

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

OUTLOOKS

:: Editors Column ::

> FALL/WINTER 13'14' <



Anthony M. Gramza

In the early spring of 2008, I began working on our next newsletter. I had my crystal ball out, and as I pondered what the future of the year forthcoming was to bring, I picked up my phone and called on one of my associates in the commercial mortgage industry, Kevin Fuko, a professional commercial mortgage broker, residing in New Jersey.

As we tried to guess as to what would be happening to interest rates in the next few years, I became very concerned as to the current financial market and the looming doom forecasted. We all knew that we were in for some rough times, and the uncertainty of when we would return to realistic operations. At that time, we had no idea how bad it was to get! This was 2008, and the words of wisdom coming from our politicians and the soothsayers in Washington, made us even more skeptical. When would we eventually see that sunshine coming through the deep tunnel?

We started our guessing process. I anticipated an improvement in the marketplace in the latter part of 2012. My friend Kevin said that he was more optimistic, and that I should use the latter part of 2011 as our year of improvement. How wrong we both

were! Although the middle of 2012 showed some minor improvement, the market dragged, everyone continued to be concerned, procrastination abounded, and the financial industry stayed in a deep slump.

From the end of 2007 through 2012, the real estate industry stayed in a recession or depression, however you wish to see it as. But I can tell you that it became a disaster in just about every city and municipality around the USA and today over 50,000+ mortgage brokers are no longer in our industry, whether they be residential or commercial. We have lost many excellent professionals, who in most cases will not find their way back. Today, only a few of our major cities have the professional commercial mortgage

opened in several cases that our firm was personally involved with. Did they do better? From the reports back to our firm, they were not really successful, other than a relaxation of some terms. Rates, according to some of the lenders we spoke with, indicated 25-50 basis points higher than what we had originally quoted. Our next article handles some issues that we have encountered.

However, we knew that it would be only a matter of time when we would hear of rate increases. We may not see the 9.50% to 11.0% rates as we saw in the middle 60's or early 80's, but our feeling is that rates will start to edge upward. His Holiness Bernanke cannot save us forever. And yet, as of this date, (9/13) the Fed keeps



A HISTORY LESSON LEARNED

brokers working on behalf of clients.

Since the early part of this year, more lenders reentered the commercial mortgage arena, and rates have been lower than we have seen in many moons. Depending on the type of project, location, and clientele, rates were in the 4.25% to 5.50% fixed for a predetermined time frame. Can you imagine clients saying to us.. "I think I can do better"! And that is what hap-

on pumping \$85 billion a month into bond purchases. Like it or not, we are going to have to face reality, and admit that the outlook for growth is low, and unemployment will remain high. Let's face it; the Fed continued its mistakes in "over-estimating future growth".

Speaking of interest rates, the rate for a 30 year residential mortgage

As of June 1991 was 9.50%. As of June, 2013, the rate was 4.00%.(NAR) Since then, there has been a slight movement upward, and residential buyers are now complaining that they will not be able to buy because the rate is up 25-27 basis points. Hello... Hello!! Wake up people! Like it or not, the party is somewhat over. Get used to it, and be realistic. The Fed cannot continue to be our "sugar daddy"! When will the Fed be honest with the general public, point out their true feeling that real improvements may not occur until 2014 or later, and indicate that this financial crutch cannot last forever? Open up your eyes...realize what we are and have been facing for the past 5+ years.

Well, now let's talk commercial. The bank of lenders is opening up for both short term as well as long term transactions. Commercial real estate is back in vogue.

SHORT TERM: \$1 million to \$50 million, 1-3 year terms, 75%-95% LTV, non-recourse, bridge or mezzanine loans, 9%-12% rate, interest only, and closings within 30 days after signing

lender term sheet, lender fees anywhere from par to 3%. For those clients needing a short term- "quick fix", this is the way to go.

LONG TERM: \$500,000 to \$200,000,000 million, 5-10 year fixed terms, 25-30 year amortization, 4.50%-8.50% rate, depending on the type of property, construction loans available with 3-5 year mini-perm conversion, 65-75% LTV, ½% to 2% lender fee, with 45-60 day closings, following acceptance of the lender Letter of Intent to Fund.

INTERNATIONAL: Since we are one of the small firms that enjoy assisting our clients in their needs for international funding, we share with our readers, the latest financing program. We realize that the options are open to just a few, but you need to realize that an inquiry may come your way, and it would be of help to know where to refer that individual or project.

- Loan amounts preferred...in the \$5 million and up range.
- Rate @ 8.5%
- Term @ 10 years fixed

- Loan is on an interest only basis, and is "non-recourse"
- Can provide up to 100% financing
- Lender will require a 25% participation as a joint venture partner
- Lender fee is .50 basis points, payable at legal closing
- 90 days to close following full review of all required exhibits
- Almost any type of commercial venture is acceptable
- Clients must conform to the guidelines set up by the lender group

The lessons learned over these past forty years have become my library of the financing world, both residential as well as commercial. I've learned that patience is a virtue that I continue to strive for. I learned that truthfulness is the best game in town. Lies come back to haunt you. We place our reputation with the clients that we have been successful in helping achieve their goals. We look forward to providing the best service and options available, and longevity of friendship and profitable business transactions.

—AMG

what are lenders looking for?

Have things really changed in the past few years regarding commercial mortgage transactions? The answer to that question is both...yes and no. Let us examine the marketplace, reminisce of the old days, review the past year, and look into the coming investment year.

Lenders are back in the market. Some of the previous Wall Street guys are gone, many of the few left S&Ls and Savings banks are still hiding in the hills, and some of your local commercial bankers are assisting their existing customers and those with high balance sheets. Investment houses are seeking high volume transactions and looking to enter into joint ventures when possible. A mixture of banks will lead you to believe that they are in the lending business, but when you really look into their program or speak with them directly, their rules or programs are extremely difficult and certainly non-competitive.



The days of 2004 through 2007 are gone and based on the new rules and regulations coming from Washington, hard to believe they will return, "Or will they"? The days of 105+financing are gone. Limited underwriting is now in the past. Mortgage brokers, especially in the residential arena making high income commissions in addition to extra points coming from their mortgage bankers on the back end of the

transaction are now extinct. Have we really learned our lessons? Greed was the name of the game, especially for the high rollers of Wall Street. And hopefully we have learned that greed is not good.

Since early spring of 2003, more clients considered either refinancing their existing projects or looking into new investments. Our firm alone lost eight transactions during the course of the first three months. The reasons:

- 1 Income not sufficient to cover debt service.
- 2 Financial statements (personal and corporate) not meeting lender guidelines.
- 3 Client plans and projections not meeting deadlines.
- 4 Client feels that interest rate/or terms not to their satisfaction.
- 5 Liquidity problems.

- 6 Client shopping around or causing a “daisy train”.
- 7 Client feels lender due diligence fee to high...won't pay for a new appraisal.
- 8 Have discarded our advice and listened to misinformed individuals.
- 9 Client or their advisor does not feel that forms and exhibits provided by the lender need to be completed to lender satisfaction.

We could go on, but you get the picture. In March of this year, we provided a client on his refinance, a loan of \$7,500,000.00, rate of 4.5% fixed for ten (10) years. He turned it down. You need to wonder, did we do something wrong, was he or she just shopping around, or is the client being unrealistic in meeting the lenders demands? As the Shadow use to say, “What lurks in the hearts and minds of man”? Only the client knows and in many cases will not be truthful in sharing those reasons.

today and as best we can foresee, financing will expand, lenders will seek new

investment opportunities, and rates and terms will be in the acceptable range for clients to consider. Review the following:

- 1 Lenders want to see some “skin” in the game.
- 2 LTC ratios can be as high as 90%.
- 3 LTV ratios will remain in the 70-75% range, depending on the type of product.
- 4 Some but not all lenders will consider construction financing.
- 5 Lenders as well as professional brokers will require some form of retainer to keep the client honest.
- 6 Lenders will be somewhat more selective in the product they wish to finance, and rates and origination fees will increase depending on the type, location, and perceived risk.
- 7 On proposed projects, feasibility/viability studies will be helpful in receiving a positive decision from the lender.
- 8 Just about all submissions to the

lender are electronic.

- 9 Lenders prefer a detailed Executive Summary with minimum exhibits for their initial review. Once terms are indicated, our firm will notify the client. If acceptable, we will issue a letter with all the details, and our Mortgage Placement agreement. Upon our receipt, the lender is notified to proceed with the processing of the formal application.
- 10 Timing is crucial; therefore full cooperation by the client is needed to arrive at the approval and eventual funding.

We look forward to working with our existing and new clients, their advisors, and brokers who may refer the transaction to us. May we again strongly advise all individuals seeking commercial mortgage financing, to please check the credentials of the agent or broker you intend to work with. Ask for references. You need to be doing business with a professional, and one that has had the experience and clout with the lending industry. **end**

ARE YOU GETTING WHAT YOU PAID FOR?

Today, credentials are the name of the game. The old saying...“you get what you pay for” is as true as ever. Whether you are seeking legal, accounting, medical, or financial, the credentials of the person providing that advice is important in your eventual decision making process.

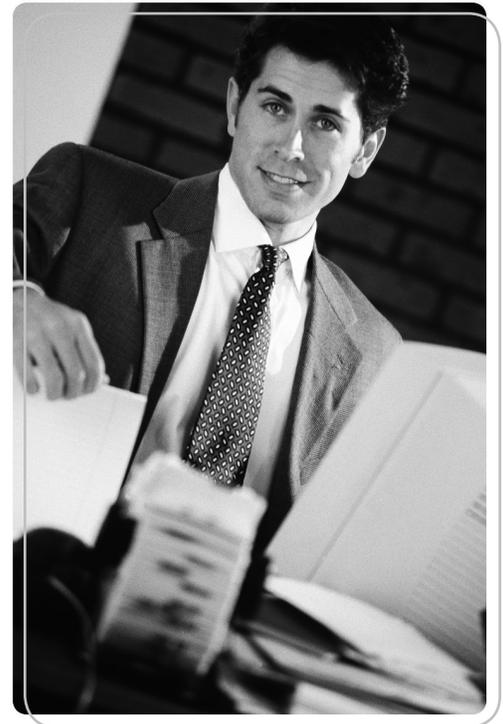
Over the past 20+ years, I have continually encouraged our readers to always seek the help and advice of a professional, and in our case, a licensed/seasoned commercial mortgage broker. There are a few states that do not require licensing, and if you find this to be the case, then ask for references and broker tombstones. If they are for real, this request should not be a problem. Professional mortgage brokers like to sound off...therefore, I/we don't mind bragging!

As in any profession, the client is

seeking our assistance and advice in securing financing in the millions of dollars. Without these funds, the project never gets underway, and the other professions that assist in making the deal happen, are out of a job. This is why knowing who is working on your behalf is so important. We also caution individuals to watch out for those individuals that promise offerings that seem to be unrealistic or not heard in the marketplace. If it sounds too good to be true, it is!

Our firm does require a nominal retainer to cover our time and efforts in securing the best possible financing for a client. In most cases, that retainer is credited toward the total commission due at legal closing. We expect a client to be truthful, committed, and cooperative. Our job begins at the first discussion, and continues until the transaction is completed and the project is funded. We take this commitment to be serious and expect nothing less from our clients.

We require an executed mortgage placement agreement, since our lenders want to know that we are the legal representatives of that client. They do not wish to waste their time, and they hate to see a “daisy train” of other brokers



who may have the same transaction. Our fee is reasonable and competitive, and is determined based on the type of project, the presumed difficulty, and historical background. As always, we are happy to discuss you project with you and outline all the costs including our retainer and commission.

Good luck and happy hunting!



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OUTLOOKS

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PLEASE TAKE NOTE :: 

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Celebration...

For those business acquaintances, clients, broker associates and friends, a joyful reminder that we have now completed our "50th" issue of "Outlooks", which is your in-house newsletter. We hope that we have provided some worthwhile information to all on the financing ins and outs of the crazy world of commercial mortgage financing. As in the past, thank you for your comments both good and constructive.

We hope to continue these efforts in the years coming.

Happy Columbus Day and Thanksgiving Day (Canada) on the 14th, Happy Halloween (pumpkin day) on the 31st of October, help celebrate Veterans day on the 11th of November, Happy Hanukkah on the 27th, and Happy Thanksgiving (turkey day) on the 28th.



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!

898 Ridge Road :: 39B
Webster, NY 14580-2556
phone:: (585) 787.4310
cell:: (585) 766.9540
e-mail:: amgramza@amgcmb.com
web site:: www.amgcmb.com



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