**Small Balance Commercial and Residential Investment Mortgage Loans Overview:**

The small balance commercial mortgage market refers to commercial or investment loans under five million dollars in total loan amount. As a whole, it is one of the larger mortgage markets in the US as it encompasses the vast majority of commercial and or residential properties. Because there are many different niche markets within the small balance commercial world, many small balance commercial lenders will focus on specific niches within the greater market.

Typically, the small balance commercial world is less regulated than the residential mortgage market. Many refer to the small balance commercial market as the non-QM (qualified mortgage) market, where borrowers will seek mortgage loans for properties that are not served by the residential mortgage market.

Some of the niches within the small balance commercial world are:

* **Residential Investment Mortgage Loans** - These mortgage loans are specifically designed for borrowers who are looking for a mortgage against a residential rental property that they own. Residential properties are defined as Single Family residences (or Condominiums, Townhomes, Row Houses and/or Planned Unit Developments - depending on their specific legal classifications), Duplexes, Triplexes or Four-Unit properties (in New Jersey Residential properties extend up to 6 units). These properties are the most prevalent properties throughout the United States. Typically there are many financing options for them, being that one of the largest government-backed lenders (the FHA - Federal Housing Administration) offers mortgage loan products for them.
  + There are three major differences amongst residential investment mortgage loans:
  + Income Qualified Investor Mortgages - These loans will do some sort of income qualification on the borrower, and will use that income to qualify the mortgage based on the personal or business income of one or more of the borrowers
  + Debt Covered Investment Mortgages - These loans will use the actual rental income, or the average market rental income of a given property to qualify the mortgage
  + Asset Based Mortgage Loans - These loans are based primarily on the loan-to-value ratio of a given mortgage and will ignore the income qualifications needed with Income Qualified or Debt Covered mortgage loans
* **Commercial Mortgage Loans** - These mortgage loans are specifically designed for commercial properties. It is important to note that there are many different types of commercial properties. Most commercial lenders will only finance specific types of commercial properties. One of the common complications with commercial mortgage loans has to do with the many different property types that exist within the commercial property Here are many of the commercial property types there are:
  + **Retail Commercial** - These buildings are commercial buildings that have retail units within them. Typically the properties are referred to as Retail.
  + **Office Commercial** - These buildings have offices in them. Typically these properties are referred to as Office.
  + **Multi-Family 5+ Units** - These buildings are residential apartment complexes containing greater than 4 units (in New Jersey these buildings are defined as greater than 6 units). Typically they are referred to as Multi-Family.
  + **Mixed-Use** - These buildings are a combination of commercial space and residential apartment units. Typically they are referred to as mixed-use.
  + **Warehouse** - These properties are large spaces designed to house inventory or small manufacturing processes. Typically they are referred to as Warehouses.
  + **Automotive Properties** - These properties are retail properties that specifically house automotive repair businesses. Typically they are referred to as Automotive.
  + **Self-Storage Facilities** - These facilities have small storage spaces available for rent. Typically they are referred to as Storage.
  + **Mobile Home Parks** - These properties are large plots of land that offer spaces for mobile homes.
  + **Commercial Condominium** - These properties are general use commercial spaces located within commercial condominium properties. Like residential condominiums, commercial condos belong to a commercial owners association and are often forced to follow general rules and regulations dictated by the commercial condominium governing board. Typically these are referred to as Commercial Condo.
  + **Medical Office Properties** - These buildings contain offices for medical professionals. Typically they are referred to as Medical Office.
* **REHAB Mortgage Loans** - These loans are popular with investors looking to purchase run down properties, rehabilitate them, and then resell them or turn them into income producing properties after the rehab is completed. Typically these loans are only offered on 1- 4 unit residential properties. Very few lenders consider REHAB loans on commercial or multi-family properties. Typically these are referred to as REHAB Loans or ARV (after repair value) loans.
* **Raw Land Loans** - These loans are very difficult to find lenders for. These are mortgages written against plots of land without any buildings on them. Typically referred to as Land Loans.
* **Development or Ground Up Construction loans** - These are loans that offer mortgages for the construction of brand new properties on land that has yet to be developed in any way. They don’t typically fall within the small balance commercial market, but many brokers and borrowers will bring development loans in for review by small balance commercial lenders.

Often mortgage brokers work harder for their clients when trying to secure a small balance commercial loan as lenders typically only offer mortgages for a small selection of property types. Thus, the small balance commercial market is very fractionalized, and requires continued attention to keep abreast on what types of properties are being financed by which types of lenders.

Many times, small balance commercial loans will be pitched by mortgage brokers as ‘scenarios’. When searching for a small balance commercial loan, they will call a small balance commercial lender and they will explain their scenario to see if it is something that will fit that specific lender’s mortgage guidelines.