Financing Your Property in 7 Steps

As a lender, I underwrote numerous properties. The easiest loans are permanent mortgages on stabilized multifamily properties, especially if it is a low leverage request (loan-to-value no greater than 60% and debt service coverage of at least 1.30x). If your loan request looks like that, lenders will be eager to lend on your property. This makes the job of finding a loan much easier. So easy that you may not need a commercial mortgage broker's assistance to place your loan. If you're interested in do-it-yourself financing, below are the basic steps of the process to follow.

1. **Prepare your property for financing.** As the wise adage goes, "by failing to prepare, you are preparing to fail." First impressions matter. If a lender's first impression of your property is negative, it will cost you in the form of additional documentation, punitive structure, and/or a higher interest rate. Avoid this hassle by cleaning up your property, addressing deferred maintenance, and filling any vacancies before talking to lenders. Then prepare a current rent roll and operating statement for the trailing year. Most lenders will review your credit score. If your credit score is below 700, take steps to improve your score, such as paying down debt. A good broker will help you by asking for these same preparations before speaking with lenders.
2. **Find a lender.** For a low leverage request, banks and credit unions will typically have the best rates. The trade-off is that many will ask for a guaranty (recourse). The next best option, especially for properties outside of top markets, are the agencies, Fannie Mae and Freddie Mac. If your loan request is between $1 and $7 million, the agencies' small balance programs will provide competitive terms and rates. The agencies' websites list participating lenders that you can contact for more information. I recommend contacting at least three lenders to get an idea what the market rate and appetite is for your loan. Finding the lender that will provide the best terms for your loan is the primary value proposition of a commercial mortgage broker. Having a broker handle the lender search, request preparation, and submission will save you time that you could better spend where it is more valuable. Plus, a broker's familiarity with the market means the search may be faster. Be mindful that some lenders pay brokers to bring them your loan.
3. **Agree on terms.** Most multifamily lenders have predefined loan programs for stabilized apartment requests between $1 and $20 million. This allows you to get fairly comparable terms without having to negotiate. To get an idea what to expect, I recommend reviewing the Freddie Mac Small Balance Loan Program summary sheet (search the web for "Freddie Mac Small Balance Product"). It will list the program parameters like fixed rate period, loan term, amortization, prepayment, recourse, interest-only, minimum net worth, and minimum liquidity. While the comparable predefined programs make it easier, a good broker will know which terms are negotiable and help you structure a loan for your investment strategy. Once you agree on terms, you will sign a letter of intent (LOI), pay a deposit and sometimes a non-refundable fee. Make sure any important business points

are finalized in the LOI. After you sign, the lender will be much less willing to negotiate terms since they consider the deal “off the street.” Shortly after signature, many lenders will allow you to lock the rate and start the countdown to completing your loan.

4. **Provide documentation.** The lender will provide a list of required documents they need to underwrite your loan. Many of these will be sensitive personal documents including your driver’s license, tax returns, and bank statements. Basically the same ingredients a crook would use for identity theft. Given the sensitive nature of these documents, you should be careful and insist on secure data transfer methods that encrypt your data. Your lender will likely have a messaging portal that facilitates this transfer. If not, you can use Dropbox, Google Drive, or OneDrive. Don’t attach them to an email that can easily be mismanaged or intercepted. I also don’t recommend sending sensitive documents via physical transfer through USPS or Fedex. It takes longer, costs more, and is more vulnerable. However you choose to send your information, send it promptly. Not providing documents quickly is where most owners unintentionally cause delays. Remember to think of the rate lock, which is only good for 60 to 90 days. You can easily use up that time by providing your information late and encountering an issue that could have been resolved earlier that ends up causing stress near closing.
5. **Wait for third party reports.** After receiving your signed LOI and deposit, the lender will order an appraisal, property condition, and environmental reports per their policies. These reports can take from 2-5 weeks to complete depending on numerous factors. While some lenders wait until receipt of these reports to lock, others will allow you to lock during this period. As such, you could be under a deadline and these reports could use up some of that time. Make the most of the time by being proactive with your lender. I recommend using this time to make sure the lender has all the documentation they need so that once they receive the third party reports, it can move quickly to underwriting and closing.
6. **Assist the lender while they underwrite the loan.** Once the lender has the third party reports, their underwriting team will review the loan. This is when most of the annoying issues come up. Up to this point, you’ve likely only been working with the loan officer. The loan officer is the sales person whose objective is to get you to sign the LOI and close the loan. Often times, they would prefer to get the deal “off the street” and figure out potential issues later. The chickens come home to roost when the underwriters look at the deal and nitpick at things most people consider minor issues. Often times, these nitpicks become conditions on the loan that hold up closing, requiring you to, for example, replace outlets in bathrooms, repaint, and/or remove mold around a bathtub (real examples). But, hopefully, you took the time to make those kinds of repairs before you even started this process (see item #1). Although you can easily get frustrated with these small roadblocks, this is a key time to understand and acknowledge the lender’s perspective. Understanding the lender’s perceived risk and empathizing with their needs will make it easier for all parties to get the loan closed. A good broker will identify these issues early and help you address them before it causes a time crunch.
7. **Review the loan documents and close.** Once the lender approves your loan, ask them to securely share the documents (see item #3) before sending the notary out. You want

to take your time to review the loan documents to ensure you understand key terms like prepayment premiums and any specialized conditions or covenants. Often times, your understanding of these terms is based on a rate sheet, LOI, or email. Seeing the contractually binding language can cause you to pause since it may not match your previous understanding. Don't let this happen at the signing table where you might feel pressured to sign because you don't want to inconvenience everyone by delaying signature. A good broker would still be with you at this point in the process to help you review the documents. A broker would know what's normal for the market and what isn't. This will help you push back and negotiate with the lender where needed before the critical signature date.

If you read the seven steps above and it sounded manageable, you might be cut out to DIY your apartment loan. If not, you will want to reach out to a trusted commercial mortgage broker to assist you throughout the process. Remember, their value isn't limited to matching you with a lender. A good broker will shepherd your loan through the process and cast the best light on you and your property, which saves you time and money.

Nick Schoch is a landlord and an independent loan advisor and commercial mortgage broker specializing in 5+ unit apartments. Nick's Apartment Loan Handbook is available for free along with calculators and tools at his website: nickschoch.com. If you have questions about this article or financing an existing property or purchase, you can contact Nick at nick@nickschoch.com or call/text (760) 201-6758. DRE 01999411