



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 – 0.5% to 1.5% to 2.5% from the Bank
 - “MAIN” Bank-Paid Fees – 1.5% (NOO) - 2.5% (Own.Occ.) on Loans from \$250k to \$12MM.
 - “SISTER” Bank-Paid Fees – 0.0% (NOO) to 0.5% (Own.Occ. & Apartments) - \$250k - \$10MM.
 - You can Charge MORE in a separate Broker Fee Agreement with Your Borrower (NOT with Us).
- “Softest” Prepayment Penalties in the Business – (Main Bank) Protect Your Client’s Flexibility!
 - Add to the Original Loan Amount in the Future without Penalty and WITH Commission (Add’l Fee)
 - 1.00% 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!!**