
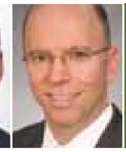

By Jim Fried, managing director and commercial mortgage broker, Aztec Group; and Joseph Givner, co-founder and partner, Higer Lichter & Givner

Position Your Deals for Approval

Understand lender concerns to close more loans in today's strict market

It's a fact of doing business in today's marketplace: Tighter lending is making it tougher to close deals. Commercial mortgage brokers, therefore, must keep informed about changes in the industry and its regulatory framework. They also must consider a growing list of factors that shape a lender's decision, among them:

- **How lenders assess risk;**
- **How risk will be accounted** for during the underwriting process;
- **What kind of deals** realistically can be structured; and
- **What new challenges** borrowers can expect to face as lenders process loan requests.

It's not a secret that lenders' approach to the risk assessment of borrowers has changed dramatically in the past few years. No longer will lenders simply look at the single asset they are financing. Most lenders today look to global cash-flow evaluations for every borrower and guarantor in the transaction. All factors that may have an impact on cash flow are considered.

In addition, lenders stress a borrower's cash-flow projections to simulate almost anything that could go wrong with the transaction. They focus on cash flow, the age of receivables, the credit quality of the tenants and any additional factor that may have an impact on the loan.

Gone are the old days of "submit and close." The process now is much more comprehensive and onerous. For example, an initial request for the borrower's personal financial statements likely will be followed by requests for even more detailed financial statements. In some instances, the lender also may request to see tenants' financial statements.

Lenders will need to see stable and steady cash flow. For example, if there are vacancies, the borrower will have to keep reserves for tenant improvements, and leasing commissions must be identified and set aside. If there are capital improvements that need to be made, those funds must be identified and set aside, too.

Expect a lender to require a detailed understanding of the borrower's business plan that clearly identifies the loan request, explains how the funds will be used and lists the sources for that cash. Your client must be as prepared as possible to answer a lender's questions.

Once all the information is submitted, the lender will begin the review. Remember, loan officers have been playing musical chairs, and a new loan officer may not understand the lender's internal bureaucracy. This could cause a significant slowdown in loan processing. To streamline the process, brokers ideally should know the bank, the loan officer and the internal processes of the bank — particularly for transactions that need to close quickly.

Your clients may expect lower loan-to-value ratios today than in previous years. That is true except for solid projects that are based in the best locations and with the best sponsorship, especially because the market is becoming more liquid.

To work to this end, brokers must have a thorough understanding of transactions, present strong borrowers with top-of-the-line properties, and deliver professionally prepared plans and loan-request presentations. With this in hand, commercial mortgage brokers could be well on their way to closing more deals in today's ever-changing loan-origination marketplace. •

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