The Final Steps to Earn Your Commission

What Every Broker Should Know About Getting Their Commercial Loans Closed
4 Things that Must Go Smoothly in Order to Close Your Deal

1. Appraisals
2. Title Work
3. Lender Stips
4. Insurance/Environmental Issues
• Types of Appraisals
• What a lender is looking for
• How your deal can get tripped up
• How you can help
Residential vs. Commercial

3 Major Differences:

1. Cost
2. Size
3. Timeframe
TIP:

Let your Lender order the appraisal!
• Sales/Market Approach
• Income Approach
• Cost Approach
Sales Approach
Sales Approach
**Income Approach**

### INCOME CAPITALIZATION APPROACH

**Actual Gross Income**

<table>
<thead>
<tr>
<th></th>
<th>First floor:</th>
<th>$5,000 per month = $60,000/annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second floor front:</td>
<td>$2,000 per month = $24,000/annum</td>
<td></td>
</tr>
<tr>
<td>Second floor rear:</td>
<td>$2,500 per month = $30,000/annum</td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td>$114,000/annum</td>
<td></td>
</tr>
</tbody>
</table>

Less Vacancy and Collection Losses (3%) first floor $1,800
(5%) second floor $2,700

**Effective Gross Income**

$109,500

**Expenses**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Management (5%)</td>
<td>$ 5,475</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>15,006</td>
</tr>
<tr>
<td>Water and Sewer</td>
<td>1,200</td>
</tr>
<tr>
<td>Heating and Common Utilities</td>
<td>pd.by tenant</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>1,632</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,935</td>
</tr>
<tr>
<td>Reserve for Replacement</td>
<td>850</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>2,000</td>
</tr>
</tbody>
</table>

**Total Expenses**

$28,098

**Net Operating Income**

$81,402
Cost Approach

Cost of Land + Cost to Build
• **Why:** Why does the Borrower need title insurance?
• **When:** When is title ordered?
• **Who:** Who orders title?
• **What:** Owner’s insurance vs. Lender’s insurance
• **Where:** Sources of Insurance... Underwriters and Agents
What does the title report tell you?

• Schedule A
• Schedule B, Section I
• Schedule B, Section II
• Schedule C, a/k/a Exhibit A
Common Title Issues:

- Old mortgages remaining of record
- Undisclosed judgments/liens
- Additional parties on title
- Real Estate Taxes
  - Past due
  - Sold
Work with the Processing Team on items such as:

• Property Insurance: Fire, Flood, Wind
• Mortgage Pay offs (can be most time consuming)
• IRS Pay offs often require the agent’s direct contact information
• Borrowers’ Financials e.g. tax returns
• Credit Card Statements
• Buy Out Agreements
It is best to know in advance:

• The Lender’s policies on Power of Attorney
• Your client’s availability for closing (any vacations/business trips)
The depth of environmental underwriting required by a Lender may be determined by:

- Property Type: Warehouse vs. office condo
- Loan Amount: More $ = More risk = More due diligence
- Location of Collateral: Proximity to high risk uses, e.g. gas stations
Thank You

1-800-262-2739