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10 Ways to Earn Lenders' Approval

Follow some key steps to ensure your clients' loans pass the test

The past few years have been difficult for commercial mortgage borrowers and lenders alike. Money has been tight and difficult to access. Commercial and multifamily mortgage originations fell sharply in 2008, and overall transaction volume was down.

Recently, however, transaction activity has begun to increase as Fannie Mae, Freddie Mac, life-insurance companies, banks and commercial mortgage-backed securities (CMBS) lenders once again compete for business. In fact, origination activity this past first quarter increased 89 percent as compared to first-quarter 2010, according to the Mortgage Bankers Association.

As lenders begin to make more loans, commercial mortgage brokers must ensure their clients' deals are well-positioned to succeed in today's marketplace. By following these 10 tips, brokers can make sure their clients' loans are processed quickly and close on time.

1. Know the property

When working with a client on a purchase or refinance, be sure that you both are familiar with every aspect of the property. Know how many people are employed at the property, the names of the on-site staff, the last time rents were raised and what concessions are currently offered. Make sure the rent roll is accurate and up-to-date. Fires, flood plain and zoning issues that exist will inevitably come to the surface, so it is important that you are fully versed in these matters and can communicate the impact on the property's current and historical operations. Notify the lender upfront to ensure full disclosure; an open-book philosophy will prove integrity and honesty.

Know how old the roofs, appliances, air-conditioning units, cabinets and carpets are for each unit or building. It requires great detail, but knowing these things shows the lender that your client is on top of the asset.

Walk through the property with your client before the lender inspection and make sure the property manager is not too busy to walk through some units or suites with the lender on the day of the site visit.

Know any capital improvement costs and be prepared to provide supporting documentation for the original purchase price (if relevant), renovation and upgrade expenditures. A summary of all carrying costs since acquiring the asset is helpful and may result in supporting higher loan proceeds. If applicable, have the existing loan balance and lender contact information on hand and research any prepayment penalty or other pay-off restrictions to avoid surprises at closing.

2. Don't overnegotiate

When seeking loan proceeds, pricing, waiver of escrows, interest-only or aggressive underwriting, remember that evidence



Illustration: Dennis Wunsch

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and justification are required to break or bend underwriting rules. Ask for interest-only when the leverage is reasonable, and negotiate while keeping in mind that it is in your best interest to have mutual respect with your lender. A good lender wants a long-term relationship with every good borrower. If your deals are pushed, stretched and trimmed of every ounce of profit or reasonable underwriting parameters, lenders will become frustrated.

In the long run, it pays to make sure your lender is making a fair profit. You will be surprised at how smoothly your client's deal closes if your lender is rewarded with a fair and profitable loan. You may get more proceeds and a better rate than expected.

3. Know the expenses

Payroll, repair and maintenance, taxes, insurance, utilities, contract services and marketing, as well as general and administrative costs, can impact proceeds equally.

Have a detailed payroll schedule showing each employee and the related compensation, bonus and benefits to support the property's normal ongoing stabilized operations. If the property is overstaffed, your client should eliminate the unnecessary positions at least six to 12 months before applying for a loan.

Always remove and separate capital expenditure from normal ongoing repair and maintenance. Know the past, current and projected tax assessments. Your clients may want to hire a professional to

argue the assessment lower before filing the loan application. They also may want to get several new insurance quotes and negotiate the best utility contract and all service contracts; ideally, they would do this 12 months before applying for a loan. Make sure the insurance quote meets all lender requirements.

4. Know the cash flow

If the property's collections are declining every month, now is not the time for your client to seek a loan. This will only result in a frustrating and painful process. Question the lender that says it can close such a transaction in the current market. A lender typically needs to have the bottom defined and a positive upward, or at least stable, trend to rely upon before it agrees to provide long-term, fixed-rate financing.

When collections are increasing, be prepared to thoroughly discuss and document the positive factors that account for the improving property performance. Be prepared to show and support the sustainability of improvements and to quantify the current and future impact on the property cash flow.

5. Have a budget

Have your client prepare a 12-month forward budget and make sure it works. The budget should support the loan amount, including replacement reserves at the current interest rate and amortization your client hopes to secure.

Ensure the budget shows achievable

revenue and reasonable expenses and that it explains all variances and fluctuations when compared to actual historical operations. Avoid answering questions with vague or technical statistics that cannot be fully supported. Remove any capital from normal ongoing operating expenses and ensure any payroll related to capital improvements has been appropriately charged to capital expenditures.

6. Have your client's trust

Your clients have hired you to do a job: find financing. They must trust that you will do it; this means they shouldn't approach other lenders directly unless they already have a long-term relationship.

Co-mingling this effort can confuse the market and will result in most lenders spending less time on your clients' deal. Lenders will know that your clients are going directly to some, while using a broker for others. This becomes frustrating and adds unnecessary complication to the deal, which can distract lenders from quoting the transaction at the most-aggressive levels.

You want each lender to have an equal opportunity to win the deal and establish a relationship for long-term business for all.

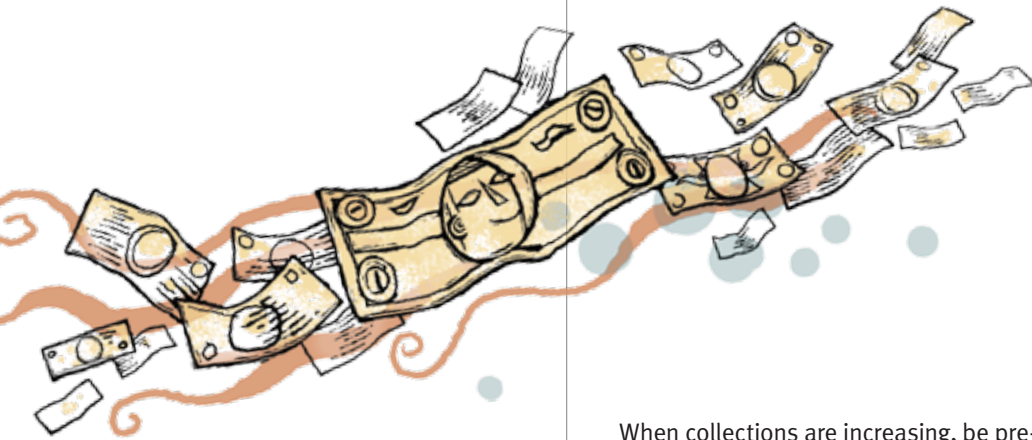
7. Have experienced partners

In addition to your services, your clients should select an experienced attorney and look into potential third-party report providers. Ensure that those selected know the requested loan type and are experts in providing these services.

If you are proceeding with a Fannie Mae loan, make sure your client's attorney has pertinent experience and has worked with Fannie Mae loan documents and closings. Use the same cautions for Freddie Mac, CMBS, and U.S. Department of Housing and Urban Development loans. Clients should choose or request companies that are approved by a wide variety of lenders.

Caution clients against attorneys running up a large bill negotiating documents. They should use a law firm with specific experience in the type of loan and make sure it has closed a large number of similar deals

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and with multiple lenders. Good attorneys can quickly advise you on the typical latitudes a given lender may accommodate.

8. Prepare financial statements

Clients should update their personal financial statements; their liquidity and net worth are more important than ever.

In general, most lenders like to see true liquidity (i.e., cash and readily liquid securities) of 10 percent of the loan amount for deals of \$20 million or less and a net worth equal to the loan amount. For example, if you are applying for a \$5 million loan, whether recourse or nonrecourse, your clients should be prepared to show a current liquidity of \$500,000 and a net worth of \$5 million. If they cannot do this, they may want to find a partner who can.

The schedule of real estate owned was a

file stuffer when the market was hot. Today, it is similar to turning over medical records to apply for a life-insurance policy. Clients can count on a chief credit officer reviewing it thoroughly, with all their other assets taken into consideration, including current cash-flow trends, debt-service coverage, valuations and all upcoming maturities. Clients must make their roll-over exposure less of an issue and have a supportable and realistic game plan for dealing with potential problem maturities. They should be aware of their overall debt-service coverage across the entire portfolio.

9. Be organized

Try to submit all necessary financial information and due diligence in an orderly and concise manner. Also, you should be able to submit a current rent roll or updated

operating statement with little notice. You likely will do this several times in the process of getting a loan, so make sure clients avoid switching software programs or management companies in this critical period. Remember that the first rent roll you submit will be compared against others you will be required to provide, so be prepared to explain any significant changes.

10. Ask questions

It helps to form a good relationship with your lenders. Stay involved. Be responsive. Recognize that lending is a customer-service-based business and that your goal is for your client to be treated like a preferred customer. Always remain professional throughout the loan process and work to establish relationships characterized by integrity and mutual benefit. ●