

**MULTIFAMILY
LAUNCHPAD**

WITH JONATHAN TWOMBLY

REAL ESTATE INVESTMENT
EDUCATION



USING A MORTGAGE BROKER & NEGOTIATING WITH THE LENDER

Module 7 - Video 5

WWW.MULTIFAMILYLAUNCHPAD.COM

VIDEO OVERVIEW

What's covered:

- Advantages of using a mortgage broker
- What terms you can negotiate with your lender





USING A MORTGAGE BROKER

WHY YOU SHOULD USE A MORTGAGE BROKER



- Advantages of using a mortgage broker:
 - ✓ Relationships with numerous lenders to find you the best lender and mortgage for your deal & strategy
 - ✓ Can cause lenders to compete for your deal
 - ✓ Advocate for you with lender:
 - You don't have to negotiate directly, with no leverage – broker has leverage based on relationships with lender
 - Can negotiate away certain bad terms of loans
 - Can advocate for flexibility on requirements (like experience, etc.)
 - Represent your interests at site visit
 - ✓ Their execution makes due diligence easier for you

WHY YOU SHOULD USE A MORTGAGE BROKER



■ Disadvantages:

- ✓ Many don't have relationships with community banks
- ✓ Often focused on deals over \$1,000,000
- ✓ Placement fee of 75 to 100 basis points (0.75 – 1.00 %) of loan amount
 - Only due if loan closes
 - Most lenders waive *their* origination fee if you use a mortgage broker
 - Even if you pay a fee, the cost is worthwhile because you get better loan terms and don't have to negotiate directly



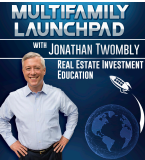
NEGOTIATING WITH THE LENDER

WHAT CAN YOU NEGOTIATE WITH LENDER?



- There is very little you can negotiate with lender
- Loan documents are one-sided to favor lender and you must take-it-or-leave-it to get the loan
- However, there are a couple of provisions you can negotiate that impact your bottom line:
 - ✓ Annual financial reporting
 - ✓ Escrow refund amount
- And always check with your broker and lawyer whether lenders are negotiating other provisions

ANNUAL FINANCIAL REPORTING



- Lender's default position is to require audited annual financial statements
- You need to hire an auditing firm to audit your books
- Very expensive - \$10,000 and up
- That could be your entire sponsor take in a year
- However, your mortgage broker can negotiate this away so you only have to provide compilation statements, rather than a full audit (depending on deal size)
- Your usual CPA firm compiles year-end statements based on your operating statements – much, much cheaper

MINIMUMS FOR RETURN OF ESCROW



- For commercial loans, you must contribute to repair escrows each month
- To obtain return of escrows, you must pay vendor and then submit bills to lender
- But lender does not want to pay one bill at a time; they require you to aggregate bills to a certain minimum before they will pay
- This minimum could be more than you incur in repairs in a year
- You can negotiate this downward, and should as much as possible
- This will help you smooth your cash flow and not get stuck with a liquidity problem from having money tied up in lender escrows



Q&A IN THE FACEBOOK GROUP

Next up:

**Module 7 - Video 6
Finding a Balance Sheet Partner**