TEN-POINT
COMMERCIAL LOAN PLACEMENT CHECKLIST

If you are a mortgage broker, and you are trying to place a commercial loan, this checklist will help you place the loan quickly and efficiently.

1. Is the deal do-able? You must not waste your precious working hours on a commercial real estate loan that will never close. Instead, you should use that valuable time to market for do-able deals. Deals that have almost no chance of closings include international loans, large land loans, loans on gold mines and landfills, commercial construction loans where the developer is contributing less than 25% of the total cost of the project (with the exception of SBA loans and USDA business and industries loans), residential subdivision construction loans and residential condominium construction loans. If you want to feed your family, work on permanent loans (garden-variety commercial first mortgages) and bridge loans. The smaller the commercial loan, the better. Small deals close. Large commercial loans only close when you have a whole pipeline full of small, bread-and-butter, commercial loans - like loans on small apartment buildings and small office buildings.

2. Make sure your initial package is small. Commercial lenders are busy. If you present them with a “complete package”, you will simply overwhelm them, and they will just turn you down. Your initial package should consist of only an Executive Loan Summary (1 ½ pages max), color photographs, a state and local map, a Pro Forma Operating Statement, either a Rent Roll or Schedule of Leases on the property, last’s year’s Income and Expenses, and a Financial Statement on the borrower. Nothing more! Anything additional can only hurt you. The Gosh Darn Important Rule says to never include anything in a loan package that is not gosh darn important. I lost quite a few commercial loans in my early years when I would throw filler into my loan packages, and my lender would find something disturbing in the filler.

3. You must always include at least one color photograph, and ideally three color photographs, of the subject property in your loan package. Having color photographs in the appraisal is NOT enough. The lender should see the color photographs front-and-center, right after the Executive Loan Summary. Be sure the borrower takes the photographs on a sunny day when there is lots of blue sky. Blue sky sells! This is not the time to be trying to place a commercial construction loan; but if you choose to ignore my advice, make sure that you at least include a color rendering of the proposed property.

4. Use local lenders. Almost every lender in the country greatly prefers to make their commercial real estate loans in their own backyard. It's an area where they are comfortable and about which they enjoy local knowledge. It is MUCH easier to place a commercial real estate loan when the lender is located just a few miles away from the property. So if you are a Delaware mortgage broker, how do you find the local lenders for a suburban area of Atlanta, Georgia? Simple. Just go to maps.yahoo.com and type in the address of the commercial property that you are trying to finance. Then, in the Find a Business field, type in the word, "Banks". All of the local banks, S&L's, and credit unions (don't forget that credit unions will now make commercial loans!) will be plotted on the map of the property. You then simply work outwards from the subject property until you find a bank that will do your deal.

5. Match the size of your lender to the size of your deal. Small banks make small commercial loans. Large banks make large commercial loans. The reason why is because banks and other commercial lenders can only lend a certain percentage of their capital to a single borrower. Imagine a $200 million bank with $20 million in capital (assets minus liabilities, like deposits). If this tiny bank made a $25 million loan to a local Coca Cola bottler, and the bottler went bankrupt, the bank would be wiped out. Therefore, banks will seldom make commercial loans larger than about 2% of their capital. Therefore this $200 million bank might be comfortable making a commercial real estate loan up to around $400,000. Bottom line: The commercial lender that is going to close your deal is the one that is appropriate for the size of your deal.

6. Establish a deposit relationship. There is no easier way to place a commercial real estate loan than to bring in a company owner who promises to move his company's bank accounts to the bank in return for a loan. Bankers love to trade a short-term commercial real estate loan for a long-term banking relationship. Now this technique may not work if your borrower is merely in the business of owning rental real estate – unless the investor is unusually wealthy and maintains large cash balances in his current bank. If your borrower, however, is a company owner, and large amounts of cash move through his corporate accounts, a small, local bank will fall all over itself in its rush to close his commercial mortgage loan for you. Take such deals to a small or a mid-sized bank, rather than a Bank of America or a Wells Fargo Bank. The smaller bank will appreciate the new deposits.

7. You will need to show your commercial lender that the borrower or developer has plenty of skin in the game. It is no longer possible to convince commercial lenders to make a loan when the borrower has very little of his own money at risk. It is therefore imperative that you disclose to your

commercial lender, very early in the loan application process, just how much skin your borrower has in the deal. You should use language in your Executive Loan Summary like this: "The borrower bought this building over ten years for $400,000 – putting down $100,000 of his cash at the time. Since then he has paid the existing loan down to just $235,000. In the meantime, Apple Computer opened a new chip plant in town, driving real estate values skywards. The building will now appraise for at least $1 million." If you are trying to place a construction loan (not recommended during the Great Recession), make sure you use language like this in your Executive Loan Summary: "The developer bought this land for $250,000 over seven years ago for all cash. After a year of tortured negotiations, he finally managed to also purchase the adjoining parcel from a stubborn family trust for $100,000. Assembled together, the combined property finally made this large and uniquely-located commercial center possible. Assembled together (please note that I keep hammering on the appraisal concept of *assemblage*) the combined value of the two contiguous parcels now exceeds $1 million."

8. Always make sure your loan request is understandable. Bankers are lazy. They are not going to do your work for you. If they find that your loan request is confusing, they will simply turn it down. Remember this important rule: Confusion equals turndown. If you just submit a mass of papers to a commercial lender and expect him to sort through them, you have no chance of closing the loan. You need to be able to sit down with your lender and explain the entire loan to him. You can't do that if you don't understand the deal yourself. Remember, confusion equals turndown.

9. Make sure you crunch the numbers for your commercial lender in advance. There is an old adage in finance. *The Lord forgives everyone except he who fails to crunch the numbers*. On your Executive Loan Summary, the loan-to-value ratio, the debt service coverage ratio, and the loan-to-cost ratio (if you are foolish enough to be attempting to close a construction loan during the Great Recession) should all be computed in advance. On construction loans, your Sources and Uses of Funds Statement must also balance. Often, when your borrower is trying to buy a very desirable core property in a primary market, your purchase money loan won't cash flow, even though the borrower is putting down 40% of the purchase price in cash. In cases like this, I like to disclose to my commercial lender the amount of the monthly negative cash flow. If the monthly negative cash flow is just a few thousand dollars per month, and the borrower has a large earned income, like a physician, a hungry, ***local*** commercial lender may still make the loan.

10. Don't forget about the Net-Worth-to-Loan-Size Ratio. This ratio should be at least 1.0. Therefore, if your borrower is trying to borrow $7 million, the combined net worth of the principals behind the LLC should total at least $7 million.