PLACING A COMMERCIAL LOAN WHEN THE BANKS ARE JUST TOO TERRIFIED TO LEND

First I'm going to depress you, and then I'm going to give you some terrific, practical tips.

The Tightest Commercial Mortgage Lending Market in 25 Years

Commercial real estate has already tumbled by 40%. Bank economists are secretly telling their executives that a double dip recession is a serious possibility. Commercial real estate could potentially fall another 40% from here. The banks are scared.

As a result, conventional commercial mortgage lending is down by more than 70% compared to 2006. The entire conduit industry has completely evaporated. Investors no longer want to buy bonds backed by commercial mortgage loans (commercial mortgage-backed securities).

The conduit industry used to make over 50% of the total dollar volume of commercial mortgage loans. Imagine that – an industry that used to make around 53% of all of the commercial mortgage loans in the country - has been effectively *nuked off the planet*.

Life companies still make commercial mortgage loans - if the commercial property is almost brand new, if the loan amount is larger than \$5 million, and if the borrower can be satisfied with a loan amount that is just 55% loan-to-value.

The savings and loan industry has contracted almost out of existence. There are only two surviving mortgage REIT's in the entire country that are still making commercial mortgage loans today, and both of them charge hard money rates.

This leaves only the commercial banks and a handful of hard money lenders still making commercial mortgage loans.

Banks will make you a conventional commercial mortgage loan today, but they will do so willing only if the borrower is a big depositor. If your borrower is not a "good bank customer" (someone who maintains huge cash deposits with the bank), your commercial loan will probably be cut back from 75% loan-to-value (LTV) to just 55% to 63% LTV. The borrower's credit will have to be almost perfect, and his commercial property had better be pretty snazzy-looking. And, of course, it will have to be fully-leased.

What if the deal has a small black hair? Your borrower may have to pay hard money rates. Ouch.

Bottom line: If you hope to place a commercial mortgage loan today, you are going to have to work hard.

Where Should You Start?

What happened when the borrower applied to his own bank? You need to find this out because the borrower's bank could have an offer on the table that you will never be able to beat. I often tell brokers, "The only lender who can make a cheaper commercial loan than the borrower's own bank is his mother." The borrower's bank doesn't want to lose his deposits, so the bank can often be pressured into making a commercial loan. When it does, their loan terms can seldom be beaten by any other bank.

If the borrower's own bank wouldn't help him, try another small bank located in the town where the borrower lives. Be sure to sit down with the bank president (branch manager) and offer to move all of your borrower's bank accounts to this new bank, if he accommodates the client's commercial loan needs. Bankers are always looking for new deposits, especially bankers who work for small banks.

What if your borrower doesn't maintain large enough cash balances to attract a bank? You may want to refinance his personal residence and just store the cash proceeds in his checking account until after you find a bank willing to make him a commercial loan. Remember, banks will only make a loan when the borrower is sitting on a pile of cash.

Commercial Lenders Like to Make Local Loans

If your borrower doesn't maintain large enough cash balances to attract a bank, you should submit his commercial loan application to some banks *located close to the subject commercial property*. All banks greatly prefer to make commercial loans in their own backyard.

Match the Size of Your Loan to the Size of the Bank

Small banks make small loans. Large banks make large banks. Don't try to submit a \$200,000 commercial loan to Bank of America or a \$20 million loan to the tiny 1st National Bank of Smallsville.

Be Prepared to Submit Your Commercial Loan Application to 50 to 150 Lenders

Before the Great Commercial Lending Drought, the first commercial lender to whom you submitted a commercial loan would often fund the deal. That almost never happens

nowadays. Today a broker will often have to submit a commercial loan request to 50 to 150 banks before finally finding one who really wants to do the deal.

Therefore, you will want to convert your commercial loan application into a PDF format that will be easy to submit to scores of different banks using email. Microsoft Word and Corel Wordperfect both have the ability to take a normal document and make it into a PDF.

If you don't know how to create a PDF, you can submit your four-minute mini-app to hundreds of different commercial lenders using C-Loans.com. It's a very efficient system. You can also convert your C-Loans app into a PDF that you can download to your PC.

What Should Your Loan Package Include?

Keep your initial loan package short! It should not have more than four pages total. All you really need at this point is an Executive Loan Summary and a Pro Forma Operating Statement. If you do not know how to create such documents, you can easily create these documents using C-Loans.com.

If your PDF is larger than four pages, it will not fit through the size filters of most commercial banks, so keep your initial package tiny.

Be sure to include at least one color photograph of the property. Make sure it's a very flattering picture of your property.

You Should Name Your Property

Commercial properties normally have a name, like the Canyons Arms Apartments or the Sherman Williams Retail Building.

But be careful of the name. The City of East Palo Alto, California is a low-income, high-crime area that competes annually for the title of Murder Capital of the United States. If I were submitting a commercial loan request located in East Palo Alto, I wouldn't call the deal, the "East Palo Alto Apartments." Such a name only conjures up an image of some gang-banger leaning out of a car window and spraying a playground with machine gun bullets. Instead, I might name the property, the "Shady Oak Apartments."

Look for Government Commercial Loan Programs

Earlier I used the term "conventional commercial mortgage loan". By this I mean a loan that is not guaranteed by the government. When times are scary, banks and other commercial lenders greatly prefer to make loans that are guaranteed by the U.S. government, such as SBA loans and USDA Business and Industries (B&I) loans.

You have probably already heard about Small Business Administration (SBA) loans. The property must be 51% used by the owner's business. The Federal government then guarantees up to 90% of the loan, so the lending bank has very little money at risk. Banks and other SBA lenders, because 90% of the loan is guaranteed, will often lend up to 90% loan-to-value on owner-user commercial properties.

But there is another government loan program about which you may not have heard – the U.S. Department of Agriculture's (USDA's) Business and Industries (B&I) loan program. This is a government guaranteed loan program for commercial and industrial properties located in *rural areas*.

The USDA B&I program is modeled after the SBA loan program. The Federal government will guarantee up to 90% of an eligible loan, in exchange for a guarantee fee. The loan must still be made by a bank, but since a bank only has 10% of the loan at risk, the bank will often make a commercial or industrial real estate loan up to 90% loan-to-value.

A rural area, for this program, is a rural city or town with fewer than 50,000 residents. The city or town cannot just be a small city located in a highly populated area, where one city runs into another. It has to be an area with a low population density. The USDA's site has a map of every town in America, and you can plot your property on the map and see if it falls into an eligible area.

http://eligibility.sc.egov.usda.gov/eligibility

Now the really cool thing about a USDA B&I loan is that the property does <u>not</u> have to be an owner-user building. It can be a rental property.

Since banks are making few conventional commercial real estate loans, you should try hard to fit your loan request into the parameters of some government loan program – such as SBA loans, USDA loans, Fannie Mae or Freddie Mac apartment loans, or one of HUD's apartment construction loan programs.

Where to Find Commercial Lenders

Since the only lenders making commercial real estate loans at reasonable rates today are banks, you could rephrase the above expression to, "Where can I find banks making commercial real estate loans?"

Since just about every bank will make a commercial real estate loan, if the borrower promises to be a big depositor or if the loan is located close to the bank and it is very, very secure, we could even shorten the question to, "Where can I find banks?"

The best place to start is by using C-Loans.com, a free service that introduces commercial borrowers and mortgage brokers to the hungriest banks in the country. For any given property type, loan size, loan type, and location, you should find at least 20 to 40 suitable

banks. Since the service is free (the banks pay to be listed), it would be crazy not to use this resource.

C-Loans.com

Unfortunately 20 to 40 banks may not be enough. During the Great Commercial Lending Drought, you may have to submit your commercial deal to 50 to 150 different banks.

You can find additional banks by going to maps.yahoo.com. Bring up a map of the subject property's location. Then, in the Find a Business field, type in the word, "bank." You'll find hundreds of banks located near almost every commercial property in the country.

Summary

Placing a commercial real estate loan during the Great Commercial Lending Drought is not going to be easy. You will probably have to submit your commercial loan application to 50 to 150 commercial lenders.

Therefore, you will need to create a PDF of your Executive Loan Summary and Pro Forma Operating Statement. You can do this with one click using C-Loans.com.

Submit your commercial loan to all 20 to 40 suitable banks suggested by C-Loans.com. If none of these banks wants to do the deal, you can find more banks located close to your property using maps.yahoo.com.

Then it is merely a matter of being persistent. If your deal is bankable and you keep presenting it to banks, eventually you should find a bank willing to do your deal.

Got a Good Commercial Deal That is Not Quite Bankable?

Call our hard money lending company (established 30+ years ago):

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