

UNDERWRITING GUIDELINES – as of Dec. 2009

Facts you need to know:

- **Market has continued to tighten, not loosen**
- **It is not about whether the borrower is good, it is about whether it can get done.**
- **This sheet helps you make more MONEY by freeing you up to only spend time on fundable deals.**
- Like it or not, **Government loans are the only ones with securitization** and hence, the only ones with high LTV's. If you want a non-government loan; it must be a low LTV.
- Remember, as we speak, **property values are declining**. **The CMBS market is gone.** Banks are under huge pressure to not take risk and to conserve assets for fear of being taken over – this is not going away anytime soon. This is why the lower LTV's.
- This sheet is designed to cover main line lending programs; there are a lot of niche lending like Factoring, credit card receivables lending, etc. that can fill in the gaps.
- This sheet covers a ton, but not every type of scenario – that would be a book. But with this info, you have all you need to be massively successful. To the general guidelines....

General Guidelines – Owner-Occupied

SBA Deals

7A program-can use for Real Estate, for start-ups, and for business only loans. **The only loan that can go by projections to get approvals.**

- MUST BE OWNER OCCUPIED 51%
- must have a 620 score minimum – higher the better
- property and business must cash flow – use a 1.25 DSCR minimum – higher the better. Person's personal debt must cash flow as well. NO STATED, can go projected – but projections must make sense and will be scrutinized mightily.
- for business only, most lenders want 50% or more collateralization.
- **Loan amounts to \$2 million currently, this is being raised.**
 - LTV- 90% for Real Estate/ 80% for business
- **MUST HAVE THEIR OWN SKIN – THERE IS NO 100% FINANCING WITH A SELLER SECOND**
- Can possibly get cash out to improve the business
- Gifts are allowed
- Experience may be overlooked with a strong franchise

504 program – is for Real estate only, generally purchase only. No cash out. No projections allowed, must be historical cash flow. This is a 50% first with a bank, a 40% second from the SBA. These loans are much tougher to get done than a 7A. Rest of the rules are similar:

- 51% owner occupied
- 620 minimum score
- 1.2 DSCR, personal must cash flow
- will go to 90% LTV, 10% must be from the borrower's own seasoned funds, etc.
- Loan amounts can now go up to almost \$9 Million

USDA Deals

- Loan Amounts up to \$10 million. May get exceptions higher but very rare and unique circumstances....
- 30 year terms for Real Estate, 15 years or useful life for equipment, 7 years working cap.
- can't be used to relocate jobs, cash out to owners etc, but CAN do construction, working capital, etc.
- **NEED 10% Tangible equity** available after closing to get approved if existing business, **20% if start-up**
- CAN be used for energy projects
- must be rural – populations less than 50,000
- 1.2 DSCR
- 620 score minimum

Conventional Deals

- Can only be used for deals involving Real Estate
- Must be 25% owner occupied or more
- Generally going to be only available in larger MSA's, 50,000 population and up
- 650 minimum credit score
- Must cash flow at 1.2 unless special purpose property, then generally 1.25 DSCR
- max of 65% LTV unless a local bank may go to 75%

General Guidelines – Investor

Government Deals

FHA

- **Apartments**

Program 223-

- \$2 million to \$50 Million loan amount
- for acquisition or refinance
- 85% LTV for purchase, 80% LTV for CASH-OUT Refinances
- 1.18 DSCR, 35 year terms, fully amortizing, awesome rates
- non-recourse
- 660 credit scores
- Downside is time frame, expect 4-6 months to close

Program 221(d) 4-

- For construction and substantial rehab (at least 15% of the finished appraised value in repairs)
- \$2 million to \$50 Million
- 1.11 DSCR
- 90% LTV
- up to 40 years fully amortizing, non-recourse, great rates
- 660 credit scores
- EXPERIENCE CRITICAL
- Time frame – 6 months minimum

Healthcare – Section 232/223

- skilled nursing, assisted living facilities, treatment centers, aggregate care-only
- for purchase, refinance, new construction or substantial renovation of healthcare facilities
- Facility must have no more than 25% of the units can be independent units(own kitchen and bath facilities)
- Facility must provide continuous oversight of residents and offer 3 meals a day
- 90% LTV
- 1.11 DSCR
- up to 40 year, fully amortizing, non-recourse
- 660 scores
- experience a must, 3 plus years minimum

FHA is the only source that has not adjusted to the declining values, everyone else has including FNMA. Keep this in mind.

FNMA/FHLMC-pretty much only apartments anymore

- 75% LTV is the most generally, 80% LTV in extremely strong cases only
- 680 score
- 1.20 DSCR possible but everything else must be rock solid, 1.25 DSCR is norm
- need 9 months of PITI in reserves generally
- Mixed use OK as long as less than 25% of income from commercial
- 90% occupancy needed (**otherwise a bridge loan**)
 - Cash-out possible to 65-70% on limited cases, all else must be wicked strong
 - must have at least 3 years landlord experience
 - generally non-recourse, can get 10 year fixed, 30 year am, rates are good
 - Minimum loan amount \$1 Million, max \$25 million

Conventional Deals

- **Apartments**
 - 75% max LTV if super strong, 70% more likely
 - generally the same guidelines as FNMA
 - loan amounts \$250K-\$2 Million
 - 5 year fixed balloons, 25 year amorts, full recourse
- **General Commercial (Office, retail, industrial)**
 - 65% is the norm, 75% if everything else is strong as death-purchase & R/T
 - Cash-out, generally 60% or less, must be good reason, the less cash out the better
 - Loan amounts up to \$5 million, above that generally Wall Street (below)
 - 1.25 is MINIMUM DSCR, prefer higher
 - 650 scores is minimum, (need 1.4 DSCR to compensate for example), should have 680 score
 - 90% occupied (**otherwise a bridge loan**)
 - experience and reserves needed, must have, but guidelines vary widely on this depending on the source....

- **Special Purpose Commercial (hotels, convenience stores, restaurants, etc)** Many lenders will not do these at all. If they do, generally they want 5-10% less LTV and 5% more DSCR so....
 - 1.3 DSCR minimum
 - 65% LTV max, most prefer 55%
 - 90% occupancy(in rental situations)
 - 660 scores minimum, prefer 680 score
 - Should have experience, reserves, etc
- **Wall Street-generally \$5 Million and up, no real maximum**
 - Much different beast. Deals can be broken up into pieces to combine first mortgages, mezzanine (like a second), and equity. **NOTHING MARGINAL ALLOWED AT ALL.** Everything needs to be strong.
 - Debt coverage ratio above 1.3
 - Lots of liquid reserves-generally 1 year worth
 - 5 years experience needed
 - 680 scores but really looking for 700
 - Any property is doable but the special use properties carry much lower LTV's
 - Using a combination of equity and debt and mezzanine, higher LTV's are possible, even above 80% in extreme situations

On these, only looking for MAJOR players (BE CAREFUL OF PFS STATEMENTS THAT HAVE HUGE NET WORTH IN REAL ESTATE AND ALMOST NO OTHER LIQUID ASSET – THAT GUY IS **NOT** A PLAYER)

Other Types of Deals:

- **Stated Deals – ONLY one source, only to \$400K. Credit score should be above 660. LTV will be around 60% or less.**

(Note: This is the only lender that will go down to 580 on a credit score-not on the stated program but they will go to 580 on the score-again, \$400K max loan amount)

- **Churches-generally speaking:**
 - **3.5 times the tithe-the tithe is unrestricted tithes-not special purpose. Only ACCU will take total non restricted monies in right now (money from Bingo, selling books, etc.)**
 - **LTV-max 75% on purchase**
 - **must be able to cash flow to support the debt**
 - **revenue should be increasing or stable**
- **Hard Money/Bridge-2 types, cash flowing and non-cash flowing. These are private loans so the rules are VERY general, lots of variance here depending on type of deal, etc.**

- **Cash Flowing Deals**
 - must have cash flow, most prefer 1:1 minimum, 1.2 DSCR preferred
 - **MUST** have reserves-6 months preferred
 - must have a good exit strategy-this is **KEY** to Hard money-what is the story and how will this get paid off in two years or so (**hint-“going to fix my credit then refinance” does not fly)
 - 620 score minimum prefer higher
 - Can get up to 70% LTV

- **Non-Cash flowing deals**
 - **MUST** have great, I mean, GREAT exit strategy
 - 50% LTV max
 - rates are higher-generally 15% or more
 - must have good net worth besides the property
 - again, 620 score is kind of a minimum
 - must be a story that makes sense

These are all the **GENERAL** Guidelines. There are many other products that we can do thru our Commercial Capital connection to fill some gaps, like our self directed IRA program, loan modification, factoring, merchant accounts receivables, etc. These are great additional products but 90% of the stuff you review will be the above. Next year, we will do conference call trainings on each of these “ancillary products”.

BUT, there is one other thing you MUST know to screen deals, and this is where the “rubber meets the road”...▶▶▶▶

THE KEY TO TRULY SCREENING DEALS – UNDERSTANDING MARGINAL

The rule of thumb today is this; you can overcome one marginal issue on a file. You cannot overcome two. A file having two marginal issues is a dead deal EVEN IF IT MEETS THE ABOVE GUIDELINES. This is the secret to success in screening.

Remember, you only make money closing loans. The less time you spend on deals that will not fund, or have a snowball’s chance in hell of closing, the more time you can spend marketing and closing the good loans. **Understanding what is marginal and what is not leads you to HUGE success.**

WHEN ANYTHING HITS THE MINIMUM GUIDELINE ON A PRODUCT WHERE YOU ALREADY HAVE A SLIGHT MARGINAL, BE CAREFUL WITH THOSE DEALS. EVERYTHING ELSE MUST BE SOLID!

The following items are marginal in most cases:

- **Cash-out** – the higher the amount cash out – the more negative this becomes!
- **Gas Stations, convenience stores, car washes, hotels, car dealerships**
- **State of Michigan** – except for two lenders that do not treat Michigan as a negative!
- **Las Vegas** is another area black-balled by most.
- **Credit scores 620-659** (complete deal kill in apartment lending)
- **Low reserves**
- **No experience in the field or as an investor**

The following items are marginal in some cases:

- **FL, CA, GA, and any state** that has been hit pretty hard-does vary by lender somewhat

The following is nearly impossible to overcome in most cases:

- Bankruptcy, foreclosure
- Credit scores below 620 Again, this is for mainline products. Some products, like factoring, may not look at the borrower's credit at all.
- Max Cash out

Remember, underwriters can lose their jobs if too many loans they approve go bad; banks can be taken over if too many loans go bad – they look at the deal differently than you as a salesperson – the key is to be aggressive getting the deal in but screen hard like an underwriter – don't underwrite, but make sure it hits the general guidelines.

For example, let's say you have an SBA deal. It looks good, cash flows, but the borrower has a 630 score. That is one marginal against it. If the borrower also wants to buy a gas station, that deal is dead. It is two marginal items – gas station and low credit. Even though technically it meets all the other guidelines, you cannot get it done. You may search online, maybe somebody faxes you a product sheet and it lists that they can do that deal. Maybe the account rep said it can be done.

I am telling you from my experience the past two years – if someone is marketing to you; they are a broker. If they say they can do the above with two marginals, **run**. When it gets to final underwriting, magically, it will get denied. Same with getting it past the AE. Credit committee will tank it if it has two marginals.

Can you search the whole world and finally find someone to do something, maybe, maybe not. But what did you lose on time?

Stick to the above...and ***remember the marginals*** and remember the simple rule – ***2 marginals means it is dead.***



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