HARBORWEST COMMERCIAL LENDING

COMMERCIAL LENDING

☑ WHAT DOES A COMMERCIAL LOAN STRUCTURE LOOK LIKE?

There are a variety of commercial loan structures, and each commercial loan should be evaluated on an individual basis to factor in both qualification and client customization. Clients can reference the below however for vanilla transactions. Contact **HARBORWEST** for a complimentary consultation and to pre-screen your best available financing options.

- **Maximum LTV** – 75% maximum, 65% LTV average, depending on cash flow & risk factors
- **Loan Term** – 10-year terms are standard, but can be more or less for certain programs
- **Amortization** – 25-years is standard, but up to 30 years for highly qualified requests
- **Fixed Rate Period** – 5, 7 or 10-years fixed options common, longer case-by-case
- **Interest Rate** – starting at 3.90%, but varies drastically – contact us for an evaluation
- **Prepay Penalty** – stepdown, yield maintenance, defeasance, or none, depending on lender
- **Personal Guaranty** – non-recourse available for larger deals and/or lower LTV's
- **Fees** – 0.00% - 1.50% (average 1.00%), plus processing, reports & legal for larger deals
- **Repayment** – principal & interest, interest-only options available for select programs
- **Timing** – 45-60 days is the industry rule of thumb, but can vary +/- by lender and situation
- **Other Terms** – TI/LC reserves, maintenance reserve, lockbox, impounds, CF sweep

☑ WHAT DOWN PAYMENT WILL BE REQUIRED ON A PURCHASE?

Most core commercial loan programs start at a minimum 25% down payment. However, the actual required down payment is typically higher and is assessed in a few different ways by lenders.

The **first** approach a lender can take to adjust your down payment is by determining their equity comfort level, since their primary security for default risk is the amount of equity they have secured on the property. So, any perceived risk to the deal either on the property side (lease rollover or vacancy, rural or high crime location, etc.) or on the sponsor side (past credit issues, lack of experience, etc.) can cause the lender to require a higher down payment.

The **second** approach is mathematical. Lenders will underwrite the property based on their unique internal guidelines to determine the maximum loan amount the cash flow will support. While the calculation is not difficult, it is hard to determine accurately without lender involvement because each institution will have different underwriting requirements for determining the property's NOI (usually very different than an investor's NOI), underwriting metrics (DSCR, DY, UW rate, etc.) and even include stress testing models. There are however some guidelines to follow on vanilla transactions to determine a rough estimate of down payment.

Debt Service Coverage Ratio (DSCR) = Net Operating Income (NOI) / Annual Debt Service

Debt Yield Ratio (DY) % = (Net Operating Income (NOI) / Loan Amount) x 100

The **third** factor to this is in the sponsor's control. Even with a low-down payment qualifying property, a client may decide to increase that down payment on their own in exchange for loan customization that might be important to them. This may include non-recourse (no personal guaranty) at a certain maximum LTV, rate discounts, prepayment penalty waivers, or strategically to maximize their investor cash-on-cash-return.

We highly recommend consulting with **HARBORWEST** to pre-screen any potential purchase for financing eligibility. Our team provides complimentary analysis to use as part of your toolbox.

☑ WHAT ARE COMMERCIAL INTEREST RATES RIGHT NOW?

Interest rates in commercial financing are evaluated individually on any given deal. While there may be a "rate sheet" or an advertised rate for benchmark purposes, it is always subject to full due diligence because rate covers risk, and a lender cannot determine a deal's risk profile without analyzing the property and pre-screening the buyer.

In general, multifamily rates today start at about **3.90% - 4.90%** for quality deals, 5.00% - 6.50% for sub-prime deals, and 6.50% - 9.00% for short-term bridge, construction, or transition deals.

Risk factors that are lender evaluated to determine qualifying interest rate include: available liquidity, net worth, sponsor experience, credit score, past credit events, property location, quality & condition, LTV, DSCR, debt yield, stress testing, current occupancy, tenancy risk, tenant quality and historical property performance.

A client's program customization decisions will also affect interest rate. Trade-offs for rate vs. customization is part of the process, but can include exploring available fixed rate periods, personal guarantees, prepay penalty structures, interest-only options, loan amount, LTV, banking relationship, cross-collateralization, paid points, and reduced amortization periods.

☑ WHAT LENDERS ARE ACTIVE IN COMMERCIAL FINANCING?

Every client loan request will typically be a better fit for certain lender types over others based upon the property's location, loan amount request, client goals, and lastly deal strengths and hurdles. Many require broker representation to access and are very competitive between each other for quality deals. The 6 most active commercial lenders (ranked from highest market share to lowest) are the below for client reference:

- Banks (National, Regional, Community)
- CMBS Conduits (Wall Street)
- Life Insurance Companies
- Private Individual Lenders
- Debt Funds
- Credit Unions (State Chartered, Fed Chartered)