

# Real Estate Journal

THE LARGEST WEEKLY COMMERCIAL/INVESTMENT NEWSPAPER COVERING THE STATE

## Bridge loans keep property owners afloat



Jeff Moore

I know, the banks are frozen up right now and the Wall St. firms are all under investigation and living in panic mode. I don't think that will change for some time. I know the media is telling you that commercial lending is going to drop this year and we are all going to fall off a cliff.

However, the big hedge funds and private money guys used most of last year to build up their cash reserves and they have begun to deploy it! I cannot tell you definitely why, but deals I could not get done last year are getting multiple bids on them now.

Maybe the big money, the money behind the Wall St. firms, realizes that all the Fed bail-outs are going to lead to inflation (that is the only result of printing so much money we don't have). In inflationary times, real estate does well. Or maybe they just need to deploy the money to get it moving. I don't know. What I do know is that the money is moving and big projects are closing and they won't have all that money forever. I don't think it will be as easy this year for these guys to replenish the storehouse.

Bridge money or hard money does not mean "no information/ asset only." Lenders of bridge money do not have the same criteria of a bank; however, they do need relevant information to make a fast accurate decision which the borrower can depend upon for a closing.

For instance, if the deal is a refinance of an existing project, lenders need to know if there is a current loan on the property and what its status is. Answers to these questions will help a lender or broker determine why the borrower is not asking for funds from the existing lender or if the loan is delinquent. New projects leave the door open for lenders/brokers to discover vast amounts of information. For example, if the borrower is requesting funds to build a new housing development, the broker might want to ask if comparable homes in the area are selling well or if there are unsold units. The answers to these questions can determine the viability of the concept. A well packaged loan will

overcome any initial objections and continue to prove the viability of the loan.

The lender/broker should discuss the borrower's credit history. Ask if the borrower has ever had any litigation, bankruptcy or foreclosures, and encourage the client to share this information openly and truthfully. If one of these things has occurred, there might be explanations that would allow a deal to still proceed. Feeling comfortable that a client is being honest about past attempts to secure funding is critically important. Many borrowers don't realize that small cover-ups will come out during the underwriting process or that a less-than-truthful answer can complicate the deal or even deem it invalid.

The broker or borrower must know the private lenders risk model. For instance right here in eastern Mass., there are private lenders who specialize in infrastructure construction of permitted subdivisions, yet they will not lend to apartment rehab to condo conversion projects. Another lender is very quick to lend to 1 to 4 unit purchase rehab inside Rte. 128, but I have never closed a deal on a single family knockdown in some of the wealthier communities with the same lender. One of the largest private lenders financed land and the permitting process for three years to a borrower with no experience but he had the right engineer, legal team and eventually was permitted for 300 units with a 40 B permit.

You just never know the private lenders criteria unless you are in the business daily. The cost of a good broker becomes a moot point if the deal closes. A borrower or broker who "shotguns" a deal to all private lenders loses creditability very quickly as the northeast private lending group is a small one by nature and geography. The borrower or broker must have regional and national contacts with relationships in place, to provide a second opinion and to get the deal closed. Broker points are irrelevant if the deal languishes and never closes, that is an option which is more expensive than any broker.

Every real estate developer will tell you brokers work for themselves first then the client. In reality brokers do not get paid unless the client is satisfied and deal closes. This is true for property or finance brokers and is especially true in a down market when the order takers have left the business.

Funding for projects is available. You just have to know where to look and how to present the deal.

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