David Kessler’s Presentation

Commercial Loans for Multi-Family Properties

- **Mortgage Loans for Multi-Family Properties?**
  - **Positives-** offer superior terms.
  - **Negatives-** limited flexibility with underwriting requirements.

- **Application Process:**
  - **Loan Structure**-
    - **Commercial Loan Terms**- it's good to know what to expect as you are preparing your projections to make sure the investment property makes sense.
    - **Standard down payment** on a purchase is 20% to 25%.
    - **Rate Options, Amortization, Balloon Payment.**
    - **Borrower/Guarantors.**

  - **Business + Personal Financials.**
    - Loan approval is based on a combination of the property, business, + personal guarantors.
    - Typical financials required for borrower + guarantors are last three years of tax returns, YTD P&L for business, and a PFS with supporting documentation.

  - **Property Information:**
    - Historical financials, current Rent Roll + Leases, and Pro-Forma for the property.
    - Unit Descriptions- Example (4) 2-bed 1-bath 650 SF units + (1) 400 SF Studio.
    - List of recent improvements to the property.

  - **Pro-Forma:**
    - We want to see reasonable rent and expense assumptions.
    - Have comparable rent figures available.
    - Debt Service Coverage Ratio should = at least 1.25X.

  - **Timing:**
    - Make sure the buy-sell close date gives you enough time.
    - Inspection/appraisal/environmental/title insurance/building insurance.
    - Loan Committee approval.

- **Rising Interest Rates**:
  - **Reasons why Cap Rates could stay the same**:
    - Short-term leases can be adjusted to offset added interest expense.
    - 1031 buyers won't be as impacted by rising rates.
  - **Reasons why Cap Rates should increase**:
    - Increased debt service expense.
    - Can Missoula renters afford additional rent increases?
    - Will investors continue to look to Real Estate when low-risk bond rates are paying similar returns?

David Kessler's Presentation Notes (Notes taken by Keith Miller, any mistakes, errors, or omissions are my fault)

- If you have the choice, a mortgage will be far better than a commercial loan. The mortgage can be on a 30-year term length and amortization. However, if you have non-traditional income or don't have a W-2, that will make it challenging to qualify. They also have a 4-unit maximum.
- A Commercial Loan on the other hand, will require at least a 20% down payment.
    - If the borrow is marginal, then the bank will typically charge a higher interest rate.
    - Usually on a 3-10 year term, with a balloon at the end. This is mostly to just reset the interest rate, and review the borrower's financials, as well as the property performance.
    - 25 year amortization is typical
    - The "Owner" is usually a holding company, but the bank will still require personal guarantees in most cases, especially with a newer investor.
    - Approval is mostly based on the property, but banks will also want to see your personal assets and want to see that you have reserves. HELOC can count; it is considered "liquidity" in the bank's eyes.
- To be approved, you need to get your ducks in a row.
    - At minimum, the bank will want to see rent roll, but three years of taxes is preferred.
    - During a conversation with the bank, you should know the details of the property, including interior and exterior condition, etc.
    - A list of recent improvements is key; they will want to know if there are any upcoming expenses that you will need capital for.
    - In addition, having comps for your property to back up your projections will really help
    - A detailed pro-forma is a must
    - They will want to see at least a 5% vacancy rate, and a DSCR above 1.25. They could consider lower, but you would need to have larger reserves, or some other way to reduce the risk in the deal.
- Loan Process
    - It takes around 30 business days to get a commercial appraisal, and they cost $3-6K
    - The borrower pays this cost
    - Sometimes you can get a broker's price opinion of value, but only if it's under $500K and it's a good deal
    - Banks will want to see the inspection report
    - Don't forget about getting insurance! <u>Must</u> be in place in order to close.
    - Your loan officer will need at least a week before it will go in front of the loan committee.
    - You can help yourself by giving your loan officer all of your information ASAP.
- Miscellaneous
    - They can loan on a rehab, but they would typically put it on a separate construction loan.
    - David predicts that the market will continue on the same path for the foreseeable future.