



People's Choice Mortgage

----- *Commercial Lending* -----

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What Are the 7 Biggest Mistakes That Borrowers Tend to Make?

Sometimes a new client will ask what issues tend to come up again and again during the commercial mortgage financing process and what mistakes they should try to avoid. Here are the top seven mistakes that come to mind. As you'll see, most of these fall under the general topic of "timing is everything":

1. Searching too hard for the "bottom" when choosing the moment to lock an interest rate-Focus on the monthly/annual payment being within your target range. DO NOT focus on hitting the absolute bottom.

2. Working with multiple brokers –

The myth is that taking this approach benefits the borrower because it generates more market coverage and insures a better result. In the borrower's mind the math goes something like this: "more brokers' means more offers which should result in a better deal for me".

The fact is that when lenders start seeing the same loan submission coming in from multiple sources they assume that no one is actually in control of the deal. Lenders are less likely to put their best efforts forward in such a fuzzy environment.

The borrower's best strategy is to do some meaningful due diligence, check references and select a knowledgeable, well-staffed and reputable broker. Exclusively engage that broker for a finite period of time, and allow that broker to work the entire marketplace to obtain the best pricing and structure.

3. Failing to recognize and effectively negotiate significant deal points in the lender's offer letter right at the beginning.

For commercial mortgages, a lender's initial offer letter or term sheet is typically short on fine detail. Nevertheless you should bring up any significant points that are important to you at this early stage. Various important deal terms may be much more difficult to modify later on, once the loan has been approved and the commitment letter has been issued. The offer letter stage is the time to address tax escrows, the lender's calculation method (30/360 or Actual/360), issues of timing (rate lock, closing schedule), and any other points that may be of importance to you BEFORE you've posted a good-faith deposit.

4. Assuming that the mortgage can be assigned, but waiting too long to see whether:

- a) the old lender will cooperate,
- b) all the necessary original documents are available, and that
- c) your attorney prepares a draft assignment in a timely manner.

5. Not considering all of the currently available loan products for your situation-

Lots of owners know one or two lenders and fall into the habit of calling the same one or two lenders with whom they are comfortable when it's time to refinance an old property or to finance the acquisition of a new one. This is a good habit to overcome. The financing marketplace is ever changing. To get the best result you need to scan (or have a good broker scan) the overall landscape in order to determine your best move. There may be players and products that an owner/borrower is unaware of that may turn out to be the most logical fit, and the smartest business move.

For example: Perhaps you own 10 apartment buildings and have always tended to choose typical "5 and 5" type loans. This time, take a fresh look. The marketplace is fluid, as are the interest rates. With the 10-year Treasury currently (as of June 16, 2003) at 3.17%, a 10 year fixed rate deal at 4.25% might be worth a close look. With 30-year fixed rates available below 5%, a long term, fully amortizing loan might well be worth considering. If you're planning a sale in the near term, a LIBOR-floater might be a good idea, as it will have an amazingly low rate (perhaps below 4%), and no prepayment penalty.

6. Using the wrong lawyer -

Sometimes a borrower feels compelled to use a lawyer who is a friend, or perhaps his brother-in-law (who happens to be a matrimonial or estate attorney) to close a commercial Real Estate transaction. My advice is simply: Don't! Most borrowers will end up saving money and perhaps shaping the terms of the deal far more to their liking if they hire a seasoned pro. Using a lawyer who is inexperienced in this very specialized area will only run up the bank attorney's bill, and may well cause the borrower to need to extend the time to close, which may result in additional fees and penalties, etc. The best advice to achieve a smooth closing is to choose a real estate lawyer who is a seasoned pro in this very specialized (commercial vs. residential) field.

7. Failing to give adequate notice –

One possible consequence of making the wrong choice for #6, or the wrong choice of broker might be failing to give adequate notice to the CURRENT lender that their loan is soon to be paid off. Make sure to check and act upon the notice requirement on the outgoing loan BEFORE locking the rate on a new mortgage.

Half the battle is simply taking the appropriate action at the right time. Good timing can help you win almost every deal point the next time you negotiate a commercial mortgage.

For more information on PCM's commercial real estate financing options or to set up an appointment with one of our loan specialists, request information today or call 800-637-7737.