COMMERCIAL LENDING
Quick Reference Guide

What types of loans are available?

Conventional – Best available rates and terms for strong properties and borrowers offered by agency lenders such as Fannie Mae and Freddie Mac, CMBS conduit lenders, life insurance companies and banks.
Non-Prime – Best available options for properties and borrowers with a few issues usually offered by privately-owned lending companies and select banks.
Bridge – Short term loans best for situations when the borrower either needs to purchase property with a quickly approaching deadline or in a state of transition and needs improvement time before applying for a conventional loan.
SBA – Up to 90% LTV loans for small businesses arranged through a variety of banks throughout the country.
Hard Money – Typically shorter term loans offered by private investors that will lend on requests with major issues.

What is the structure of a commercial loan?

Most commercial loans will be hybrid ARMs. Loan terms can range as high as 30 years. Amortizations for good properties are eligible up to 30 years as well. This can usually be achieved for most apartment buildings, while 25 years is more standard for commercial properties such as office buildings or retail centers. Both loan term and amortization will be shortened as the risk of the loan increases (the lender will want more of the loan paid off quicker). Typically, commercial loans will have a fixed period followed by an adjustable period.

Example: *Los Angeles, CA apartment building = 30 year term / 30 year amortization, 5 years fixed @ 3.75%. At the end of the 5 years, the rate will adjust every 6 months to the 6 Month LIBOR (index) + a spread of 2.75%.*

What will be the LTV (Loan-to-Value)?

Maximum LTV will be 75-80%. This maximum limit will decrease as the risk of the loan increases. LTV can also be limited by the Net Operating Income (the cash flow must be able to support the requested payment). Lower LTV requests can be eligible for lower rates and better terms as the higher cash injection gives the lender better security. Refinance loans where the borrower is receiving cash-out can also minimally reduce maximum LTV.

What rates can be expected?

Best available rates will be for well-maintained properties in strong rental markets. Good cash flow, strong borrowers, lower LTV and larger loan amounts can improve the qualified rates even further. Rates will also range by the fixed rate period selected by the borrower. Fixed rate loans for longer periods will have accordingly higher rates. Lowest rates will be for apartment buildings, followed by commercial properties such as office buildings or retail centers. Special purpose properties such as gas stations, car washes and churches are third.

What are borrower requirements?

Best available programs will require 1) a minimum credit score of 680 2) a net worth greater than the requested loan amount, and 3) reserves greater than 9 months of loan payments. There are still good programs available for borrowers who do not meet these requirements or have had credit issues, but the lender will need to mitigate the risk in one way or another.

CALCULATIONS TO REMEMBER

NOI (Net Operating Income) *= Gross Operating Income – Operating Expenses (less CapEx + Debt)*
LTV (Loan-to-Value) *= Loan Amount / Purchase Price or Appraised Value*
DCR (Debt Coverage Ratio) *= NOI / ADS (Annual Debt Service)*
Cap Rate *= NOI / Purchase Price or Appraised Value*
Debt Yield *= NOI / Loan Amount*
Value *= NOI (Net Operating Income) / Cap Rate*

For any questions regarding this information please contact ***Colin Dubel, Commercial Mortgage Broker*** *at Charter Capital Group. He can be reached at (949) 735-6415 or colin@chartercapital.com.*