

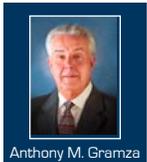
OUTLOOKS

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

:: Editors Column ::

> FALL/WINTER 17' <

-INTERNATIONAL FINANCING- SO WHY HASN'T IT HAPPENED?



Anthony M. Gramza

Our hopes and those of other mortgage brokers dealing in the commercial mortgage market were high in the beginning of 2017 to complete successful commercial real estate transactions. The economy was improving, there will great hopes with the new administration in the US, and from all we could read, the economy and the government entities of many countries around the world were improving. From what we read and heard, positive signs and forecasts of a better economy were being preached. "So why hasn't it happened"?

Although many of the licensed commercial mortgage brokers are operating in the US arena only, AMG Commercial Mortgage Group although active on a nationwide basis, viewed its current activity more toward the "international" arena. It has somewhat been that way for many years. Most brokerage companies preferred to remain domestic. There was and is an unwillingness to accept the challenges created by request for financing in other countries. Clients outside the US experienced limited mortgage funds, excessively high interest rates, and in many cases, difficult underwriting requirements that became impossible to develop a successful venture. AMG Commercial elected to accept those challenges. "So why hasn't it happened"?

As we ventured through all the inquiries and referrals during this year, the obstacles increased, and we were faced with how we could "overcome". Let us share with you why it has not happened;

- Good potential project but unable to secure final approval from government municipalities or overcome local resistance.
- Lack of proper exhibits and documents to satisfy lender underwriting criteria. In some cases, documents and exhibits are not prepared by professional providers, and information submitted has been poorly prepared.
- Lack of existing liquidity to meet lenders requirements, or inability to show POF's.
- Resistance to one or more of the general requirements in the lenders "Letter of Intent to Fund", such as initial deposits to cover due diligence and closing costs.
- Client unwilling to accept lenders portfolio or questioning its existence as a true international lender.
- Challenging its legal counsel, escrow agents, or current operating locality.
- Assuming that a 100% LTV quote did not require any minimum injection of client's contribution to cover initial closing costs.

- Lack of client acceptance of the international law of "Lender Confidentiality".

So, now we know why many of these transactions have not become a reality. With the interest rates on international transactions in the "low 4" s", with attractive long- term payment schedules, with no prepayment penalties, with the ability to secure an "equity partner" and with the documents on a "non-recourse" basis, you know why frustration abounds, and we have to ask ourselves....."why hasn't happened"?

Trying to locate a legitimate licensed commercial mortgage broker is and can be somewhat difficult. Even more difficult for international mortgage funds. Clients need to fully investigate the firm that they "may" be dealing with. Check out their credentials, longevity in the industry, their references, and how they operate on a professional basis. You must feel comfortable with the individual as well as the company before you make that commitment. If there is resistance, then move on.

"Making money is a happiness; making other people happy is a super happiness."

– Muhammad Yunus, Father of Microlending: winner, Nobel Peace Prize

–AMG–

THE DOMESTIC SCENE



If you have followed the economy and the local trends, you may feel that it's been a good year so far. If you are a business person, or you own a project or an existing business, it's been a slow start and right now, to a few entrepreneurs, it continues. This could put you in a "downer", however, age and experience tells us to keep a positive position.

We see inflation factors at 1.3%, interest rates on housing, automobiles, and home furnishings at continued lows. Our guess is that interest rates in the coming year will be about the same for long term ventures, but an increase somewhat in the short-term arena. Many are concerned on the push for wage hikes to \$15.00/hour, and at the same time, trying to find the person to fill jobs that seek somewhat skilled labor.

All of us continue to hope that our dreams will come through and that

our politicians in Washington will get off their duff and legislate not only new laws that will help us personally, but business as well. We need revisions in the current tax structure, as well as the current health law. There has to be some give and take on both sides of the isle.

On the financial scene, money abounds. Residential rates are in the high 3's, maybe a few in the 4's due to the history of the client. On the commercial side, rates have been steady all year in the 4-5% range. It really depends on the lenders "perceived risk". Here is how we see the current commercial loan market:

Loan amount:

No limit

Guarantee:

Typical recourse

Interest rate:

4.5% to 5.0%

Time factor:

Average- 60 days

Term:

Up to 30 years

Requirements:

Standard documentation

Lender fee:

1% (standard)

LTV:

75-95% (varies on project)

The soothsayers say that 2018 should remain as well as we see the current 2017 market. Although many parts of the world are still in chaos, we still feel that diplomacy will prevail. Regardless of the fact that we are operating our business in these United States, the outside influences in other parts of the world do affect our operations. Therefore, we hope for the best, we wish the decision makers around the world to keep their "cool", and in all, pray for world peace.



"WE NEED REVISIONS IN THE CURRENT TAX STRUCTURE. AS WELL AS THE CURRENT HEALTH LAW. THERE HAS TO BE SOME GIVE AND TAKE ON BOTH SIDES OF THE ISLE."



APPLYING FOR A COMMERCIAL LOAN FOR THE FIRST TIME OR WITH A NEW LENDER?

WHAT TO EXPECT...

FIRST AND FOREMOST, you need to “do a little research” on the Lender you plan on approaching... i.e. what is their basic loan criteria...?? Types of projects and locations that are preferred, equity needed on a new project, refinance criteria, working capital for expansion and/or acquisition and applicable loan terms, rates.

You will quickly find out that all Lenders are “Risk-Averse” so you will need to take extra steps to make sure that you are totally prepared when you decide to apply for a commercial loan.

AMG has found that this basic list of questions are most helpful before applying for a Commercial Loan:

1.) AM I (MY COMPANY) PREPARED TO MEET THE LENDERS REPAYMENT TERMS...??

Typically, most Lenders will offer a 20-30-year loan with a “Balloon Payment” i.e. paying the loan in full in the first few years (3,5 or 10 years)

If you are “building to sell” or “building to lease and manage” ... make sure that your balloon payment due date has plenty of time to allow for any “market contingencies”!!

In any event it is most advisable to “stay close” to your Lender as Markets change and Bank Staff change and Bank lending policies change.

2.) HOW MUCH CAN OR SHOULD I BORROW...??

Enough to meet current business needs or enough to sufficiently leverage the

intended real estate investments.

In the current market, Banks are requiring 15% to 20% equity depending on whether the Project (or Business) is new or an expansion or re-finance. In some cases a third party guarantee is needed i.e. a Bank (or accredited Surety) Standby Letter of Credit (SBLOC) will put the Lender in a much better position and in most cases mitigate the need for “personal and/or corporate guarantee’s.”

Non-Traditional Lenders will always use an accredited “Third Party Surety” with the rates being a little higher but will offer more attractive terms and conditions.

Remember to make sure that you are asking for enough money with a long enough term and conditions that do not put you “in a bind” down the road; also seek out the “right lender”:

- a.) Small business loans are generally made by direct commercial lenders (under \$2 million)
- b.) Larger loans are generally made by Regional Banks (easily found on the Internet)
- c.) Very large loans are made by the mega-banks or Wall Street Lenders.

Non-Traditional Lenders such as Private Equity firms and Trusts as well as State and Municipal Funds should be approached as well, most especially for the smaller real estate and business loans.

3.) HOW LONG WILL IT TAKE TO GET

A COMMERCIAL LOAN...??

Borrowers typically start the loan process by going to their own bank to determine the current Lending Policies and will find these typical underwriting steps that must be gone through:

- a.) Initial review of current and historical (5yrs) income statement, balance sheet and statements of cash flow. Tax returns (5yrs) on the borrower(s) and professional profiles on all the Owners who will guarantee the loan.
- b.) Generally, it will take several weeks before the borrower will receive a verbal or written commitment letter. (You will always need a written commitment detailing the terms and conditions of the Loan signed by a Bank Officer.)

NOTE: If your Profit & Loss Statements are not as strong as you would like, and your credit score is not in the top tier then you do not need to waste your time with a bank. Go Directly to the Non-Traditional Commercial Lender.

4.) WHAT KIND OF COVENANTS AND CONDITIONS ARE REQUIRED...??

Many Borrowers, especially if they are borrowing for the first time or have not borrowed for some time are not aware there is much more than simply making regular monthly payment on time:

- a.) Quarterly or Annual Income Statements may be required including balance sheets and tax statements.
- b.) Some loans may have “business specific” covenants and promises that must be met in the future.

WHAT TO EXPECT...CONT...

c.) The Lender may require a “cash reserve” in the event of a turn down in the economy or in your industry. If the Lender does not have this requirement you might look into a Third-Party Surety or Business Interruption Insurance or Bond.

5.) WHAT KIND OF DOCUMENTATION WILL BE REQUIRED...??

- a.) Leases
- b.) Asset Statements
- c.) Original Corporate Documents
- d.) Personal Financial Records of the Business Owners

REMEMBER: Ask ahead of time...!!!

6.) WHAT IF I WANT TO SELL THE PROPERTY...??

- a.) Your business may be booming, and you have received an attractive offer to sell or merge with a like company.
- b.) Do you have an “assumption clause” in your loan and what are the terms and conditions as specified by your Lender...??
- c.) You may have an investor that simply would like to invest in your company. Again, your Lender will have to approve of such an investment especially if you are looking for financial assistance in a “down market” ...!!

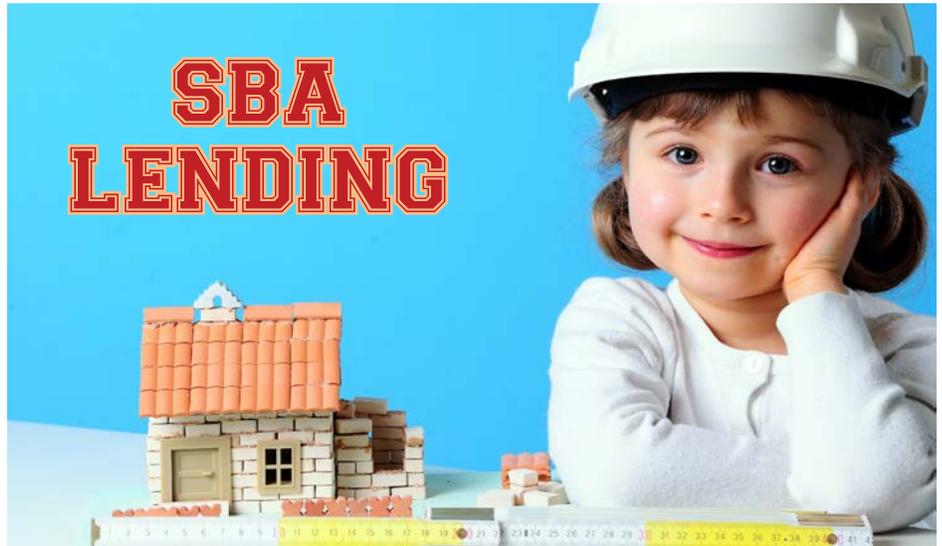
The preceding thoughts are simply a “Review and Directive” from the AMG Commercial Mortgage Group reflecting the current commercial market place coupled with input of more than 20 years of experience. I am going to close with the same advice that I noted at the end of my comments in our last newsletter:

“We at AMG feel, that although you can save a tremendous amount of time and effort using the Internet... BUT... it is highly recommended that you get face to face with your Lender establishing a satisfactory working relationship that not only produces immediate and positive results but creates the foundation for a long and profitable business relationship.”

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Historically SBA lending has been known as the lender of last resort. However today the SBA is one of the best alternatives for financing today's small to medium size business. For the most recent fiscal year ending September 30, 2017 the SBA programs funded \$30 billion dollars in loans across two primary programs, the SBA 7a program and the 504 program. The SBA does not fund loans directly they provide a guaranty (Insurance) to lenders (banks, credit unions). These programs are very active today both the 7a and 504 program provide wonderful opportunities for small businesses to obtain long term funding. The SBA 7a and the 504 program can be funded with as low as 10% equity injection and for a term of up to 25 years.

SBA's flagship loan program, referred to as 7(a), provides small businesses with guaranteed loans covering the clear majority of small business needs including working capital, fixed and intangible asset financing, as well as refinance and export support through term and revolving loans. A large percentage of these loans are used to fund commercial real estate and Business Acquisitions. This program is very flexible as to the uses of the funds it can also be used to refinance debt that is on unfavorable terms to the business.

504 loans provide small businesses with long-term fixed rate financing to acquire fixed assets, and are available through Certified Development Companies (CDCs), SBA's community-based partners. In FY17, the 504-program remained at zero subsidy, and grew to \$5

billion in loan volume. Interest rates on the SBA 504-program are quite attractive and have been in the range of 4–5% during the last several years.

The state of commercial lending across the country has improved since the 2008 crash however many small businesses still find it difficult to obtain conventional funding as a result SBA loans have become more popular.

“THIS PROGRAM IS VERY FLEXIBLE AS TO THE USES OF THE FUNDS IT CAN ALSO BE USED TO REFINANCE DEBT THAT IS ON UNFAVORABLE TERMS TO THE BUSINESS.”

Cardinal Capital Advisors and its Principal officer Anthony Saya have a 30-year history of working within the SBA lending community. Cardinal Capital acts as an intermediary between small businesses and SBA lenders. We are very well known in the community and lenders seek us out as a source of loans for their portfolio. Cardinal Capital Advisors in the very near future will be launching a new web site to be known as www.sbalender.com. If you have questions regarding SBA lending Tony can be reached at either 315-345-1238 or tsaya@cardinalcapital.co •



EDITOR'S NOTE: Our guest contributor Mr. Saya can be reached at 315.345.1238 or by e-mail: tsaya@cardinalcapital.co

Are You Seeking A “Bridge Loan”?



Just what is a Bridge Loan? Do I need one?

When is it used? Do all lenders issue and fund Bridge loans? Let's see if we can get all the answers to these frequently asked questions.

According to Mr. Webster, a bridge is “a connection between two adjacent elements. In the case of mortgage financing, a bridge loan is “a structure between a temporary loan and an eventual permanent loan”. Its purpose is to assist a client in a fast sale/purchase. It could apply to a land purchase or existing structure. They can provide interim funds for completion or renovation of a property. It is a quick means of obtaining funds for many purposes, on a short- term basis, with an eventual payback through other sources or by obtaining a permanent long- term mortgage from another lender.

AMG Commercial Mortgage Group represents a major Bridge Loan lender. Short term loans are their main source of business; however, they can assist a client in securing a long -term mortgage through one of their sister companies. Many lenders specialize in bridge loans only,

they are the so-called specialist. Our lender has over one (1) billion in capital, and is open to almost any type of commercial venture. Their program follows:

- **Loan Size — \$5 to \$50 million**
- **Term — 12 to 36 months**
- **Rate — Libor +350**
- **Maximum LTV — 85% on apts. & 80% on all others**
- **Lender Fees — 2% @ closing & 1% on payoff**
- **Brokerage Fee — 1½% payable @ closing**

If you feel that you and your project may need the services of a Bridge Lender, give us a call. You could be sitting with a bridge loan in your pocket within a two (2) week period.

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AMG COMMERCIAL MORTGAGE GROUP'S TRUSTED FINANCIAL CONSULTANTS



As a reminder, AMG Commercial Mortgage Group, has on its staff, two very qualified financial consultants. They joined our firm two years ago, and have been active in their individual localities. Martin (Marty) Anderson of Denton, Texas represents the Southern region, and James (Jim) Livingston of King, North Carolina the Northeastern region.

With over 40 years each of banking experience, we feel confident that they can assist their clients to a successful loan approval and funding. Marty can be reached at (972) 672-2662 and Jim at (941) 284-1900. Give them a call to assist your financing needs.



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PLEASE TAKE NOTE ::



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This has been a difficult year for all of us in the mortgage/financing industry. Deals have been made, but not always to the benefit of the client. Transactions have been lost due to client error, misunderstandings, and unwillingness to accept final terms and conditions as outlined by the lender involved. Whatever the reasons may have been, it has been tough for all parties concerned.

But we continue to try our best and communicate as well as possible with the client as well as our lender. All we can do is try a little harder in the coming year.

To that end, we thank our clients, cooperating brokers, and lenders for the patience that we need to survive and succeed. For those who have had a successful year, congratulations. For those that are still in the forming or investigated stage, don't give up hope. You need to think positive to succeed. You can make it.

From our house to you and your families, a Happy Thanksgiving, Hanukkah, a Merry Christmas, and a Healthy and prosperous New Year.



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