NAMB National Association of Mortgage Brokers

A publication of the **AMG Commercial Mortgage Group**

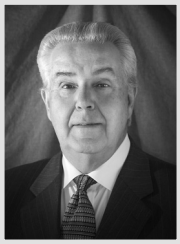
No.52:

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

OUTLOOKS

:: Editors Column ::

> FALL/WINTER **14'** <



Anthony M. Gramza

Have you received your invitation yet? Haven't you heard the party is back on! If you have, but unwilling to take part, you are not alone. "What party is that you say?" Well, we are speaking about the "Money Party of '14-'15".

As '13 opened, we started to get a feeling that the blockade of financial resources was cracking and the small floodgates were opening slow but sure. We did not get a slew of phone calls or e-mails from lenders, but little by little the word got around that maybe, just maybe, hunting for new deals was to be the norm for the year. The feeling in the marketplace from the soothsayers on Wall Street, to the small professional mortgage broker was that interest rates and lender terms were softening and the time was ripe to start grabbing from the money tree.

"Should I join the party or continue to stay on the sidelines?"

Well in many parts of the country, it did not happen. You then have to ask yourself why, when the following terms and rates were and are still somewhat being offered today:

* Depending on the lender, up to 100% LTC.
* In most cases, "non-recourse" loans.
* Construction loan financing at a rate of Prime or a small +.
* Deferred interest on construction loans up to 36 months from some lenders.
* Permanent loans committed at rates in the 4.5% to 6.0% range.
* Lender fees in the "par" to ½% range.
* JV partners willing to accept a low of .25% ownership for up to 100% financing.
* Bridge lenders willing to accept reduced fees to get their funds invested immediately.
* Private lenders willing to review/commit/fund within a two (2) week period.
* Lender due diligence fees currently on the low side, with some willing to absorb all initial costs to make the deal.
* Speeder closings on the commercial side, depending on the cooperation of the client and supporting parties to the transaction.

What really has been happening is that the refinance market, especially multi-family has been booming; a smart move on the part of many entrepreneurs, taking advantage of the low interest rate and attractive terms, especially when their loans were originally closed at rates in the 9-11% range. Unfortunately, many project owners are still sitting on the laurels, either being happy fat cats, or still concerned as to what will or will not happen in the economy.

"...Should I consider the new project I have been working on?"

You have to ask yourself, "Should I join the party or continue to stay on the sidelines?"…it's your choice… your call. "If I am getting the correct advice and counsel, and if I am dealing with the right advisors, should I consider that new project I have been working on?" "Should I consider the refinance that I have been pondering on?" "Should I just wait… procrastinate…and/or hope for the best???" Remember, it's your choice… your call.

—AMG—

A look at 2015

Yes….2105! It's here, it's upon us, and our feeling is that it will be a good year. As we sit in our offices on this 27th day of October, two weeks before Election Day, and two weeks before the "changing of the guard" as many citizens hope, we have to ponder whether many of our clients and individual investors will "join the party".

At the beginning of 2014, I as many others thought for sure that we would eventually see a rise in interest rates, especially in the commercial financing field. We said to ourselves, these interest rates and cap rates are very low, especially for a commercial real estate venture, and comparison to the residential market. And yet, many investors were "not biting". Yet years ago we made deals at rates in the 9.5% to 11.0% range, and we were lucky for the offer.

Will we see any inflation in the coming year? There is serious doubt and a stronger feeling that it will even be cooler in the months to come. Energy, gasoline and even food commodities have fallen. There is no crystal ball to give us all the answers, however, the feeling is that the Fed is still in a "cautious" mode, and if and when they consider raising rates, it will be in "slow motion".

Rates have been dropping defying comments by the soothsayers. In the residential side, the 30 year rate as of 10/17/14 was 4.03%! And yet, I hear some individuals complaining that the rate is "still too high". Well back in the late '07, we were happy to get a home mortgage at 7.5%. As of a week ago, I was quoted on a very well qualified commercial transaction, a fixed rate of 4.75%. Did the client bit? No…..instead we heard, "I think I will hold for a short time, talk with my investors, and see what happens after the first of the coming year". Hello…….am I missing something?

The 2015 party should be interesting to say the least. We are still waiting for the re-finance market in typical commercial transactions to open. Many investors placed loans on their projects several years ago when the fiasco of 2007 started and continued into '08 and '09. Depending on the success and continued favorable market, now is the time to consider that refinance and see what the market is offering today. Investors and current project owners should remember that the end of the year and first month or two in the coming year are one of the best times to seeking commercial mortgage financing. Lenders are working on the budgets and forecast for

the coming year. What can I budget for the first quarter of the new year? What amount of fees can I contribute to our operating budget bottom line? Can I beat the competition? They are all good questions to think about.

And thinking about that then leads me to another question. How do I accomplish those goals and how do I take advantage of the current and on coming market? Those answers follow in the next article in this issue… "Is a Professional working on my behalf".

- end

IS A PROFESSIONAL WORKING ON YOUR BEHALF?

Whether you are dealing with a physician, a stock broker, a car salesman, or a mortgage broker, you have to ask yourself, is he or she working on my behalf, and looking out for my best interest?

Over these many, many years in the commercial brokerage industry, it still amazes me on how potential clients and investors in general retain individuals without checking their credentials. My emphasis in this article deals with individuals who may or may not be professionals in our field of commercial mortgage financing.

In considering that individual to work on your behalf, did you:

- Ask for their credentials.
- Ask for references - both clients as well as lenders. There are no secrets in this industry and as long as those past clients or lenders agree to verify credibility and performance, there should be no problem.
- If the broker registers the clients name with the lending source, the client cannot go behind the back of the broker.
- Interview that individual and see if you are compatible with each other.
- Ask if they are required to be licensed in the state of their operation?

You will find that in most cases, professional commercial mortgage brokers are more than happy to provide you with their credentials since many have work long and hard to achieve what they have and the reputation that they provide. References are a plus! Next of all, you need to realize that a professional commercial broker is just that; a professional. If you want them to work diligently on your project, then you need to retain them, and expect to compensate them with a retainer which may or may not be refunded if the transaction is funded.

I've heard too many horror stories from individuals with comments such as, "How do I know if you will take the retainer and never report back to me"? "I paid X$'s to such and such and they could not deliver". "You will be paid when you get your commission". On the other hand, when you are dealing with other professionals, you

NEXT>

CONTINUED>

are always required to pay some type of retainer to that professional to work on your behalf; therefore, why not the Professional Commercial Mortgage Broker?

Is it a case that all of the expenses of the broker are free? Is their time, in some cases months if not a year or more, valuable? And if they are successful on your behalf, is there any sure guarantee that the transaction will close? What happens if the client walks after receiving the Letter of Intent or firm commitment letter? Are all the expenses just written off? Is it the thinking that…. "Well that is the chance that you take, but look at the 'big' commission you will make!" Ya…tell me another story!

There is risk on both parties. Is the client telling to whole truth? Can interest rates or terms be 100% guaranteed? Can we count on a potential disaster that changes the mind of the lender? Can we determine for sure a lender and their policy will underwrite the loan request after they review all the exhibits and documents submitted? The answer is no. The problem with taking or accepting a current commitment is that there is no guarantee that the future will be always bright and rosy. All we as professional commercial mortgage brokers can do is work on behalf of and secure the best possible commitment for the client that retains our professional services.

If there is any doubt on the clients part as to the credibility or the worthiness of the broker that is to be retained, then I say walk away…and seek other sources.

THE NEW PLAYERS IN TOWN

Several years ago when it was the "hot time in the old town" every lender who was a player, was on the phone calling their commercial mortgage brokers, their existing and new clients, and anyone else that would listen…"We have piles of money, it's yours for the taking, just bring us a reasonable deal, and it's a done deal!"…

Well, those dealers are gone. There are new players in town. The days of the local savings and loan, savings, and commercial banks and credit unions have slowed to a snail's pace. Part of that is due to the tightening of Federal Government regulations; part of it is due to the uncertainty of world and national events, and part due to the perceived risk considered by the lender/investor.

Years ago, our field of investors included S & L's, Savings & Commercial Bankers, and the likes of the UBS's, Lehman Brothers, Merrill Lynch, Citigroup, and the AIG's of the world. Not today…the players have changed and many have disappeared...like it or not. I am not saying that all of the previous lenders have disappeared, but we have been introduced to new players that offer some attractive programs, the likes or dislikes depending on the client and their perceived risk or expense involved.

Let's look at some of them:

✽ A Union Pension Trust - offers up to 100% financing, 10 year term- interest only, 8.5% interest rate, very low commitment and due diligence fee, however they will JV with the client to a participation of 25%. Construction loans are available with up to 36 months deferred interest. The loan is on a "non-recourse" basis. Timing-90 business days. Client must show liquidity to at least 1.2% of the funded amount. Will consider almost all types of domestic and international commercial transactions including hospitality and casinos.

✽ A Bond Portfolio Lender - offers up to 100% financing with all bond underwriting and due diligence fees included in the loan amount. The fee structure is expensive due to bond underwriting and sales of the bonds, however all the fees including brokerage can be rolled into the loan, with no participation required. Rate on construction loans available at 9% and 7% on permanent funding. Fixed terms up to thirty (30) years. Timing-90 to 120 days. The client has have liquidity to cover bond company underwriting expenses and due diligence fees. Will consider international offerings.

✽ JV Partnership - the JV provides all the equity needed to make the transaction a reality. The client has little or no investment, but offers the project for consideration to the JV. After careful underwriting and review, the JV may consider the project and offer the client a 25-30% ownership. The client may be able to be the general contractor, be a possible manager, and can consider in addition to the percentage of ownership, a fair compensation for overseeing the project. You may consider that this is a great deal to give up, but remember the JV is providing all the funds and assuring that your project will become a reality.

✽ Standard Lenders (bank associated) - will review most commercial types but will have some exceptions. Project qualification is a must. Underwriting parameters are usually a 65 to 75% LTV, fixed 5-10 years call, with a 25 year amortization schedule. Some will consider both a construction loan as well as a long term permanent depending on the qualifications of the borrower. They prefer total client involvement, liquidity, and experience. Rates can be very competitive with construction loans @ "par", and permanent loans in the 4.5% to 6.0% range.

Our parting comment…. deal with a professional commercial mortgage broker. They have the knowledge, longevity, and the contacts that are the new players in town.

AMG
COMMERCIAL MORTGAGE BROKERS
FINANCIAL & REAL ESTATE CONSULTANTS

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

No.52 :: > FALL/WINTER **14'** <

OUTLOOKS

IN THIS ISSUE ::

Our many Thanks...

To all our clients past, present and future, and to all the existing brokers and agents in the crazy industry we call commercial mortgage brokerage, for having the faith and trust in our ability to serve you as a professional. We wish each and all of you a Happy Halloween, Veterans day, a Happy Thanksgiving, Happy Hanukkah, a Blessed Christmas, and a healthy and prosperous New Year.

AMG

PLEASE TAKE NOTE ::

www.amgcmb.com

NAMB
National Association of Mortgage Brokers

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!

 Address letters, comments, suggestions or articles to: 898 Ridge Road - 39B, Webster, NY 14526-1046. Or **call:** (585) 766-9540, or **e-mail:** amgramza@amgcmb.com.
 OUTLOOKS is published as a service to our clients. Additional subscriptions available.
Publisher/Editor: Anthony M. Gramza
Design & Layout: KPG Design - kpg@kpgdesign.com