

Navigating the Commercial Mortgage Process

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Why and When to do a Commercial Mortgage over a Hard Money or Private Money Loan

1. When Time is not a factor (although you can still close in 30 days)
2. When Rates and Terms are the focus (5.75% with 0 points at 80% LTV on a 30 year fixed loan)
3. When your credit score is not an issue (660 for 75% LTV and 725 for 80% LTV) and there is a solid credit history (no BKS or Foreclosures in the last several years)
4. When the property is either turnkey or there is a plan to make it so.
5. When your mortgage paperwork is all in order

Type of Commercial Mortgages

1. **Conventional:** 30 Year Fixed down to a 10 year Fixed and there are Adjustable options.
2. **Stated Income/Lite Documentation:** 30 Year Fixed down to a 10 year Fixed and there are Adjustable options.
3. **Fix and Flip:** Interest only for up to 12 months (extensions are available)
4. **Fix and Hold:** Interest only for up to 12 months (and then refinanced directly off the line of credit)

Underwriting for Conventional Commercial Mortgages

Acceptable Property Types: Apartment Buildings, 1-4 units, Retail, Office, Mixed Use, Warehouse, Light Industrial, Stand Alone Buildings

1. Most paperwork and financials intensive of all the loan types – but allows for the lowest rates!
2. Two years of business and personal tax returns.
3. LLC Documents (Letter of Legal Existence, Operating Agreement, and Articles of Organization)
4. Property Documents (leases, Purchase and Sales if applicable, rent roll, operating statement).
5. Two months of Bank statements showing reserves and/or down-payment
6. Commercial Mortgage Application and Credit Report (tri-merge)
7. Appraisal and if applicable and Environmental Review (different than a Phase 1).
8. **Property Must be Turn-key**
9. If No experience then a Property Management Company will be required.
10. If done under an LLC then there can be no UCC Filings against the LLC

Rates as low as 5.75% on a 30 year Fixed with 0 points at 80% LTV for a 725 Score – But lets Talk About That!

Underwriting for Stated Income Commercial Mortgages

1. Same requirements as Conventional Commercial.
2. The main difference is that you are only showing tax returns, but your income is not calculated in the underwriting process – only the property income is used to calculate for the loan approval
3. The other difference is rate. The rates are usually $\frac{1}{2}$ a point higher than Conventional Commercial

Underwriting for Fix and Flip Mortgages

Acceptable Property Types: 1-4 units residential (financing 90% of Purchase and Rehab) and 5+ Residential Units (financing 80% of Purchase and Rehab). Mixed Use is allowed as long as it is 25% or under

1. First we have to approve your Line of Credit (which puts you to the front of the line) when making an offer: And all you will need is an Application, Track Record form, and REO Schedule needed. No experience is necessary to qualify for the Line of Credit (but your first deal will be at 80%).
2. The underwriting process will require review of LLC documents, 2 months of bank statements/stock/Roth IRA showing 50K minimum of liquidity, 2 forms of ID, a credit report (prefer 660+), and proof of REO
3. Once you have the Line, then all you will need to close is a purchase and sales agreement, title, insurance, Rehab Budget Form, and an appraisal/inspection showing ARV.
4. This program is really meant for the real estate investor that is going to do several properties in the same year.
5. Your rate and line amount is determined by credit score, net worth (not liquidity), and experience. The payments are interest only and there is a draw schedule (which will require site visits)

Underwriting for Fix and Hold Mortgages

1. Same guidelines as the FIX and Flip Mortgages
2. When the property is completed, we transition the loan in to either a Conventional or Stated Income Commercial Mortgage. There are streamline options with this as well!

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Commercial Mortgage Legal Considerations

1. Why you need a business entity and which one is right for you?
2. What Legal Documents are required for the standard commercial mortgage closing?
3. What is needed to get these documents prepared?
4. What are the general costs?

Business Entities

Starting with a business entity is essential, not only to get a business loan, but for business planning and operation. In most instances, lenders will not even make a loan to an individual, they have to make loans to businesses to ensure that they are not categorized as residential lenders. The right business entity will also help protect you from both tax liabilities and personal liabilities.

Common Types of Business Entities:

- LLCs
- LLPs
- Corporations (S or C)
- Partnerships
- Trusts

Business Entities – con't

LLCs – Limited Liability Companies.

- Filed with the Secretary of the State (initial filing fee \$120.00)
- Require Annual Report (\$20.00 fee)
- Requires an Operating Agreement (prepared by an attorney)
- Provides most flexibility of operation and greatest personal protection if co-mingling is avoided
- No Double Taxation
- Pass Through Tax liability for single member LLCs

LLPs – Limited Partnerships.

- Filed with the Secretary of the State (initial filing fee \$120.00)
- Require Annual Report (\$20.00 fee)
- Requires a Partnership Agreement (prepared by an attorney)
- Provides protections for partners personal assets and property for business related activities.
- More rigid than LLC in that activities are limited to what is in the Partnership Agreement

Business Entities – con't

Corporations

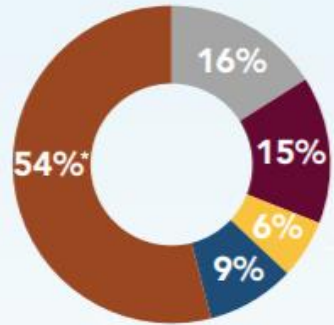
- Can be a Stock (S) or Non-Stock (C) Corporation
- Filed with the Secretary of the State (
 - S Corp initial filing fee \$250.00, Organization and First Report \$150.00
 - C Corp initial filing fee \$50.00, Organization and First Report \$50.00)
- Require Annual Report (\$150.00 for S Corp. \$50.00 for C Corp.)
- S Corp. will allow you to raise capital from outside investors with securities filing
- Most rigid corporate structures in terms of operations and documents but also provides the greatest personal protections.
- All monies are subject to double taxation

Partnerships & Trusts

- NOT recommended for small business structures
- These are most often highlighted for the wrong reasons
- Not filed with the Secretary of State or any local office, only a creature of contract
- Anonymity of these entities means there is less personal protection since there is no oversight
- Most difficult to use past accomplishments for credit with future loans.

COMMERCIAL REAL ESTATE MARKET FACTS

2018 COMMERCIAL REAL ESTATE MARKET COMPOSITION



TRANSACTIONS

\$396 billion in total CRE acquisitions in the first three quarters of 2018

11.4% increase in total acquisitions over the same period in 2017

US deal volume in 3Q 2018 highest since 4Q 2015



RETAIL



OFFICE



INDUSTRIAL



HOTEL



APARTMENT

TOP COMMERCIAL REAL ESTATE MARKETS

MANHATTAN

LOS ANGELES

DALLAS

CHICAGO

ATLANTA

SEATTLE

WASHINGTON, D.C.

AUSTIN

PRICE PER SQUARE FOOT/UNIT YOY

↑ 11%
price increase for apartments

↑ .0107%
slight increase of \$2 for retail space

↑ 18%
price increase for overall office space

↑ 10%
price increase for hotels

↑ 17%
price increase for industrial space

*Apartment Properties \$120.1B | Individual Units \$94.1B

Data pulled from *Expectations and Market Realities in Real Estate 2019 - Uncharted Territory* | Published by Deloitte. | National Association of REALTORS® | Situs RERC®



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Being Prepared, Time Estimates, and Costs

1. Having all of your documents prepared ahead of time makes the process fast and smooth. Besides the list we already discussed also be prepared for: to source and season large deposits and gifted funds, know what is on your credit report and get pre-approved (credit report consulting is free), and have your attorney and insurance agent on standby.

2. For Stated and Conventional Commercial Mortgages a 30 day and under closing is doable with not appraisal or inspection issues. For the Fix and Flip and Fix and Hold Loans it will take 10 days to approve your line and then a 25 day and under closing is easily done.

3. Stated and Conventional Commercial Mortgages:

- Generally 0 points
- 4 to 6 months of tax Escrows
- Legal Doc fee for 5+ units (vary)
- Environmental Report (250-1500)
- \$500 upfront appraisal fee (rest paid at closing)
- 2 months of insurance escrows plus your premium
- Title and Attorney Fees (vary)
- Underwriting Fee (500-1,500)

4. Fix and Flip/Fix and Hold:

- Generally 2.5% in points
- 4 to 6 months of tax Escrows
- Appraisal/Inspection (est:750)
- Inspection Fees \$150
- One time \$750 Underwriting/LLC review
- 2 months of insurance escrows plus your premium
- Title and Attorney Fees (vary)
- Processing Fees: estimated at \$750

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