

THE 4 MOST COMMON COMMERCIAL MORTGAGE MISTAKES (And how to avoid them)

As opposed to mortgages on your house, commercial mortgages are all about Return on Investment (ROI). In buying or selling commercial real estate, the financing can make or break the deal. The best commercial mortgage for you is the one that maximizes your ROI. It seems obvious, but when it comes to shopping for a commercial mortgage it is stunning how little attention to profitability the average investor makes. In fact, I see the same mistakes over and over and often these mistakes lower, or even wipe out, the entire return on the investment. Below I will look at the 4 most common mistakes people make when choosing a commercial mortgage and how to avoid them so that you too, can fully realize the maximum return.

Mistake #1: Not having a clear goal for the property. Incredibly, many people make investment decisions because someone told them about a great idea or opportunity. They never put pen to paper to even figure out if a profit is possible! Others buy property or investments and have no clear cut return they are shooting for or a game plan on how to get it. What is your goal? 20% return a year? How many years? Are you trying to buy a fixer upper and hoping to renovate it and fully rent it out and sell it? When are you trying to sell it by and at what price? Is that possible based on the area it is in? Are you buying a property to house your business? How long do you plan to be there? These are all questions you need to have ironed out because they will affect your mortgage. If you are looking shorter term, possibly to buy something and flip it, then you will want a different type of loan than if you are buying something for your business that you want to someday turn over to your son or daughter.

HELPFUL TIP: Before you go into contract, run the deal by a commercial mortgage professional. That's right, an ounce of prevention is worth a pound of cure. You seek professional advice in tax matters and law matters and you should seek advice in commercial loan matters you probably never went to school for commercial mortgage loans. Don't just go on what Billy Jo told Bobby Sue (because Billy Jo is rich) get expert advice BEFORE you commit! At Talent Financial we will crunch the numbers for you and guide you in the optimum way to structure the deal. We can alert you to the pitfalls and even bring creative financing strategies to the deal to maximize your return. And we do it all free of charge!

Mistake #2: Thinking only rate, rate, rate! The lowest interest rate is NOT necessarily the best deal for commercial property. Amortization is just as important. Amortization is the length of time the payment will be factored over, the longer the amortization, the lower the payment. Depending on your goal, the lower payment yields you better cash flow and more profit per year better ROI. For example, a \$500,000 mortgage with a 10year balloon and a 15year amortization at 5.5% interest rate yields a payment of \$4,085/month. The same mortgage with a 25year amortization but a rate of 6% yields a payment of \$3,221/month. Same loan amount, ½ a percent higher rate but because of the longer amortization your monthly payment is over \$800 less per month. If the cash flow on the property was going to net you \$1000 a month at the 5.5% rate this extra \$800 a month on the longer amortization 6% rate yields you an 80% better return! And that is PER MONTH! WOW!

HELPFUL TIP: When comparing approvals take a calculator and actually calculate the payment on the different approvals. Don't just look at rate look at cash flow and profitability and then compare these to your goal for your investment. Also, ask your commercial mortgage professional about unique loan programs like a nonrecourse loan. This is one of today's hottest products and your local bank does not carry it. (For more info on this incredible product call Matt Tarka at 970-744-5345 for a flier that explains the pro's and con's of nonrecourse loans). You may be surprised at what you find when you just crunch the numbers and get good advice!

Mistake #3: Too little shopping early on, too much shopping later on. Customers decide to refinance or purchase a property and go down to their local bank where their savings accounts are and apply. They don't shop around and compare. Then the bank turns them down. Remember, on commercial loans even if you are a great borrower you may still get turned down by your local bank. Why? The property may not be good. They may have filled their quota for the month on commercial loans, or they may just not like to loan on the certain type of property you are buying. Don't take it personally. But you should have applied at another bank or utilized an experienced commercial lender who can shop the deal for you. At Talent Financial, we package the deal, make it as good as possible and then send it to the 610 lenders or banks we feel will most likely do the deal. We always include local banks and a few nationwide players and despite all that experience 46 of these lenders will still turn the deal down for one reason or another. But we always get 12 lenders who are interested. If you just apply at one bank you limit your opportunities for profitability.

Almost as bad as just going to one bank and putting all your eggs in that basket is shopping around and getting a commitment at terms you like that make the deal profitable and meets your goals and then CONTINUING TO SHOP! You got what you wanted, don't be greedy. There are numerous reasons for this. One, if rates shoot up, your deal will change. This could limit or even completely erase any profits from the deal. You tried to take the approval and get a rate 1/8th % lower and you end up 1/2% higher, foolish! Wall street has a saying, "Bulls and bears make money, Pigs get slaughtered". Second, the lender who approved you could change their terms. They may only have 30 million available for apartment loans and because you would not commit because you were trying to get a lower rate, they filled the commitment with other loans and now no one wants your loan. At Talent Financial, the approval we get you has already been shopped and is most likely one of the best deals you are going to get. Don't be penny wise and pound foolish and lose the deal that would have returned you \$50,000 in profits over 5 years just to try to get a payment \$40 lower a month. Not smart money management!

HELPFUL TIP: Don't look a gift horse in the mouth. If you know the profitability you want to achieve and the terms needed to get it and you get approved for that amount then be happy and book it. Don't lose the whole deal over trying to make an extra \$10 a month! Be smart!

Mistake #4: Loving the deal and ignoring common sense. The Bible says, "Pride goes before the fall". I have seen people try to buy a piece of property and lender after lender turns it down because the value is not justified or something. Yet, instead of realizing that smart financial people are telling you the deal is bad they persist to keep trying to buy it. Sometimes even getting hard private money at exorbitant rates that will

NEVER TURN A PROFIT for them. One of my millionaire buddies has a saying, "People would rather be right then rich" and I see it all the time. Remember, banks and lenders are in the business of lending money. They want to lend money on deals that make sense. If EVERYONE says your deal does not make sense LISTEN TO THEM. Get out of the deal or partner with someone who knows how to make it work or something. Don't resort to ridiculous interest rates because you believe you HAVE to have this property. Again, heed advice and be smart.

HELPFUL TIP: Besides speaking to an expert BEFORE buying put pen to paper and make sure the deal makes sense. Remember what your goals are and what return on investment you are looking. And then look at the worse case scenario. Can you handle it? If the only people willing to loan you on a property are charging you 14%are you sure you can make it profitable. Get your pride out of the way and get real with the numbers. It is better to eat a little crow and live to invest another day then throw it all away on a deal for ego's sake.

Avoid these 4 common pitfalls and your profitability will soar! At Talent Financial we are committed to your profitability.

We offer:

- Free up front analysis
- The fullest range of products
- Weekly updates so you know what is going on
- Experienced commercial experts that know how to get deals done
- We literally shop hundreds of lenders to get the best real deal for you
- Fast answers
- Creative financing and best of all
- We guarantee our commitments. If we do not get you closed at the terms on your commitment letter we refund your upfront deposit.

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