

Switch to commercial lending with ease

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REPRINTED FROM SCOTSMAN GUIDE RESIDENTIAL EDITION, JUNE 2005



Transitioning from residential lending to commercial lending is tricky, though not impossible. Those who complete the switch successfully understand that it takes education, patience and tact.

Consider the following true stories about brokers' experiences.

Broker A

One evening, I cut short a deal-closing conversation to take an "urgent call" from a broker. He had a deal worth \$10 million and needed \$2 million from us.

"How many points can I make?" said the caller, whom we'll call Broker A. "How quickly can we close?"

Me: "Where is the deal located? What type of property is it?"

Broker A: "Somewhere in Kansas. Why do you need to know the property type?"

As the conversation continued, it quickly became apparent that the broker did not know the property's essentials — its location, its property type, how its value was determined or even what the borrower was trying to accomplish.

A few days later, I received a well-broken-in appraisal package from the broker. As I flipped through it, 10 business cards fell out from various lenders and brokers who had touched the deal previously. I learned the appraisal was four years old and

compiled for an earlier broker. The deal was for a section of raw land that "could" be worth \$10 million, but the value was subject to actually locating minerals below the soil.

I let the broker know I was unable to do the deal. The value was too speculative and did not fit our lending criteria. The broker got defensive and asked me to overnight his package back. I did, after slipping in my business card with the 10 others inside.

A few weeks later, the same broker sent me another deal that I was unable to help fund. I asked him about his deal in Kansas, which he said was "about ready to close." He had recently sent \$20,000 to another lender for due-diligence fees.

A month later, the Kansas appraisal made another appearance on my desk, this time from a broker located in Canada. My business card still was tucked inside.

Broker B

Another broker, whom we'll call Broker B, approached me with another question. He was a residential lender looking to learn more about my commercial-loan criteria and clients in my niche.

I helped Broker B by educating him about our programs. I also showed him easy valuation methods to weed through deals quickly.

In addition, I gave him a list of questions to ask before moving forward on a loan. The questions include:

- **What are the borrowers trying to accomplish?** Are they trying to achieve a lower rate, stop foreclosure, get cash out or close a transaction quickly?
- **What is driving borrowers to pursue this transaction?** Are there tax liens that need to be paid off? Is a contract about to expire?
- **How is borrowers' credit? Or their**

income? Many lenders do not look at credit, but it is important to know in order to see if the deal can go alternative routes.

- **What type of property will the loan cover?** Are there rent rolls? If it is a purchase, what is the purchase price?
- **What is the property-value range? How was it determined?**
- **How is the deal structured?** Is there any secondary financing? How much debt is on the property?

Knowing the answers helped Broker B work more efficiently and allowed him to target lenders that met the borrower's criteria. It also ensured that he received the best deal for his client and closed the loan.

Following the path to success

After our discussions, Brokers A and B went in different directions.

Broker A called me on a few transactions in the coming weeks. None met our criteria, but I pointed him to other contacts and educational resources on the Web.

A month after our initial talk, Broker B called with a deal he thought fit our criteria. The deal turned out to be perfect for us, and I sent him a commitment that day. After closing, Broker B made \$30,000. Not bad for his second commercial deal.

By taking the time to educate himself about commercial lending, Broker B made a successful transition to the commercial arena. Unlike Broker A, he tried to understand the deal and its pieces. That is essential to switching from residential to commercial lending.

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