In addition, if an interest reserve is required, build it in to the actual loan request.

5. Loan type: Will the loan be a first-lien position? Second-lien position? Mezzanine?

Include an overview of all existing liens on the property, particularly if you are requesting a second lien or refinance. In some cases, first-lien holders may have the right to refuse additional liens placed on their collateral, which could be problematic.

6. Timing: How quickly do borrowers need to close? Why? Will their purchase contract expire? Will their existing loan come to term?

Many lenders get calls for deals that need to close immediately. If your borrowers need a loan fast, it's essential to know why so that the lender can assess if the deadline is real or if the borrowers just want it fast with no actual deadline, such as an expiration of a purchase contract, for example.

Answer the questions

One or two sentences may be enough to answer these questions. If additional information is needed, the lender will ask for it.

No matter how pressing the deal is, brokers should avoid overloading the lender with too much information or with irrelevant information. They also must make sure that they are familiar with all the information that they send to the lender. Don't dump a loan file on the lender's lap without digesting it first yourself.

In addition, establish a lender's communication

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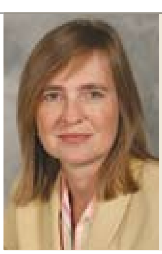

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preference as early as possible. In many cases, e-mails can be just as effective — or even more efficient — than phone calls. This is because phone conversations can easily be forgotten and notes can be lost. E-mails are useful because they can be filed and reviewed at a later time that is convenient to the lender. Make sure to give the lender some time to digest an e-mail before following up. And if the deal must close quickly, say so.

By being knowledgeable, brokers can ensure that lenders understand their deals and respond quickly.

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