



# the Mortgage Press

Keeping The Mortgage Professional Informed

## Dialing for dollars: Commercial loans

By Glen Weinberg

### Step 1: Put the phone down!

As residential lending becomes more competitive, commercial lending can provide an opportunity to not only diversify, but also substantially increase your income. Before you can be successful at transitioning to commercial lending, it is important to understand some basic differences between commercial and residential lending. Commercial lending is radically different than residential lending. Just as in residential lending, there are primary factors that determine the placement of the loans: credit, income and value. The two primary areas that differ with commercial lending is income and value.

- **Income:** When evaluating a loan scenario, a commercial lender looks at the income of the property and its ability to service the debt (also referred to as the debt service coverage ratio). Understanding the income on the property is fundamental to understanding where to place the loan. Typically, properties that cannot service their debt fall into non-conventional loans.
- **Value:** The assessment of value is much more exhaustive on a commercial property. Appraisers will evaluate the rental income on the property, operating statements, property type, etc. A

typical commercial appraisal will cost more than \$2,000, and take on average more than three weeks.

### Step 2: Understand the available products. Remember, not all deals are funded.

One of the primary ideas to understand about commercial lending is that not all deals are funded. On the residential side, as long as the borrower's credit score is high enough, for the most part the property will eventually get funded. This does not hold true for commercial loans. I have seen hundreds of loans that have yet to be funded for various reasons, such as property type or loan-to-value ratio. Brokers spend hundreds of hours and thousands of dollars to try and place un-fundable commercial loans.

Just like residential lending, there are hundreds of different types of commercial products available. It is imperative for the broker to understand the particulars of each product before trying to solicit commercial business. Successful brokers fully understand the products that are available to them in order to assist clients, and then they can locate clients who fit into one of these products. This will ensure that you don't waste time or resources on un-fundable loans.

Loan products fall into four primary categories. I have put them in order based on the amount of documentation and typical time to

close a loan. Each product fulfills a niche for a particular borrower:

1. **Full-Doc:** This product requires full documentation of income, assets, credit, operating statements, appraisal, resumes of principals, etc. A credit borrower who has a general-purpose property that typically has excellent cash flow would be most suited to a full-doc loan.
2. **Stated:** This product requires good credit. The borrower must state their income and assets, and appraisals are required. Someone who is self-employed or unable/unwilling to provide full documentation of their income or assets would be suited to this type of loan program.
3. **Light-Doc:** This product typically requires a lower credit score and a full appraisal. Those who are self-employed, unable/unwilling to provide full documentation of income or assets, or credit challenged would be good candidates for a light-doc product.
4. **No-Doc:** This is a relatively new niche in commercial lending. Very few lenders are true no-doc lenders. Many lenders claim that they are no-doc, and then they require an appraisal as well as exorbitant fees upfront for deal evaluation. This product requires no appraisal, credit

or documentation of personal assets. The leaders in this category also require no upfront fees. A borrower who requires a quick closing, is credit-impaired or whose property is not currently cash flowing to its potential would be suited to a no-doc loan.

### Step 3: Pick up the phone! Begin dialing for dollars!

If you're a broker transitioning from residential to commercial lending, you won't immediately become an expert in all four commercial loan categories. You should pick one category to start with and become an expert. Most brokers find that the no-doc niche is the quickest way to begin the transition to commercial lenders.

Before picking up the phone, you should extensively research lenders that specialize in the category. Make sure that you fully understand their products and the types of loans/borrowers that fit their product before trying to solicit business. Finally, remember the rule that not all commercial loans are fundable; focus your energy on loans that fit the products that lenders are currently offering to maximize your time and profitability.

Glen Weinberg is the chief operating officer of Fairview Commercial Lending. He can be reached at (404) 634-1270 or e-mail [glen@fairviewcommercialending.com](mailto:glen@fairviewcommercialending.com).