

Top 10 Commercial-Broker Mistakes

They could happen to you — but they don't have to

By **Christopher Perez**, director, Commercial Loan Consultants

REGARDLESS OF WHETHER YOU'RE a seasoned commercial broker or a novice in this industry, mistakes can happen. But it always seems that much sweeter to know what to avoid ahead of time rather than to have to learn from your mistakes.

- 10. **Not knowing your lenders.** It is important to do your homework when selecting wholesalers with which to work. Make sure you get plenty of references, including from borrowers and other brokers. Do not take anything at face value. Many lenders promise the world only to disappoint in the end. The last thing you want is for your borrower to shell out thousands of dollars on application and appraisal fees for a deal that isn't going to happen. Your reputation on the line.
- 9. **Pursuing the "white whale."** This is the \$50 million loan that comes with million-dollar fees. Make no mistake: They are definitely out there and can make any broker's year. But beware of them. Excessively large loans are difficult, require an immense amount

of time, have a lot of moving parts and involve especially savvy borrowers. If it's a real deal, the competition from other lending sources will be fierce. You could also spend a lot of wasted time on deals that may never close because of extenuating circumstances.

The best way to know if a deal is worth your time is to ask borrowers how much cash they have in their account. If borrowers with \$50,000 in their bank account are seeking a \$50 million construction loan, the conversation should end there (unless they happen to be selling another building for \$10 million to use as a down payment).

- 8. **Overpromising and underdelivering.** Even though you want to immediately say yes when a promising call comes in, you should first make sure the loan falls into your product line. Never just say yes and then think you'll just figure it out later. You're in for a fall if you do business this way.
Keep in mind that it is nearly impossible to find money for a commercial property purchase for a borrower whose credit score is less than 575. Even with a credit score less than 680, there might be lower loan-to-value ratios and higher interest rates than the borrower can manage. It is important to let borrowers know all the risks upfront so you don't waste your time and have the deal die at the end.
- 7. **Mispricing.** Price each deal accordingly. A borrower with good credit and a sound deal should not be priced the same as a borrower with lower credit and no income. Consider charging

one to two points for traditional bank deals and two to five points on tough ones that banks won't fund. With jumbo loans, you can compete with other brokers and lenders by charging everything (typically 0.25 to one point) at the end, rather than upfront.

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- 6. **Misquoting.** When engaged in preliminary discussions with your wholesaler, do not quote any approximate rates you're given to the borrower. Wait until you have an offer in writing before discussing rates and terms. Even then, be sure to let the borrower know that things are subject to change. You should always quote the worst-case scenario to borrowers so they are prepared for the possibility of something going wrong with any number of factors — the title, the appraisal, property verifications, etc.
- 5. **Taking on the complicated "cause" loan.** This is the loan in which you have a borrower who has a "good story." Even if you really want to help, be careful when agreeing to take on one of these loans. A good story (e.g.,



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divorce or sickness) may be a justifiable circumstance, but lenders don't always see it that way. You will have to work especially hard to make your borrower's case. You don't want to have to face the repercussions of creating false hope. So be sure that you believe that with enough effort, the loan really does have a chance.

4. **Taking on the weak-business-plan loan.** A borrower might have a great idea and be ready to set the world on fire, but without sound financials and a solid business plan, the loan won't fly. Borrowers should have a minimum of 10 percent of their own money to finance a project. Full financing simply doesn't exist, even with the best ideas and most-thorough paperwork.
3. **Not knowing when to let go.** If a deal has died with a lender, it probably did so for good reason. It's OK to question it or to try a second opinion, but know when to quit. Often it just wasn't a solid deal from the start.
2. **Not knowing your borrower or the loan well enough.** Be certain you have a handle on your borrower and the loan before submitting it to your wholesaler. You will lose credibility with your lenders if you consistently submit junk. This will affect their response time and could even affect pricing. Know your borrower's credit, the property type, the financials, the cash flow, etc. Submit only what the lender requests, nothing more and nothing less. A busy wholesale rep who already has several loans to process does not want to deal with a 50-page fax of nonsense. You must make it easy for the lender to turn the loan around quickly.
1. **Trying to be everything to everyone.** Pick a niche and stick to it. There are many loan scenarios out there, from the U.S. Small Business Administration to construction to stated-income/stated-asset. By sticking to a particular niche,

you will become an expert in that field and will limit your number of lenders. You will eventually create an important collaboration with your wholesalers. This can lead to better pricing, perks and higher commissions. **!!**

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