

My Home Loan



Mortgage Insight: A Revolution in Commercial Real Estate Lending

By Claudio D. Varga, President
My Home Loan Mortgage Services, Inc.

I remember seeing a television commercial not long ago that showed a small business owner going into his bank (of which he'd undoubtedly been a customer for many years) to ask for a business loan of some kind. I don't recall the exact details of the commercial, but the conclusion of the commercial showed all the employees of the bank dropping whatever they were doing to come over and laugh in the face of the man asking about a loan.

I believe the TV commercial was for a credit card company whose point was that other than a high interest rate credit card, the chances of a business owner getting any "love" from a traditional lender- even his own bank, are slim at best. Until very recently, the same could be said for commercial real estate lending.

Commercial real estate refers to structures that are either income producing, such as apartment buildings and office buildings, or that house a business within them; a restaurant, doctor's office, auto repair shop, retail store, motel, etc.

The Traditional Process

The traditional process of purchasing or refinancing a commercial property has typically been one of massive and unending scrutiny of financial records and credit history followed by a mystical decision of

"yes" or "no" by a bank's underwriting committee. Needless to say, this process can and does drag on for several months, and more often than not, results in the rejection of most loan applications.

At the heart of the dismal approval rate of these loans is the conservative method of determining whether a property qualifies for a loan or not. You see, in commercial lending, the property itself must generate enough income on its own, to ensure repayment of the loan placed upon it. Stated simply, a property must have enough cash left over after paying its own operating expenses, to make its own mortgage payment and still have a small cushion left over, this is known as Debt Service Coverage Ratio.

For a loan to be approved using this traditional method requires that a property not only be already profitable, but also that it have substantial financial records available to back up its claims. If an apartment building's rents are below market, or has significant vacancies, for example, it probably won't qualify according to this formula.

Large Down Payments

The only solution until now has been for the borrower to keep increasing his down payment until the point where the mortgage payments are now low enough that the property can support itself- to the satisfaction of the bank. In the case of other types of properties that do not generate much cash flow on their own, such as a warehouse, it was virtually impossi-

ble for a loan to be approved without a very significant down payment.

Most commercial property loans require minimum down payments of 25% to 30% before they have a chance of being considered, much less actually approved.

For years, this method of qualifying a property has been very frustrating to many because it doesn't even allow for other income to be brought in to help the property qualify. For example, someone may own other properties with extra cash flow that could make up the difference. Or a borrower may have employment income that he could apply to help make the payments- but no dice, this isn't allowed by the bank. The property must stand on its own. Until now!

Recent Changes

With the booming housing market in recent years came increased efficiencies on the part of many mortgage banks and lenders. These efficiencies included newer ways of evaluating property values and also a wider range of investors willing to lend money on commercial properties. In effect, investors and their pools of money, have stepped in to make loans that until now were primarily the focus of traditional banks- that were very picky about what loans they would make.

There are now several mortgage banks- with new ways of thinking, that specialize in providing loans to commercial real estate purchasers and owners who would not have otherwise been able to qualify with a

traditional bank's methods and guidelines.

New Guidelines

New lending guidelines now allow for income from other sources to be applied toward the property's mortgage payment in order to help the subject property qualify. In the example of our apartment building with low rents, the loan applicant can now add income from other sources to augment the rental income, in order to make the *entire* package make sense and qualify.

Another new program in commercial lending now allows for a borrower to not have to provide detailed financial information about the property at all, provided the loan amount is within the program's limits and the borrower's credit is very good. This would have been completely unheard of only a year or two ago!

New Opportunities

These recent changes in lending mentality present great opportunities for purchasers of commercial property as well as for current owners of commercial properties. Many of these new programs now require only a 10% down payment to purchase real estate and provide loans that are very

similar to what is seen in residential lending, such as the 30-Year Fixed Rate Mortgage. A typical traditional commercial mortgage would require a balloon payment or large adjustment to the interest rate after only five years.

Cash Out

Getting back to the TV commercial I mentioned, with the business owner trying to get a loan from his bank, there are now several ways for a business owner to get cash for his business. Owners of commercial real estate now have options very similar to the way home owners have been able to refinance their homes and withdraw equity in the form of cash.

With these new programs and guidelines that I've mentioned, it's now possible for a commercial property owner to not just qualify for a loan more easily, but also to refinance and draw out cash without having everyone at the bank laugh in his face! As long as he talks to a mortgage consultant and not his banker, the chances are now very good that with some equity in his property, he can arrange a new loan that includes some cash out for whatever needs his business has; expansion, debt consolidation, buy out of a partner, upgrad-

ing fixtures, whatever.

Significant Features

On the surface, these changes in lending mentality may not appear significant to anyone not knowledgeable in commercial real estate, but they represent a truly revolutionary change in the lending landscape. New loans now feature:

- Down Payments as low as 10%.
- Refinances to 90% of value.
- Reduced appraisal requirements.
- No Debt Service Coverage Ratios
- Unlimited Cash Out.
- The ability to include income from other sources to help qualify a property.
- No on-going financial reporting to the lender.
- Fixed Interest Rates
- 30 Year Amortization
- Closings is 30-45 days

There is no question that these new programs can benefit many interested in purchasing commercial real estate. But most importantly, there is now a great opportunity for owners of commercial real estate to arrange very favorable long term loans and to reap some of the benefits of their work, by accessing the equity they've worked so hard to create.

Claudio D. Varga is President of My Home Loan. The firm provides a wide variety of lending solutions for residential and commercial real estate. Claudio has been a licensed mortgage broker since 1998 and his clientele ranges from first time home buyers to professional multi-property real estate investors.

For more information, Claudio can be reached at:

ClaudioVarga@my-home-loan.com

My Home Loan

Mortgage Services, Inc.

703 Cantor

Irvine, CA 92620

Toll free (877) LOAN-922

Fax: (509)693-9348

ClaudioVarga@my-home-loan.com

www.My-Home-Loan.com