

Getting a Handle on Commercial

Brokering commercial loans is not as scary as it may seem to some residential brokers

By **Ari Miller**, vice president, Gelt Financial Corp.

I WAS IN THE RESIDENTIAL LOAN-origination business for about six years before I dared to touch my first commercial-loan application. That was in early 1999. The deal was for a funeral home, in which the owners lived upstairs. They came to me because they needed cash out.

Why did I take the deal? The secondary-mortgage market crashed in late 1998, interest rates weren't particularly good, and I needed the business.

The real question: Why did I wait six years before taking my first commercial application?

It could have been because I was too busy with residential business, didn't know what lender to go to or thought commercial loans took six to 12 months to close, if they did. After my

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first commercial deals, however, I learned how great the commercial-lending arena is — and how my realization could be valuable for other residential brokers.

For residential brokers looking to diversify, commercial loans can be a profitable option. The loan amounts tend to be greater. Borrowers are not nearly as interest-rate- and cost-sensitive as residential borrowers.

The best part is that the Real Estate Settlement Procedures Act, Truth in Lending Act,

high-cost mortgages and predatory lending are not factors in commercial lending. In fact, commercial lending, for the most part, is unregulated. All this adds up to more loans, more satisfied customers, less competition and more commission.

When starting out with commercial loans, residential brokers must realize that every commercial lender is different, though these lenders do not look at borrowers' debt ratios. Many underwriters couldn't care less about a 28/36 mortgage-affordability ratio or other debts that borrowers carry. Instead, lenders look to the commercial property to generate enough income to make all mortgage payments and to cover all debts associated with owning and managing the property.

When evaluating a commercial property, it is important to get a handle on the income and the expenses. The income is the easy part — it can be taken from leases or borrowers' tax returns, if it's a refinance.

Expenses are more complicated. You must know the vacancy rates, management-company expenses, taxes, insurance, utilities, snow-removal and landscaping fees, and repair estimates. The Realtor and appraiser can provide most, if not all, of this information.

And don't forget about the mortgage payment. Once you have all of your facts and figures together, just answer a simple question: Does the property generate at least \$1.20 to \$1.35 of income for every dollar of expenses? If the answer is yes, then you're in business. If not, the loan amount probably has to be reduced for a lender to be interested in funding the deal.

Other than these factors, commercial lending isn't that much different from residential lending.

Loan to values are calculated the same way, but they tend to be slightly lower than residential — typically, 65 percent to 80 percent.

In addition, when sending commercial loans to banks, they can tend to drag out the process for a couple of months. Private-money lenders, on the other hand, tend to be much quicker.

I hope that this takes some of the fear of the unknown out of commercial loans. So get out there and start looking to originate some commercial loans. You won't regret it, and if you're like me, you won't look back. **■**



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