

QUALIFYING FOR A COMMERCIAL MORTGAGE

Module 7 - Video 3

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VIDEO OVERVIEW

What's covered:

- What's required to qualify for a commercial mortgage
- What you can do to ensure you qualify
- Personal financial statement





QUALIFICATION REQUIREMENTS



- Unlike residential mortgages, which are based on your ability to pay and credit score, commercial mortgages require:
- 1. Down-payment of 20% or more
- 2. Borrower net worth equal to or greater than the loan amount, excluding your down-payment
- Borrower liquidity equal to 10% of the loan amount or 9 months of debt service
- 4. Borrower experience running MFRE assets of 2 years
- 5. Borrower must pass background and credit checks

WHY IS THERE A NET WORTH REQUIREMENT?



- If the loan is non-recourse, why is there still a net worth requirement?
 - ✓ No such thing as true non-recourse in commercial property
 - ✓ Every borrower must execute guarantees called "bad boy guarantees," "good guy guarantees," etc.
 - ✓ Loan is non-recourse for simple default, but full recourse if trigger condition is met:
 - Fraud
 - Additional loan on property
 - Allowing lien against the property
 - Bankruptcy of borrower
 - Diversion of insurance proceeds, etc.
- Guarantees are worthless if borrower isn't well-funded, so NW requirement exists



DOWN-PAYMENT REQUIREMENT



If you don't meet the requirement of a down-payment yourself:

- Syndicate the deal and bring in other investors to help pay the down payment
- Lenders don't object to syndications

NET WORTH REQUIREMENT



Net worth must equal or exceed loan amount

- Net worth requirement can be met on team basis
- You can aggregate your net worth with your other partners to meet the requirement
- If you and your partners still don't meet required net worth, you can bring on a "credit partner" or "balance sheet partner"
 - ✓ Contributes NW and signs bad boy guarantees in return for participation in the deal

LIQUIDITY REQUIREMENT



Borrower liquidity must equal 10% of loan amount or 9 months of debt service

- You can pool your liquidity as well. But lender will likely pursue person with most liquidity first.
- If you lack liquidity, you can add balance sheet partner for this purpose as well

EXPERIENCE REQUIREMENT



Most lenders require at least 2 years of experience running similar multifamily properties

- If you don't meet the requirement, most lenders will be satisfied if you delegate to an approved 3rd party management company
- Lender will monitor performance and may require you to replace manager
- Lender will require approval rights for any replacement management company

BACKGROUND AND CREDIT CHECKS



- Every investor, sponsor, and guarantor (key principals) must meet background checks for:
 - ✓ Criminal history
 - √ Money-laundering
 - ✓ Terrorism
 - ✓ Certain forbidden persons, like foreign politicians
 - ✓ Anyone who does not meet must be removed from the deal
- Every key principal and LP investor with 20% or more must submit to financial review and credit checks
 - ✓ If you/your partners don't meet credit checks, you must add a "credit partner" who will lend their credit and sign on the guarantees with you



PERSONAL FINANCIAL STATEMENT



- Lender determines your net worth from a personal financial statement you provide
- They don't independently verify, but it's fraudulent if you lie, with very dire civil and potentially criminal penalties if you are caught
- I've included a personal financial statement template you can use to determine your and your partners' net worth and liquidity
- You can then determine the size of deals you can go after, or determine that you must find a credit/balance sheet partner





Q&A IN THE FACEBOOK GROUP

Next up:

Module 7 - Video 4
What to Expect in Lender Due Diligence

