LOAN PLACEMENT MATRIX

Life Companies:

Life companies are insurance companies acting as lenders by investing peoples premiums into commercial mortgages.

- Life companies are picture postcard lenders.
- They are extremely risk adverse.
- They like new properties.
- Loan must cash flow 1.35x (1.25x min.).
- Loan-to-value ratio should be less than 65% (70% max.).
- Loan must be over $500,000.
- Property must be less than 5 years old (brand new preferred).
- Exception: Less than 10 years old and in very affluent area.
- Must be a standard property type Office, Retail, Industrial, Multi-Family.
- High net worth *borrower* usually required.
- Net worth should be 1.5 times the loan amount.
- Borrower must have good credit.
- They like fixed rate loans and will do fully amortized loans.
- Their loans are either locked-in or have huge prepay penalties.
- The interest rates are the best next to conduits.
- Require Low points (most are par).

Conduits:

Conduits pool their loans, securitize them and sell them off to Wall Street investors. Therefore conduits have *unlimited cash for* deals not good enough for life insurance companies. Conduits are motivated by BIG profits to close deals with just a little bit of hair. Conduits only lend on specific property types that fit into their cookie-cutter molds, but they have *lots* of molds:

- Apartment buildings.
- Office buildings.
- Retail buildings and strip centers.
- Shopping centers.
- Industrial buildings.
- Hotels and motels.
- Mobile home parks.
- Mini-warehouses.
- Health care facilities - residential care homes, convalescent hospitals and congregate care.
- One conduit will even accept nationwide franchise restaurants.

Loan Placement Matrix

Conduits – continued:

- Loans as small as $100,000 to as large as $50MM - Unlimited funds.
- Debt service coverage ratios: 1.20 minimum
- Borrowers must have at least average credit (some tiny blemishes probably okay).
- Net-worth-to-loan-size ratio not officially computed but ideally should be at 1:1.
- Rate is almost always fixed, usually at some spread over 10 year treasuries; Spreads over 10 year Treasuries usually at or slightly less than life companies and are usually locked in or have huge loss-of-yield prepayment penalties.
- Low points - usually 1 point.
- Conduits will accept older, not-so-beautiful properties.
- Conduits will *often* make loans to 75% LTV and occasionally 80%! Best lender for max cash!
- Will do long amortizations – 30 years.

Banks:

- Banks are balance sheet lenders. They like liquid net worth.
- Banks want a deposit relationship. This is very important.
- Standard Property Types Preferred.
- Business properties considered if business very successful (as evidenced by large cash deposits).
- Loan must cash flow 1.25x (in theory but this rule is frequently broken).
- Borrower must have good credit.
- Owner-occupied properties looked at favorably.
- Will do fixed rate loans no more than 5 years.
- Like short amortizations 15-25 years.
- Flexible on prepayment penalties.
- The small banks like short term mini-perms (3-5 years) tied to Prime.
- Low points - usually 1.0 – 1.50%.

Loan Placement Matrix

Credit Companies:

- Credit companies are tax return lenders.
- Business properties financed regularly if debt service supported by the tax returns.
- Borrower must have good credit.
- Property must cash flow 1.0 based on last years' tax returns. (Hard because most borrowers cheat a little.)
- If the tax returns are good, the closing ratio is excellent.
- All of their loans are tied to Prime, usually Prime plus 3%.
- Low points (2.5 - 3).

Hard Money (Private Money):

- Hard money lenders are equity lenders (real estate is the most important).
- 65% LTV ratio max.
- Borrower's Credit not very important. (Bad credit OK).
- Negative cash flow okay to 65% loan-to-value.
- High interest rates usually fixed (11% -15%).
- Short Terms (1-3 years).
- Usually interest only.