

# 'US Commercial Mortgage Guide'

Save money on your Commercial Mortgage

by



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### Introduction

Welcome to the 'US Commercial Mortgage Guide' from Commercial Lifeline.

This guide is designed provide an overview of exactly what a commercial mortgage is, what is involved in finding and selecting a commercial mortgage and how to avoid paying over the odds.

Along the way we briefly touch on where to get a commercial mortgage, commercial mortgage types, Lender requirements and using a commercial mortgage broker.

We hope this guide proves useful in giving you a better understanding of Commercial Mortgages and ultimately we hope it saves you money.

A series of commercial mortgage related articles and guides are also available.

To download these guides free please visit <http://www.commercial-lifeline.co.uk/>. Yes we are UK based but this guide relates to the US.

### Chapter 1 US Commercial Mortgages Basics

Commercial mortgage loans are used when purchasing structures such as office buildings, apartment complexes, health care facilities and retail outlets. Whether it's a hi-rise tower or a family-owned restaurant, buyers typically need additional funding to complete the transaction. Commercial mortgages are what they pursue.

Commercial mortgages are also used when refinancing an existing commercial loan and as a way of obtaining cash to cover business related expenses such as expansion or acquisition of business machinery.

Similar in many ways to residential loans, commercial mortgages require far more paperwork. Both types of loan require that the properties being purchased undergo a thorough appraisal. Both require collateral to secure the loan and protect the lender against default.

Like residential mortgages, commercial mortgages can be refinanced to take advantage of more favorable terms, or they can be re-mortgaged to establish a line of credit to use for running the business. And like residential mortgages, the lender will hold the deed to the property until such time that the loan is repaid in full.

During that time, the lender makes money off the interest on the loan. If the borrower fails to make payments on the commercial loan, the lender has the right to initiate foreclosure proceedings and take the property. Remember, the property likely is what will be used as collateral. The interest paid on the commercial mortgage usually is tax deductible; just be sure to consult with a professional first.

When you apply for a commercial mortgage, you will typically be offered two different types of loans: fixed rate loans and variable rate loans. These work the same as they do for residential mortgages.

On a fixed rate commercial mortgage, the interest rate that is negotiated and agreed to remains in effect until the loan is fully amortized. If you're obtaining a commercial mortgage and interest rates are heading higher, a fixed rate likely is a better option. You can always refinance your mortgage should interest rates go lower than your fixed rate.

With a variable rate commercial mortgage, the interest rate will fluctuate during the payback period. Interest rates are determined by the US Federal government. Make sure you understand how variable rates are determined. Also, find out from the lender how often the rate on a variable rate mortgage will change. It's fine as long as the interest rate is decreasing; it's the increases that you need to worry about. Make sure, too, that should the interest rates increase, you can still afford the monthly payments. With some variable rate loans, the rate is fixed for the first few years, and then converts to a variable rate loan.

When applying for a commercial mortgage, also ask about the Early Redemption Charge (ERC). Remember, lenders make money off the interest on the loan. When the loan is repaid in full sooner than anticipated, the lender loses money. To avoid losing money, lenders often include an ERC which can amount to a substantial, one-time sum. If you discover an ERC in the fine print, try to negotiate it away. If you're not successful, take your business elsewhere.

Applying for a commercial mortgage means that you're about to make a serious investment. Be sure you know exactly what you're signing before you sign the documents. You have a right to ask questions, renegotiate more favorable terms and do whatever else you feel is necessary. It's your money and your future. Good luck!

## Chapter 2

### The Commercial Mortgage application process

Acquiring a commercial mortgage can be broken into several components: application submission, application processing, underwriting and closing. There are many different commercial loan programs available from a multitude of lenders. With a completed application in hand, commercial lending experts are better able to determine the loan programs that will best meet the needs and goals of the applicant.

Once the applicants have decided on the type of commercial loan they wish to pursue, the loan application moves into the next phase; the actual processing. A lot of documentation is required when applying for a commercial mortgage. Of course, the type of documentation required will vary based on the reason for the mortgage. Income statements, verification of assets, personal credit information for all parties involved in the loan transaction and more will need to be submitted.

When all documentation has been properly submitted, the application is forwarded to the Underwriting Department where a decision to approve or deny or commercial mortgage is made. The processing of a commercial loan is similar in many ways to that of a residential loan.

The following is a description of some of the issues and terms one might encounter when applying for a commercial loan:

**Repayment Liability:** This basically indicates the party or parties responsible for repaying the loan according to its terms. In the majority of situations, commercial mortgages are applied for by a business, not an individual. Therefore, repayment liability often mirrors the way the business itself has been setup: sole proprietorship, partnership, Limited Liability Corporation, etc. The commercial loan applicant likely will need to secure the loan with some form of collateral, which acts to protect the lender in the event of foreclosure.

While lending institutions prefer to avoid costly foreclosure proceedings, this unfortunately is not always possible. The extent to which the applicant's business as well as personal property is at risk in the event of foreclosure on the commercial loan is based on the legal designation of the business.

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**Creditworthiness:** Lenders will thoroughly research the credit history of the business to be purchased and that of all of the managing partners, directors and board members applying for the commercial loan. Remember, lenders want to avoid foreclosure and this step helps make appropriate determinations as to the amount of risk involved.

As with residential mortgages, the overall creditworthiness is also used to determine the interest rate for the commercial loan. Other factors used to determine the interest rate include the rate at the time the loan is being processed and the anticipated amount of risk involved. Besides checking credit histories, lenders also look at the location of the business being purchased, the nature of this business, and its past as well as projected income.

When determining the commercial loan's rate interest, the formula is simple: the rate of interest will increase in conjunction with the perceived amount of risk involved in holding the loan.

**Documentation Requirements:** At a minimum, applicants will have to show business accounting documentation including balance sheets, profit and loss statements and cash flow for the past three years. These documents must be stamped by a certified accountant before being submitted.

The lender will also want to review a business plan for the business being purchased. A business plan is a complex document that will answer a lot of questions for the lender and will greatly help the lender determine whether the venture is a good financial risk.

Lenders with experience in commercial loans have baseline data against which they will compare the data submitted by the applicant. As long as the data remains within their guidelines, there's a good chance the commercial loan will be approved. Otherwise, the lender likely will require additional information.

**Interest Rates:** As stated previously, there are many different types of commercial loan programs available. Another factor used in determining the interest rate is the type of loan that has been chosen. The two most common interest rate programs are fixed interest rate loans and variable interest rate.

Just like in residential mortgages, a fixed rate loan maintains the same rate of interest throughout the life of the loan. Whenever rates fall below the interest rate of the commercial loan, the loan can be refinanced to take advantage of the lower rate.

The interest rate on a variable rate loan will fluctuate up or down during the life of the loan. This type of loan makes sense when interest rates are heading down. But as a precautionary measure against increasing interest rates, inquire about a capped rate on a variable rate loan. The cap is a pre-negotiated maximum amount over which the interest rate will not be allowed to rise. The opposite is a Collar; a pre-negotiated amount below which the loan will not be allowed to drop.

**Loan to Value Ratio:** This is always a concern for a lender. Lenders want to ensure that the amount of the loan they approve falls within an acceptable range based on the value of the property that the loan will be used to secure. Typically the loan to value ratio ranges between 75 – 80%. To a certain extent, this percentage is negotiable.

**Commercial Loan Fees:** Expect to see an assortment of miscellaneous fees attached to the commercial loan. Application fees, appraisal fees, credit report fees, legal fees, administrative fees, recording fees, courier fees, notary fees, broker's fees and more.

Since lenders make their money on the interest that is paid throughout the life of the loan, they oftentimes will include a prepayment penalty to protect their anticipated profits should the borrower repay the loan before it reaches maturity. The prepayment penalty can be a considerable amount, usually payable in one large payment, so be sure to check for this. In

today's competitive commercial loan market, it's a good idea to try to negotiate for the elimination of the prepayment clause should you find one in your loan documentation.

So there you have it – a guide to the more common elements of the commercial loan process. Of course, the actual requirements of your commercial loan application will vary based on your particular needs. The purchase of a business is a substantial purchase and applying and being approved for a commercial loan is only the first step in what is hoped to be a profitable new venture.

### Chapter 3 Securing a US Commercial Mortgage

What's the most efficient way to secure a US Commercial Mortgage? Work with a mortgage broker who specializes in this area. If you've ever applied for a loan, you're familiar with the mountain of paperwork you are required to complete during the process. The lender takes the applicant's information, runs it through their guidelines and formulas and after waiting many weeks, a decision is made to either approve or deny the loan. If approved, the transaction can proceed. If denied, the applicant has to begin the process all over again.

US commercial mortgage lenders use guidelines similar to those used when applying for a residential loan. The applicant must provide a good reason for needing the loan. The property must have an acceptable appraised value. The location of the property is also considered. The credit history of the applicant, including the financial condition of the business is thoroughly investigated. In addition, commercial mortgages require significant collateral to secure the loan. This can be in the form of business equipment or inventory, personal or other properties, heavy machinery, or any asset with a significant value.

But even the most carefully prepared and well-documented commercial mortgage applications can be declined. When this happens, the applicant has no other choice than to start the tedious commercial mortgage loan approval process over again. Weeks go by, opportunities are lost, and still the outcome remains unknown. How many times do you want to go through this process?

Most applicants agree the correct answer is only once. The way to achieve this goal is to work with an experienced and reputable US commercial mortgage broker. A broker takes your one completed commercial mortgage application and submits it to many different commercial lenders, all at the same time, which greatly increases your chances of approval and saves you a considerable amount of time.

A commercial mortgage broker works with these different lenders every day. The broker knows what each lender looks for in an application and sends your application to those with the best chances of approving your loan. This method is highly targeted. And, brokers only get paid when they successfully match applicant with lender. Their financial incentive is what motivates them. Best of all, the lender pays the broker's fees, not the applicant.

Working with a commercial mortgage broker costs you, the applicant, nothing. Working with a broker frees up your time so you can get back to running your business. Working with a broker greatly increases your chances of getting your commercial loan approved fast. In fact, brokers often get approval from multiple lenders which puts applicants in a great position to bargain better loan terms. And best of all, brokers will handle these negotiations!

There are so many reasons why working with a US commercial mortgage broker makes sense. Yet it's amazing how many applicants don't take advantage of their services. You work hard at streamlining your business and cutting your operating costs so why not streamline your commercial loan approval process? For fast results, contact a US commercial mortgage broker today!

### Chapter 4 Why not use your bank?

Being a creature of habit can cost you plenty when it comes to applying for a commercial mortgage instead of going through an independent commercial mortgage broker. Let me tell you why. Most business people have an established relationship with their bank and take advantage of that relationship whenever they need to borrow money. However, here is the question that you should be asking yourself: "Is your bank taking advantage of you?". More and more the answer to that question is "Yes".

Once you have an established relationship with a bank they tend to start taking your business for granted. Not necessarily in a bad way, mind you, but in the way that a mutual level of comfort exists. The bank knows your reputation for keeping your word; they know how much money passes through your account and they know what your business does. You know that there is someone there that you can ring up who knows you and will work with you to get a commercial mortgage.

Seeing as how applying for a commercial mortgage can be a time consuming affair it is a natural tendency to go to the people that you already know to get the deal done with the minimum amount of red tape. The bank realizes this and it removes their incentive to cut you the most competitive deal or to negotiate on terms that you may not like. In essence you are locked into accepting whatever commercial mortgage "packages" your bank offers.

Now, on the other hand, if you take advantage of the services that are offered by an independent commercial mortgage broker then a whole world of options open up for you. Your broker is able to shop your commercial mortgage application among a large number of lenders who are hungry for new business. As a result you are often offered deals that beat your bank's best offer by a considerable latitude.

Imagine your potential savings possibilities when you engage an independent commercial mortgage broker who is able to find you two, three, four or even ten or more lending sources, who all want to compete for your business! Plus, a broker doesn't earn any fees unless a commercial mortgage loan deal closes. This gives them a strong incentive to find a deal which is tailored to your specific requirements. Even better, the broker earns their fee from the lender so it doesn't cost you anything to save all of that money.

You wouldn't buy a new car or lorry without checking out different dealers to find the best price would you? Then why in the world would you settle for a "one size fits all" commercial mortgage from your banker? It just doesn't make sense. At least not when there is an independent commercial mortgage broker who is jumping up and down for the chance to save you money. All you have to do is find the best one for you.

### Final word

Again we hope you find this guide useful.

Although Commercial Lifeline are UK based and we do not deal directly with US citizens, we have a trusted partner based in the US, who will be able to source lenders throughout all states quickly and easily.

To learn more about what an Independent Commercial Mortgage Broker can do for you [click here](#).