

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

OUTLOOKS

:: Editors Column ::

> SUMMER/FALL 16' <



Anthony M. Gramza

THE HIDE & SEEK GAME

Surprising how time passes by and we didn't realize it! Over the past few months, I have received several calls from past clients and associated brokers inquiring as to when the next issue of *Outlooks* would be published. Our last issue was in the late summer/early fall of 2015.

This tells me that a few people are reading our articles, questioning financial decisions of the lender arena, and the honest facts as to what is occurring in the commercial mortgage market. I have reviewed and reread all the articles in that past newsletter, and feel that an update is in order.

The Summer/Fall 2015 article leads with the title "O' Institutional lenders, where art thou?" Today, it is changed to read "O' Commercial Investors/Business Associates, where art thou?" Whether you agree or not,

the first six (6) months of 2016 were in the total doldrums. Our office did have several transactions in the "pipeline", they were in a completed stage, they were presented in a proper presentation, but it seemed like they were dumped in that "deep black hole". One excuse after another was given for the delays in obtaining a lenders Letter of Intent. It may have had to do with an underwriting issue, it may have required additional verification to items in the presentation, it could have had to do with the lenders attitude – "we don't care for this type of product" or the more standard answer, "we have not found the right investor" for this loan request. Excuse after excuse, delay after delay, and now we live in the frustrating days ahead.

On the other hand, a few more lending opportunities have opened up since the beginning of the year, but now we face a "hide and seek" game with potential investors/entrepreneur's. A part of this delay is due to the overall US economy, to the lack of decisiveness on the part of business persons, to the civil unrest in many parts of the world, and to some, what will the elections of 2016 bring to the table. This is not just coming from our lips, but from many brokers and agents in the commercial mortgage market arena.

Will we be seeing elephants or donkeys in a power struggle beginning in January, 2017? Who will sit in the most powerful office in Washington and maybe the world? You, the general public and your voting rights will make that decision. I hope it will be the right one. —AMG—



"WHAT YOU SEE, IS NOT NECESSARILY WHAT YOU GET!"

BY MARTY ANDERSON

Many of the Clients that come to the AMG Commercial Mortgage Group (AMG) for assistance and direction do not understand why their Project is not being "Well Received" by the Local or Regional or even National Lender/Investors that claim that they are looking for Commercial Business!



AMG has specialized industry knowledge that reaches across a large variety of Commercial and Industrial businesses. This being said, it is the goal of AMG to help you reach yours! We are able to offer you and your associates personal attention & guidance, representing a wide menu of flexible products offered by a variety of Lender/Investors. AMG, with well over twenty (20) years in the Commercial Banking Industry, understands that every business has its own unique challenges and opportunities, our focus is on getting to know the way you operate and understanding where you want your business to go!

AMG understands that all Initial Submission Packages need a believable "Story" that when presented to one of our Lender/Investors, will receive an immediate and positive response! Please note below, the AMG Initial Submission Package Basics:

The "Story or Executive Summary" should contain no more than a two

(2) page introductory overview of the Local Market and how the Project fits into and fills the need of said Market. AMG will assist, as noted below, in reviewing and updating and editing the Project details to be better received by our Lender/Investors:

- If an Existing Business, a full business plan or professional feasibility/viability study to include: 2-3yrs Operating Statements.
- If a New Business or Acquisition or Expansion, a detailed 3-5yr projection including current financials/ cash flow statements.
- Non-Real Estate Projects will need to provide detailed market studies as well as current and projected Clients including all applicable contracts and paperwork.
- List of all monies invested to date (including "Sweat Equity").
- Use of Funds (detailed).

- Biographies on all Principals with 20% or more ownership in the Project; to include, but not limited to: full and legal name, age, passport or current drivers' license, biography and all contact information: email, phone & business & fax numbers.

Further, AMG feels that a "face to face" meeting at the Principals' Corporate Offices is most essential in establishing a satisfactory working relationship that not only produces immediate and positive results but creates the foundation for a long and mutually profitable business relationship!

Mr. Anderson heads the Southwest Regional Office of the AMG Commercial Mortgage Group.

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HOW'S YOUR BUSINESS CAPITAL TODAY?

Cardinal Capital Advisors and its principal officer Anthony M. Saya are in the business of advising small businesses regarding the raising of capital through the placement of debt. In return for that advice the firm earns a performance or a consulting fee.

The majority of our clients are looking to obtain business capital which they may use to assist them through the various life cycles of a business. Very often these businesses are undercapitalized but are able to create an income stream. Our assistance often provides guidance in the debt placement arena. Our services have allowed companies to acquire fixed assets such as real estate or equipment, refinance current debt obligations to improve cash flow, provide increased availability to working capital, implement strategies for turnaround or transfer the capital ownership to new owners(s) these activities generally occur through the placement of debt or other capital raising activities.

Mr. Saya has had 40+ years of financial market experience of which the majority of it has been advising and approving credit placements for the benefit of small businesses very often his experience was involved in the sale/transition of a business.

Cardinal Capital Advisors believes in the strength and vitality of the small business segment within the United States. Small businesses are the backbone of our nation's economy. Many studies have been completed that present that small businesses provide up to 90% of the United States Economy.

Since the 2008 recession the Small Businesses segment has found that obtaining capital from traditional financial sources such as Banks, Credit Unions and 3rd Party Lenders has become increasingly difficult.

Underwriting models that were put in place after the financial meltdown in 2008 are increasingly difficult for small businesses to comply with which ultimately forces these companies to seek out capital raising alternatives that are often not in their best interest.

During the last several years Cardinal Capital Advisors has identified a group of lenders that are willing to fund the small business segment and do it on generally reasonable terms and interest rates. Many of these lenders participate in programs that include financial incentives to the lenders for making these loans. So it's not just the small business relationship that they are entering into but it's also a 3rd party financial gain that they stand to make as well.

flexible and allow for flexibility in approval by the lenders to comply with the underwriting models of the participant agencies or insurers. •

FUNDAMENTAL OF CREDIT IN TODAY WORLD FROM A LOAN OFFICER'S PERSPECTIVE

KNOW YOUR BORROWER

Understand your market niche and the types of people, and the characteristics needed to succeed in the local environment. The best entrepreneurs may be stubborn, without formal education, and unaware of any personal weaknesses, yet they may have the street smarts, resourcefulness, and ability to do one thing well to be successful entrepreneurs. Be aware of their strengths, limitations, and weaknesses, lend to the person, not to the idea.

PAY ATTENTION TO THE DETAILS

Lending is a business of details. Careful information gathering and analysis, loan documentation (as streamlined a possible) and rapid follow-up on any discrepancies all require a focus on details. Although many lenders learned this the hard way, the most successful lenders now are meticulous in their loan procedures.

BE DRIVEN BY THE DEAL, NOT CHARITY

Lenders must evaluate each deal on its business merits and the capacity and character of the borrower. Experience gives lenders the ability to recognize those deals that do not make sense and those that might if they were structured differently.



These lenders are regulated and are in the business to make a profit and do follow risk management strategies. Very often these strategies are more creative than conservative financial institutions. The underwriting models of these programs are generally

BUSINESS CAPITAL, CONTINUED

LOAN ASSESSMENT AND CREDIT ANALYSIS

There is no formula for determining creditworthiness. Lending Officers must assemble and evaluate information and then determine what the entire picture looks like. Traditional bank lenders refer to the "Four Cs" of lending: *Credit, Capacity, Collateral, and Character*. The loan application and the first meeting with the borrower are the first screen of whether a business is a potential candidate for credit. Beginning with the first meeting, the lender must evaluate the quality of the business deal, the fit with the borrow-

er's experience and capacity, and whether the financing amount and structure is appropriate.

Mr. Saya is very experienced in this off market segment with over 25 years of actual participation in this marketplace. His experience has been with hundreds of small businesses all with a different story to tell and many of them have poured their life savings into making these businesses a success. He has noticed that there is one similarity many of these owners have and that is a willingness' to do what it takes to succeed. Very often this trait gets them into difficulty complying with traditional

bank underwriting models. Banks today are increasingly trying to control their clients through the enforcement of covenants and other financial controls. •



CARDINAL
CAPITAL ADVISORS

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HOW UNPREPARED ARE YOU?

If you have been reading the newspapers, checking your computer news, or watching TV, you are very much aware of the current conditions in the financial marketplace. What we are experiencing is a somewhat lack of interest in financing certain types of commercial mortgage product.

We are going through challenging times and the typical lender as we know them today is almost impossible to find. We at *AMG Commercial Mortgage Group* did see this coming, (not that we are the great soothsayers from the Far East) toward the end of 2008. We felt that when the bubble does burst (and it did) we would have to seek lenders that would consider financing programs "outside the box". We refer to them as "Non-Traditional lending sources", and they are made up of Trusts, Foundations, and Hedge Funds.

Their *loan to value* (LTV) and terms may be higher, they will consider transactions both on a domestic as well as on an international basis, however, they prefer higher loan requests and may require from the client, a *joint venture* (JV) partnership. Therefore, our firm is considering all loan requests for initial due diligence and basic underwriting. If it fits the perimeters of the lender, we can move forward to the application stage. A lender application fee may be required, but underwriting is streamlined, and in most cases, all exhibits and third party reports are electronically forwarded to the lenders underwriting staff. If all parties cooperate, the transaction can be completed in a 90-day period of time.

Before you submit your loan request to our firm, are you able to supply us with (if necessary):

+ A feasibility/viability study

- + A professionally detailed business plan
- + Current equity injection
- + Updated financial statements
- + Cash flow analysis for the term period
- + Resumes of the principals and the organization
- + Source and use of funds

Once an initial interest is created and the lender offers you the invitation to submit, a conference call is completed with all parties, followed up with a face to face meeting and collection of exhibits to complete the due diligence/underwriting of the lender. At that stage, the client is totally in the direct hands of the lenders underwriter. Funding usually occurs within 30-45 banking days following final commitment. *How prepared are you to meet these lending perimeters?*

IS THE CHILL BACK ON?



HAS THE “BANK CHILL” EFFECTED YOUR BUSINESS yet? By that we mean, has your bank tighten up on loaning you or your company funds needed to construct, rehab, or just to consolidate your financial statements? If your answer is no, then watch out, for it is coming and in fact it is already here.

WE IN THE COMMERCIAL WORLD OF FINANCING HAVE already experienced it. It's not new, and it has been occurring since the beginning of this year. Talk with developers, home builders, commercial mortgage brokers, leasing agents, accountants, and others. We have seen and are experiencing a tightening of funds for all avenues of commerce.

THERE WAS AN INTERESTING ARTICLE IN THE *USA Today* section of the Sunday newspaper (7/31/16–6B). “Banks get tougher on business loans”. Much of this is due to new government regulations, a concern of possible recession, an uncertainty on the part of the Federal Reserve, a personal view that there are more high risk clients in the marketplace, on

what will or will not happen to the global markets, and the best one is “current interest rates are too low”!

IT HAS CAUSED MUCH FRUSTRATION FOR WE IN THIS industry, entrepreneur's, developers, and commercial business owners not only domestically, but also in the international arena. This author can vouch for our own frustration in dealing in the commercial mortgage market. We have seen and heard excuses off and on for the past few months. Delays in underwriting, concerns on the viability of the transaction, delayed site inspections, private investors reconsidering their original offer, loan committees concerned about one issue or another. And the scenario goes on.

CURRENTLY, THE AVERAGE INTEREST RATE CHARGED for an acceptable long term commercial loan domestically is between 4% to 5%. In the international marketplace, the current rate is similar. There is NOT a shortage of mortgage funds. Today, we find more financing “out of the box”. What that really means is that those entities that are seeking good transactions are not the typical institutional lenders like the *BofA*, *Chase*, or *Key Bank*. They could be a Hedge Fund, a Private Investor Group, a private entity within a country, or just an individual investor seeking a return for a short term loan.

I MUST ADMIT THAT OUR FIRM HAS SEEN A HIGHER loan request in the “international arena” than domestically. There is a lack of new transactions domestically partly due to the *Bank Chill*. And again, the international arena clients need to see more lenders willing to review and fund good solid transactions outside of the US.

-OUTLOOKS-

I wish to thank my fellow brokers, agents, referrals, and past clients for your continuous support and encouragement over this past year. The road for all of us in this industry, whether you are a lender, Hedge Fund manager, private investor or a commercial mortgage broker, has had its up's and downs. We all admit it.

For those who have weather the storm, and continue to do so, congratulations! We must stay persistent in our quest for that right type of financing for whether you are a client, or a broker seeking the right financing for your client. We all, over these eight months have certainly experienced frustration, rejection, and have had to question ourselves as to “whether I need to stay in this job, in this industry, whether I will continue to invest, or should I close the door and move on”?

But like it or not, it's been our life. We have had both good and not so good years. Does it even itself out? I am not sure. That is for the individual to decide. But I can assure you that I've always thought positive,



and when those various times where here, I tried to maintain the positive attitude and hopefully shared those feelings with our clientele and the various brokers who we co-broker with. If these twenty- six (26) have taught me anything, it's that you have to keep an open mind and remember, it will get better.

A wonderful lady who has gone to her eternal reward, passed unto me a poem which I have always posted in my office, and one that I read to give me the encouragement. This is a short version.

It's called “THINK”.

If you think you are beaten, you are. If you think you are lost, you are. You must think high to rise, and you must be sure of yourself. For out in the world we find, that success begins with a person's will: For it's all in the state of mind. So sooner or later, the person who wins is the one who thinks...“I can!” —AMG—

Think!

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PLEASE TAKE NOTE ::



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FUNDING AVAILABLE

AMG

	CURRENT RATES (9/1/16)
\$ Bridge loans	Prime.....3.5%
\$ Blanket Mortgages	30 Day Liber.....0.85%
\$ Multi-family	5 Yr. T.....1.40%
\$ Asset Based	10 Yr. T.....1.67%
\$ Construction loans	15 yr. long term.....2.77%
\$ Three (3) year terms	30 yr. long term.....3.48%
\$ Loans —\$100,000 to \$10,000,000	

Call for more details!

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