

Know Your Commercial Lenders

When crossing over to commercial lending, it helps to know the basics about the types of lenders

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

MANY RESIDENTIAL MORTGAGE brokers have decided to start originating commercial loans. In today's market, that's a great move. With commercial loans, there's less competition, borrowers aren't as rate-sensitive and there are plenty of good deals to go around.

The first step after you decide to make the move is to set up your lenders and figure out to whom to send what deals.

In commercial lending, lenders fall into roughly three categories: 1. banks, big and small; 2. nonprime or portfolio lenders; and 3. hard-money lenders.

They are all good and valuable for their clients. But each one also is different in terms of pricing, service, speed and flexibility. It's your job as a loan originator to know what lender to send what deals. By knowing the "good" and the "bad" of each type of lender, you'll have some background knowledge that can help make your job a little easier.

1. Banks

For commercial loans, banks usually have the best interest rates and the lowest points and fees. It's rare that the other types of lenders will even come close.

Banks are usually the place for the best borrowers with the best situations. They typically offer longer terms than portfolio and hard-money lenders — anywhere from five to 20 years. Loan-to-value ratios (LTVs) are usually from 70 percent to 80 percent.

On the flip side, banks' credit requirements are tough. They usually want a 660 minimum credit score and have no or few exceptions. Many don't like to lend in areas with lower property

values. Many also don't do small loans; "small" might mean anything less than \$150,000, though most define small-balance loans as those of \$500,000 or more. Banks generally only lend on properties that are in great condition and that are rented for amount that more than covers the mortgage payments and property expenses.

In addition, banks typically only do full-doc loans. Approvals can take two to four weeks, and closings may take six to 12 weeks. Appraisals usually cost \$2,500 to \$7,500, depending on the property type.

Basically, banks are great for your top-quality borrowers. If there are any glitches, however, look elsewhere. Just make sure to prepare your borrowers for the time frames and appraisal costs involved. Banks typically also want a lot of documentation.

If you're not familiar with debt-service ratios, you'll learn quickly when dealing with a bank. It's similar to debt ratio, but it looks at the property's income and expenses, as well. Make sure to get all the income and expenses on the subject property, including but not limited to: taxes, insurance, utilities, repair costs, trash and snow removal, etc.

Banks also are not always receptive to working with mortgage brokers. Start with something simple. Ask to speak to the lender at the banks where you have your savings and checking accounts. Tell the lender what you do and ask if you can form a relationship with them. Because all banks' lending guidelines are a little different, ask what type of deals they have an appetite for.

2. Nonprime and portfolio lenders

Nonprime and portfolio lenders are generally quick: Approvals can take an hour or two.

Closings could take 10 to 21 days. Their terms are generally pretty flexible. Credit and income documents also are fairly flexible. LTV requirements usually range from 65 percent to 75 percent.

Nonprime and portfolio lenders usually don't have combined-loan-to-value restrictions, however, and gifts often are allowed to be used as down payments. There typically are no property-seasoning requirements.

With these lenders, however, interest rates and points are usually higher than banks. Rates could be anywhere from 9 percent to 13 percent. Their turnaround time also is usually not spectacular. I recently saw an advertisement in which a national nonprime lender was advertising "closings in 45 days." If that's what they're advertising, it's probably the best-case scenario — the average closing time is typically between 60 and 75 days.

Essentially, nonprime or portfolio lenders are good for borrowers who fall just outside bank guidelines but who aren't terrible. These lenders are also good for someone who qualifies for a loan from the bank but who needs answers and the money quickly. Professional real estate investors usually fit best here.

There are several nonprime and portfolio lenders. Ask around at your local mortgage-broker association or search the Web for "small-balance commercial loans" or something similar.

3. Hard-money lenders

Hard-money lenders will finance just about anything with real estate. They tend to be flexible with credit, qualification and property condition. They also are usually quick. Hard-money lenders often don't even look at the credit report for more than a minute, and they rarely ask for personal income-tax returns or bank statements. As long as the LTV is low, you're in good shape.

But hard-money lenders also usually have short terms. Most want their money back within one year. Interest rates are usually much higher than with banks or portfolio lenders. Typically, they can be anywhere from 14 percent

Continued ...



Ari Miller is vice president of Gelt Financial Corp. in Southampton, Pa. Since 1998, small commercial and investor mortgages have been Gelt's specialties. Gelt is a hybrid-portfolio lender offering bank quality, nonprime and hard-money loans, plus anywhere in between. Gelt lends in Pennsylvania, New Jersey, Delaware, Maryland, Florida and New York City. You can reach Miller by phone at (800) 355-4358, ext. 275; by fax at (215) 357-7250; or by e-mail at AriM@GeltFinancial.com.

REPRINTED FROM *SCOTSMAN GUIDE* RESIDENTIAL EDITION AND SCOTSMANGUIDE.COM, DECEMBER 2006

All rights reserved. Third-party reproduction for redistribution is prohibited without contractual consent from Scotsman Publishing Inc.

Know Your Commercial Lenders

... Continued

to 24 percent. Points and fees are also fairly high. LTV is usually limited to 50 percent to 65 percent.

Hard-money lenders are a great source for people who are a little more desperate and who need quick answers with few questions asked. They are a little bit harder to find, though, because most are small. Again, search the Internet or ask your mortgage-broker association.



Each lender type fills a different need for different borrowers. Your job is to know which one to use for each situation.

Your best bet is to speak to borrowers in-depth. You'll want to find out much more information about them, their experience and their goals than you would with a typical residential customer. When you know your borrowers' needs, you'll know where to go. **!!!**