How To Ask Your Commercial Mortgage Lender For Payment Relief

April 2020

The coronavirus is affecting every facet of the world and commercial real estate is no exception. As a commercial real estate investor, you likely already have tenants asking for a break on the rent. You want to help them, and even if you don't, your local government may have already suspended evictions. With evictions off the table, your tenants could stop paying rent altogether while you still must pay your expenses like taxes and insurance, not to mention your mortgage payment. There isn't as much public empathy for the oft-maligned landlord, so don't count on systemic mortgage forbearance for commercial mortgages like you will see for residential mortgages. The buck stops with you.

If you find yourself needing relief from mortgage payments, you need to be proactive. Lenders are willing to work with their borrowers because it's often the easiest path for full repayment, especially when everyone is suffering due to extraordinary events like the coronavirus pandemic.

Get ahead of this by approaching your commercial lender with a plan that helps you get through this tough time while ensuring they eventually get repaid.

Know thy lender

It is important to understand the interests of your lender so that you propose a plan that works for you and your lender. If your plan only addresses your needs and not the lender's, you can count on the lender declining your plan and imposing one of their own. Note that if you have an agency loan backed by Fannie Mae or Freddie Mac, they will grant generic forbearance in exchange for suspending evictions.

Keep in mind the **lender's goals**:

- Repayment of the loan
- Return or keep the loan classified as "performing" per their regulator's definition
- Preserve the value of their collateral (i.e. your property)

- Obtain additional repayment sources such as guarantees and/or additional collateral

Any plan you put together must address each of those goals. Even if you don't have additional collateral to offer, you're addressing a question the lender will ask. It demonstrates that you have considered the options and your plan is the most viable.

Consider the **lender's options** if you default on your loan (in order of increasing severity):

1. Do nothing (highly unlikely)
2. Provide temporary forbearance until agreement on a longer-term plan
3. Restructure the loan, trading time for money
4. Accept a discounted payoff
5. Sell the note at a discount
6. Foreclose on the collateral property and sell it; then pursue any guarantors for a deficiency judgement

You want the lender focused on options 1-4. You don't want your lender considering options 5 or 6. Not only do both options cause you to lose your property, but option 5 puts you at the mercy of a third party that most likely wants to see you fail so they can take your property.

The lender wants to know you are part of the solution. Reach out to your lender and identify the dedicated person for your loan. Lenders see it as a good sign when their borrower makes contact before they see late payments. Keep the lines of communication open and the lender will be easier to work with and more amenable to your plan.

Know thyself and come with a plan

To keep the lender focused on options 1-4, you will need to come with a plan that addresses their goals while demonstrating that you have the capacity to follow through on the plan. This includes projecting your cash flow, outlining the issue you're facing, and explaining how you expect to repay them within a defined period. The lender will also ask for updated financial information for you and your property, including operating statements and a rent roll that shows current payment status for each tenant.

There are two common reasons borrowers seek restructuring and for each of those there are a few basic solutions to resolve the issue:

Reason for Restructure Request	**Common Borrower Solutions**
Inability to repay a bullet/balloon payment due at maturity	1. Renewal of loan on same or modified terms 2. Extension of the maturity (or forbearance) while the borrower liquidates assets to paydown the loan or seek replacement financing
Inability to make the monthly debt service payments	1. Reduction of the interest rate 2. Reduction of the amortization 3. Temporary waiver of payments with unpaid amounts added to principal

Remember the give and take nature of negotiating a loan restructure. The primary exchange is time for money. The lender will consider giving you more time before resorting to their remedies (i.e., foreclosure) in exchange for a loan paydown, accelerated principal payments/amortization, and/or additional collateral.

Your plan must lay out what you need and what you're willing to do for the lender. For example, if you need 3-months of forbearance, you can offer to add the unpaid amounts to the loan balance and pay interest on that newly increased balance. If your loan is higher risk as indicated by, for example, a loan-to-value ratio above 70%, you will want to offer either a principal paydown or cash collateral until you perform on your plan with regular payments.

Do not involve legal counsel in your initial discussions. Involving an attorney raises the hair on a lender's neck. As such, legal involvement will make the lender more defensive and they will involve their own counsel. This raises the stakes for both sides and makes coming to an agreement harder and more expensive.

The lender may ask you to sign a pre-negotiation agreement consisting of a recital and acknowledgment of your obligations to the lender along with agreement that any modifications must be written and signed (rather than oral agreements). This makes sure both parties are on the same page about the current loan terms before beginning discussions about a loan modification.

As you work through the process, be sure to document your discussions in case things get worse. Saving and organizing your correspondence will make your attorney's job easier if it does get ugly.

We're in this together

You and the lenders incentives are aligned. They want you to succeed because your success means loan performance with full repayment of principal and interest. If you are concerned about being able to make your monthly payments, be proactive. Develop a plan that gives you the time you need while addressing the needs of your lender. Approach your lender with a well-thought-out plan and you'll get a better restructure than if you wait or default on payments. If you need guidance through this process, consider reaching out to your commercial mortgage advisor. With a proactive approach, perseverance, and a bit of luck, we'll get through this and back to business.

Nick Schoch is a landlord and an independent commercial mortgage advisor. 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