

HOW TO GET A LOAN FOR A COMMERCIAL PROPERTY

Private money can be a very tricky to understand, navigate and close on. There are a lot of companies out there that tout themselves as great, but there are very few who match the claim. My hope, in this article, is to educate you on a) *how to understand the private money industry*, b) what some of the pitfalls can be and c) what to do to best prepare, so you can be successful in obtaining a loan.

THE PRIVATE MONEY INDUSTRY

According to AATOM the private money industry is about 17 to 18 billion (as of 2016). This industry is smattered with one-man shops who call a few friends to lend money all the way to large corporations who bring in institutional capital. Unfortunately the data is not out there, but it is a very large segment of the market. The goal of the industry is to obtain a higher rate of return for higher risk. Private lenders minimize their risk by giving most of their attention to the collateral. The way they see it, is this is going to be the primary way they get paid back. Most of their attention is on the valuation of your real estate collateral, whether this is a home, land or commercial building.

The majority of private lenders will focus on providing short term loans. 6 months to 36 months is a typical span of time periods. A lot of times you might here the synomonous name "bridge" lender, which captures a lot. This paints a picture of you walking from one end of the bridge to another. It provide a short term solution to your situation. The end result is taking them out with another lender, the liquidation of the property or something similar.

Rates are a big deal, so expect to see high single digits to low double digits. It is not uncommon to see a 10 to 12% range for rates. You might be saying "wow" that is expensive, and you are right, but relative to what? Remember that everything is an opportunity cost. What are your alternative options? For many people these lenders offer a solution of speed and execution. Furthermore, it is much less paperwork than going to a conventional lender. Wait, there is more....yes, they typically charge points. Points!!!! Yes, these lenders typically charge anywhere from 1 to 4 points in fees. Points is just another term for origination fees. These fees are a percentage of the loan amount. An example would be if you have a 1,000,000 loan and the lener charges 2 points, you would pay \$20,000 in fees. Arent there lenders who don't charge fees? Yes, but if they do, expect the interest rate to go up to compensate.

Remember the reason people go to these lender types, is speed and execution. As the boys with Top Gun said, "we have the need, the need for speed"...sorry, couldn't help myself. Speed matters and it is not uncommon to have a lender close in 4 to 5 business days. This time period can be compared to 6 to 9 weeks for a conventional lender. This can be a deal maker, or breaker for many people involved.

The industry is very large, but you need to be careful. Buyer beware is very necessary, as there are sharks lurking and waiting for a bloody fish to come along.

PITFALLS TO AVOID

There are a couple of rules in approaching lenders that can be very fruitful to your quest for money. The key is to become very educated and follow these steps:

1. Use a quality commercial mortgage broker who has a lot of experience. Remember that with the abundance of wisdom, plans don't fail. The right mortgage broker is going to help you avoid the bad ones, and take you right to the good ones. A good commercial mortgage broker is worth his/her weight in gold and can save you headaches and possibly save you money.
2. Ask if they have full discretion of the funds. Many times private lenders still have to get permission and can overpromise and not deliver. They may be well intentioned, but don't really have control. This can be a deal killer if they commit to you and have to back peddle. Make sure they are the ultimate decision maker.
3. Talk to 2 to 3 lenders to have something to compare. The only way you know for sure if you have a great deal, is if you have something to compare against. You might be surprised that a better deal is out there. Be careful to not over shop too many lenders, as the word gets around and you lose credibility.
4. Make sure they have done their homework and inspected the property. Lenders should have comps, run your credit, seen some documentation and met with their committee. Ask the question if they have actually approved the deal and have them put it in writing. Remember its nothing is official until you have it in ink.

PREPARING TO BE SUCCESSFUL

We just spent some time going on the defensive, of what to avoid, now lets get on offense; how to win. To be successful in obtaining a private loan takes some leg work. Here are some simple, but powerful, ways to have the best chance of getting a good private money loan:

1. Know your asset: Take time to research the square footage, land size, when it was built, any renovations that have been done, title information, tenant name and type of business.
2. Know the income/expenses of the asset: Do you have books and records? Put together a profit and loss, show the tenant rental payments, what the tenants are responsible for, how long the tenants leases are, specifics on taxes, insurance, management fees, maintenance, etc.
3. Know your credit: Pull your own credit score and find out the details of issues in your past. If there are issues, make sure you write out what happened and why it won't happen again. Know what your 3 credit scores are and provide them.

4. Know what the terms: How long a loan do you want? What rate can you live with? What prepayment do you want? What fees can you afford to pay? Can you make the monthly payments, or do you need a reserve?

Private lending can be a great medium to accomplish your goals, but being informed matters. At Integrity Capital, LLC we specialize in helping clients proactively obtain commercial real estate loans. Please contact us at 480-219-1205 to find out how we can help you.