

# What Private Lenders Want

Be prepared when presenting a loan to a private-money lender

By **Richard Bookbinder**, founding member, TenRock Capital LLC

**O**NE OF THE GREATEST FINANCIAL challenges for today's commercial borrowers and brokers is to get a package right for lenders the first time. As Benjamin Franklin said, "By failing to prepare, you are preparing to fail."

With the recent hikes in interest rates and tightening of underwriting standards by traditional lenders, private lenders are being bombarded with loan requests. In the shifting landscape for short-term or bridge loans, private lenders operate with strict and rigorous time schedules. They are constantly challenged to provide quick turnaround times for responses, term sheets and fundings.

At the same time, many private-money borrowers have projects that are financially sound but that simply don't qualify for traditional financing. Or they may be unable to secure traditional financing because of a poor credit rating, low net worth, insufficient project cash flow or documentation issues. These borrowers rely on brokers to help them submit a comprehensive loan-application package that fulfills prospective private lenders' expectations and requirements.

The funding inquiries that will gain the greatest traction are those that are clearly presented with comprehensive, accurate, orderly and timely flow of documentation. The success or failure of the loan request rests, more than anywhere else, on your shoulders.

## A solid application package

From a private lender's perspective, a broker has numerous options to ensure a smooth, rapid loan-review process.

First, the broker should contact the lender to determine if the borrower's desired loan terms meet the lending and underwriting standards.

The initial discussion between the broker and lender should include the following points:

- **Loan size, type and term**
- **Geographic requirements**
- **Amortization**
- **Lien position**
- **Rate and points**
- **Collateral type** (residential, land, office, multifamily, etc.)
- **Purpose for which the loan is being requested** (refinance versus purchase)

Once the broker has narrowed down the list of eligible lenders, the broker and borrower should compile an information package that the lender can use for a preliminary review. Borrowers should provide as much as possible of the following:

- **Completed application**
- **Executive summary**, including a description of the project and proposed financing
- **Breakdown of all costs and uses of proceeds**
- **Historical financial statements**
- **Financial projections**
- **Source of repayment**
- **Recent appraisal or estimated date of appraisal completion.** If an appraisal is not available, a realistic independent evaluation of the property should be provided
- **Title-insurance commitment**

Although private lenders commit their own capital, have shorter lead time, and are sometimes less bureaucratic than traditional sources,

they still require adequate information to make prudent lending decisions. The broker should therefore submit a loan-request package in a clear and cogent fashion.

Remember, the borrower is competing with other borrowers for dollars. The more professional the package, the more likely the lender will move it to the top of the pile.

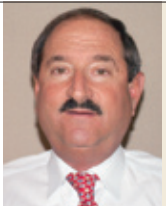
Incomplete data and poor presentation material demonstrates that the borrower or broker have not spent adequate time framing out the transaction. This raises a red flag that either the broker is inexperienced or the borrower has provided insufficient detail in the loan submission.

## Check list and requirements

Once the borrower accepts the lender's term sheet, the real nuts and bolts of the transaction begin. Private lenders place a lot of their focus on property documentation and valuation.

In this regard, when seeking a loan from a private lender, your client should attempt to have a recent appraisal available, preferably from a certified appraiser. Always keep in mind that when it comes to documentation, more is better than less. Brokers should compile as much as possible from the following list:

- **Loan application**
- **Tax returns**
- **Résumés of principals**
- **Status of borrowing entity**
- **Copies of notes and deeds of trusts and liens**
- **Business plan with pro forma**
- **Site plans**
- **City approval and permits**
- **Rent roll**
- **Lease contracts and lease summary**
- **Environmental reports**
- **Title commitment**



**Richard Bookbinder** is a founding member of TenRock Capital LLC. TenRock is a New Jersey-based private commercial mortgage direct lender focused on funding the needs of its clients throughout the United States. TenRock specializes in middle-market-size loans with quick turnaround approval and underwriting. The team of commercial mortgage professionals has extensive experience in real estate finance, banking and investment management. Contact him at (212) 218-7593 or visit the company's Web site at [www.tenrock.com](http://www.tenrock.com).

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### The good-faith deposit

A large point of contention in a private commercial transaction is the dreaded good-faith deposit. The broker and borrower should understand why some lenders require a good-faith deposit before they will agree to underwrite a loan request.

Due diligence is an expensive process in which the lender engages the services of third parties to assist in preparing the loan for closing. An appraisal or updated appraisal is ordered. The lender's attorney begins preparing loan documents, ordering title work and coordinating the closing with the borrower's attorney. An environmental review may be necessary.

The effort required will vary depending upon the timing of the closing, the complexity and the size of the loan. Nevertheless, all of these third-party services cost money. Lenders don't want to risk not being reimbursed should a borrower go to another lender or be unable to close.

Therefore, a good-faith deposit usually needs to be large enough to let the lender pay all the third-party expenses it anticipates incurring.



Make sure that your package is tight. A blurry photocopy of a 4-year-old appraisal without a signed application from the borrower will not suffice, especially if that borrower is seeking a 90-percent loan-to-value (LTV) loan and cash-out refinance transaction. This kind of package likely will get little attention from the lender.

Although pricing is an important ingredient, documentation is the overriding component in a private commercial transaction.

As the quarterback for the transaction, the broker's role is critical. In most cases, the borrower gets only one chance at garnering an audience from the lender. Make it count. **!!!**