

3 Funding Sources Still Standing

Small Business Administration, portfolio and hard-money lenders could be worth your while

By **Jeff Rauth**, president, Commercial Finance Advisors

COMMERCIAL LENDING HAS seen an influx of brokers of late, especially from the belittled residential sector. But the commercial real estate market is not necessarily in a better position than residential.

Underwriting has tightened across the board. Major players on the commercial secondary market are losing their liquidity and have slowed their lending to a crawl.

As a result, commercial mortgage brokers are forced to work with the players that are still funding deals. U.S. Small Business Administration (SBA) lenders, portfolio lenders — those that lend their own capital and don't immediately resell the loans on the secondary market — and commercial hard-money lenders are the major sources.

These three sources are still lending and are not directly tied to the woes of the secondary markets. Some SBA sources do sell their debt off on the secondary market. But the bulk of the loan balance is guaranteed by the U.S. government, which makes it easier for the funding bank to hold the debt, if necessary.

Let's start with SBA-approved lenders, which can be a solid source for deals for business-owner clients. Loan programs such as the 7(a) and 504 offer financing for property acquisition or construction, as well as for long-term capital needs. A significant drawback to SBA loans, however, is that brokers are not allowed to be paid points on the settlement statement. It's a violation of SBA rules. Instead, the broker must be paid a referral fee by the bank or paid outside of closing. Most SBA lenders will suggest brokers have a separate agreement with the borrower to get paid outside of the closing. Brokers should ensure this legally binding fee agreement is in place before proceeding with a deal.

Another source of funding in today's market is portfolio lenders, typically large banks or savings and loans that lend from their own capital and keep the debt in their portfolio — at least for a while. Also known as balance-sheet lenders, these portfolio lenders have many of the same issues as SBA lenders. In fact, many portfolio lenders use SBA programs to guarantee their loans. Although many traditional banks are still lending, these institutions are not necessarily broker-friendly. Nonetheless, these lenders tend to offer longer-term mortgages at typically reasonable rates. Commercial mortgage brokers will have to find a portfolio lender that likes the deal, will let a broker be involved in it and allow for payment at close.

From a funding point of view, one of the easier deals to get done is hard money. These lenders are often individuals who are lending their own money and making a direct decision. The terms that hard-money lenders offer often are harsh, however, and many borrowers simply will not accept them. Three to 6 points are standard, and rates of 13 percent to 16 percent often are what you'll see. Hard-money deals require borrowers with a set of circumstances that makes these terms acceptable. For example, a business-owner losing a substantial amount of equity because of foreclosure could look to refinance with a hard-money loan. Or builders could seek a hard-money deal if they need immediate capital to keep from losing an opportunity on another project. Short time frames are ideal for hard-money financing.

No corner of the mortgage business is exempt from the current issues of the financial markets. But learning how to work with these three sources could give commercial brokers a better chance of succeeding and getting paid for their hard work. **!**



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