

// a view into the world of commercial mortgage brokering //

OUTLOOKS

:: Editors Column ::

> SPRING/SUMMER '13' <



Anthony M. Gramza

UNCERTAINTY OR PROCRASTINATION?

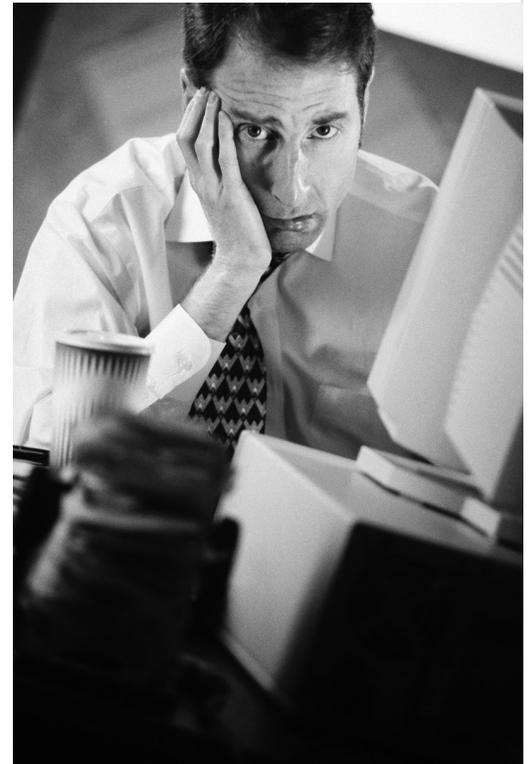
The question that is being asked in the marketplace by brokers, clients, and Soothsayers alike is; “Is there uncertainty in the current real estate market, or is it just procrastination on the part of sellers, investors, and potential investors”?

What is causing all this delay in the real estate arena? With an improvement in the overall US economy, with the home building industry on a rise, with the Wall Street people shouting for joy, and with the stock market investors showing a definite improvement in their bottom line, why are so many sitting on the sidelines? Most sophisticated entrepreneurs will tell you that they have seen a definite improvement in the economy.

From everything we hear and are being told, the banks and investment groups are flush with money. As of the beginning of 2013, our office has received more calls and messages from lenders and lending groups, providing new loan policies and seeking

real estate transactions, both existing, refinance, and new construction. Even they are asking the same questions, and unfortunately we have to give them the same answers.... “Our shelves and files are slim, and when we are engaged, it takes forever for the client or their staff to provide us with the proper documentation for lender submission and preliminary quotes”.

Could it be that the current mortgagee feels that their project/investment is worth more than what the market is saying? Could it be that the original loan was obtained when lenders were giving 100%+ financing with way below “cap rates”? Remember, the lower the cap rate, the higher the value. The higher the cap rate, the lower the value. Could it be that the current mortgagee is unwilling to sell off the existing debt at a “reduced mortgage price so that I can obtain a new refinanced mortgage? Could it be that the client is getting a current market quote and then “shopping it around” for a better rate or terms? Could it be that I as an investor/owner/partner feel I can do better on my own, and don’t need that



commercial mortgage broker? Could it be that I don’t want or need to pay the brokers commission? You get what you pay for, as long as you are dealing with a qualified and licensed mortgage broker who can present to you legitimate referrals.

Maybe what is needed today is a good examination of your business dealings. Do I wait it out? Do I sit here and wait for better news from the Soothsayers of the Far East? I’m listening to other investors and my competition, and not feeling comfortable in my own judgment? After this examination, am I uncertain or am I a true procrastinator? Your call! –AMG

WHAT IS CAUSING ALL THIS DELAY...?

COULD IT BE WORTH MORE...?

DO I WAIT IT OUT...?

(sop)

standard operating procedures

Considering that our most valuable asset is "time" and "our contacts", it is important that all those that may have dealings with AMG Commercial Mortgage Group, understand that we need to establish a mutual process that is to the benefit of both us as a licensed commercial mortgage broker and our client and/or their representative.

Our marketplace is highly regulated and information received is strictly confidential for use by the investor/lender. We do not shop our packages or exhibits submitted by a client to a multitude of lenders. That is referred to as "shopping", and lenders quickly cease their reliance on our firm if they are aware that a multitude of packages is being looked at or quoted by 3 or 4 other lenders at "the same time".

Once we receive a call from a referring broker or the client direct, we proceed to the following:

- Happily supply our credentials and referrals as a "licensed real estate and commercial mortgage broker".
- Then an initial review and underwriting by

our office occurs. Assuming that the information can meet specific lender criteria, we then discuss the project directly with the lender.

- If we get their initial approval, we then submit the exhibits to them for their direct underwriting.
- If we receive their quote as to rate/terms/conditions, we then notify the client and/or their broker "in writing".
- If there is agreement, we then require the client to execute the initial letter from our office, and notify our lender to issue their "Letter of Intent to commit".
- The lender in most cases will require a deposit for due diligence which will cover a new appraisal, site inspection, and credit reports. The lender will not advance their own funds to cover expenses on your behalf. Any residue of funds will be returned to the client at legal closing.
- Once the terms are accepted by the client, AMG will require execution of their Mortgage Placement Agreement, and will require a minimum retainer to cover their initial expenses and

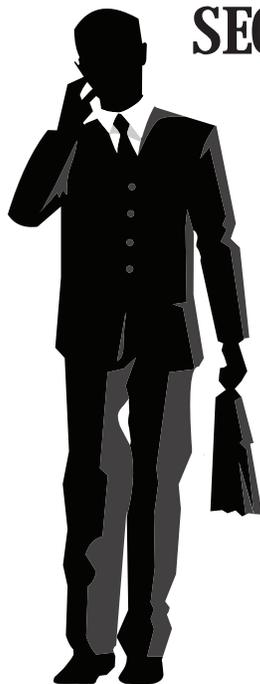
time afforded to each client. We wish to deal with only serious clients, and as they say, "don't wish to play games".

- The retainer may cover our expenses for travel, lodgings, and miscellaneous expenses incurred during a site inspection.
- We will then set up a "conference call" between the client and the accepted lender to discuss further details of the project, to answer any questions that may have arisen during the initial underwriting, and secure additional exhibits as needed.
- Our involvement begins at the initial stage of a personal visit or phone call, and will remain until the loan is successfully funded.

We strongly recommend that all clients verify the credibility of the brokerage firm or individual broker/agent that they may be dealing with. Is your broker licensed, or do they have to be licensed? Can your broker provide you with successful transactions? Can your broker provide you with previous client/lender references? Have you checked their referrals? If not, why not?

(end)

SECRETS OF COMMERCIAL BROKERAGE INDUSTRY



Secrets of the commercial brokerage industry—there are none! There may be some misgivings on the part of various individuals to this specific industry or to the individual whom is or claims to be a mortgage broker. But to secrets, I say that the industry is open to both accolades as well as criticism.

Our industry is in most cases, comprised of professional as well as experienced individuals, who assist clients and other broker/agents in securing the necessary type of financing to make their project or real estate venture a success. Can this process be accomplished by the client/investor themselves? The answer

is yes. In many cases, clients seek their own avenues first before they secure the services of a commercial mortgage broker. If they are unsuccessful, or do not feel that the terms and conditions are to their liking, they will seek the help from another source. We hope that they will seek that help through the services of a professional and licensed mortgage broker.

In my twenty three (23) years as a licensed real estate and commercial mortgage broker, I have come across many individuals whom I consider to be true professionals, and also those whom do not aspire to professional ethics, and in my mind, considered to be "industry scumbags". The latter are the ones that hurt the reputation of our industry, and cause many of us to doubly prove our ability and experience to a potential client. And in a sense, that is ok.

You never dive into the water, until you test it first. That holds true for anyone who is placing their trust in an individual, sharing their utmost secrets, their financials, and in some cases, personal history. Confidentiality is the name of the game in this industry, to

be shared by only those who are in a decision making process—the lender themselves. Therefore, should clients investigate and check out the credentials of the broker that they put their trust into? The answer is obviously yes! Do they always do it...no! And then when the application falls apart, or they have given that individual a large retainer upfront and receive nothing of value in return, or when the terms and conditions are no were near what was originally quoted, frustration abides.

I've heard the story so many times. New clients inform me of how they "were taken". How they gave sizeable retainers...some in the "hundreds", how phone calls were not answered, how they found out that their confidential information was being "shopped" all around the country, how terms and conditions were received...nowhere near those originally quoted, how the application process was in its 5-6-7th month, and no clear answer. I could go on and on, but you get and feel my frustration. These things hurt the client as well as our industry.

An experienced commercial mortgage broker

will and should perform the following:

- 1 They introduce themselves and provide information as to their credibility and experience.
- 2 Insist on direct communications between the client and broker, either by phone or face to face.
- 3 Gather and review/underwrite documents pertaining to the specific project.
- 4 Inform client as to the feasibility or the lack of success in their request.
- 5 Have project reviewed by specific lender that has indicated interest.
- 6 Provide quotations from lender and receive acceptance from client.
- 7 Obtain an executed mortgage placement agreement from the client, and in some cases, a minimum retainer to cover costs involved during the process stage.

- 8 Have lender issue their Letter of Intent to fund, and if acceptable, client to execute and return to lender. A conference call is usually afforded the client for further discussions and clarification.
- 9 Complete acquisition of exhibits requested by lender, and advice as to how they are to be presented.
- 10 Continuous follow-up on at least a weekly basis with both the lender as well as the client who seeks updates and who is insistent on getting the deal done.

What are you compensating the broker for? Some say that the brokerage commission requested is "not worth it". Remember we as commercial mortgage brokers only get paid if and when the transaction is fully funded. Our main requirement is to find the right lender, with acceptable terms and conditions by the

client that will meet the criteria to a successful venture. Commissions vary depending on the project type, location, need, and presumed risk. Commissions can vary from 1% to 3% of the funded loan and depends on previous stated items. In some cases, said commissions, and lender fees can be included in the loan request, and will be paid at the time of legal funding. Lender due diligence fees is paid upfront to cover expenses incurred for an appraisal, site inspection, credit reports, and miscellaneous expenses for legal work.

So therefore, there are no secrets in our industry. If you think there are, ask and you should receive the answers you need to make the right decision. That decision is to employ the services of an experienced, qualified and licensed commercial mortgage broker.

-END-

*From the annals of the AMG
Commercial Mortgage Group!*

CASE 1:

The challenge: An existing construction supply business, seeking a loan of \$7,500,000.00, in need to refinance for the purpose of discharging debts, consolidating current operating locations, reduce existing real estate debt, and provide increased working capital.

The results: unable to secure a lender "Letter of Interest". After several weeks of delay, we were able to secure the past two years financials on the operation, only to show a "negative cash flow" and "long lived outstanding debt". What our client wanted us to know is that after this refinance, there would be much improvement. What our lender said was "come back to us in a year or more and prove it"!

CASE 2:

The challenge: An existing real estate holding company, with thirteen (13) property locations, seeking a refinanced mortgage of \$8,200,000.00. Their desire was to consolidate all these individuals loans (all with private investors) into one loan, one lender. The holding company financials together with the financials on each of the income producing properties were very good and to the satisfaction of the lending group.

The results: 1st our lender issued their Letter of Interest for \$8,200,000.00 for 10 years fixed at 8%, over a 20 year amortization, one percent to the lender at closing, and a \$7,500 application/due diligence fee, due at acceptance and to be used for the new

appraisals and legal fees.

Conclusion: the client refused to deposit the application fee with the lender...felt he did not need to do it, and was only willing to pay for the work up front, "if he closed on the mortgage". The deal was "trashed" by the lender.

CASE 3:

The challenge: A very financially strong and experienced entrepreneur desired to refinance his existing hotel complex. Based on a previous (but outdated) MAI appraisal and the complex location, the loan amount of \$15,000,000.00 was in line with current lending policies and therefore met the investment guidelines. The intent was to discharge the property mortgage once reduced, make intense interior as well as exterior improvements, and cover all lender and brokerage fees.

The results: 1st Our lender issued their Letter of Interest for \$15,000,000.00 at 8.50% for a two (2) year construction loan (interest only), converting to a 7.50% mini-perm for five (5) years (interest only), with one (1) percent fee to lender at time of closing, and an application/due diligence fee of \$8,500

covering a new MAI appraisal and all legal expenses.

Conclusion: the client refused to pay the lender the upfront application/due diligence fee, and indicated "I don't pay any upfront fees, but am willing to reimburse you (the lender) at the time of funding". "Oh really," indicated the lender..."and what if you never accept the firm commitment and decide not to close? We have advanced the expenses out of our own pocket." The client refused to execute the commitment letter and the lender "trashed" the deal.

CASE 4:

The challenge: A very successful physician was seeking a new loan in the amount of \$7,000,000.00 on his business practice and real estate in order to use the funds for a new investment. The property was valued for \$15,500,000.00 on an 8 month old MAI appraisal, and was totally free and clear.

The results: 1st Our lender issued a Letter of Intent for \$7,500,000.00 (\$500,000 over the requested amount) at 4.5% fixed for ten (10) years, over a thirty (30) year amortization schedule, with a one (1) percent fee



OUTLOOKS

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PLEASE TAKE NOTE ::



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due at legal closing and an application/due diligence fee of \$7,500 to cover a new MAI appraisal and legal expenses.

Conclusion: the client indicated that in his mind, the appraisal was new and that the lender did not need to have it updated. The client was informed that under FIRREA banking law, any appraisal over six (6) months old must be updated or a new one performed. The client refused to pay the lender fee, and the transaction was “trashed”. We feel that the client as “shopping”!

CASE 5:

The challenge: A family owned Best Western hotel (originally under the Holiday Inn flag) were seeking a new mortgage (refinance) for \$6,500,000.00, in order to comply

with recommended changes and improvements recommended by the franchise. Financials were somewhat “light”, but the lender was willing to review and consider. **The results:** 1st our lender issued their Letter of Intent for the amount requested at a 5.75% rate, fixed for ten (10) years over a twenty (20) year amortization. Lender fee was one (1) percent, payable at closing and a due diligence fee of \$5,000. **Conclusion:** client declined the offer...felt they could do better. We later found out that this application was in the hands of four (4) other lenders. The deal was being shopped around! Clients were not willing to make a firm commitment. As of the date of this article (3/30/13) no firm commitment had been issued (per listed broker).

AMG

FUNDING AVAILABLE

\$ Bridge loans \$ Blanket Mortgages
\$ Multi-family \$ Asset Based
\$ Construction loans \$ Three (3) year terms
\$ Loans —\$100,000 to \$10,000,000
Call for more details!

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