



Sphynx Financial

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10 Important Questions to Ask When Looking for a Commercial Loan

1. How much money should I borrow?

To answer this question, carefully weigh how much capital you will require to meet present and future cash-flow needs and also your ability to repay the loan according to its terms. Most commercial lenders will not loan more than 75 to 80% of the property value. This means you will need to have a down payment amount of 20-25%. For a slightly higher interest rate, some non-bank lenders will allow for a higher loan to value amount (85-90%). As mentioned above, sometimes a larger loan with a slightly higher interest rate will insure you have enough money to invest in your business for continued success.

2. What is the debt service coverage ratio that I need to have?

In other words how much income does your property need to generate for you to qualify for a loan? Your DSCR (debt service coverage ratio) is your annual net operating income divided by your principal and interest payments. Traditional bank lenders usually require a higher ratio than non-bank lenders. Be sure to find out the acceptable ratios for each commercial lender you may be considering.

3. What are the repayment terms?

Is there a balloon payment? If you are using a traditional bank lender, you will most likely have an amortized 30 year mortgage loan that requires you to pay the entire balance in one balloon payment usually due in 3 to 10 years. At this time you will most likely need to refinance your loan. You need to look ahead and realize that your business must be doing well enough to again qualify for the refinance, pay the costs of the refinance, and possibly pay a higher interest rate if rates have gone up. Again, for a higher cost, a non-bank lender may offer you a long-term loan without a balloon payment.

4. How long will it take to complete my loan?

It depends on the lender and the type of loan you choose. A traditional bank lender will review your historical income statements, balance sheets, asset statements, tax returns and other documentation. This often takes several weeks just to learn if you are pre-qualified. The entire loan process can take from 3 to 9 months. Non-bank lenders have more lenient underwriting guidelines resulting in a shorter closing time, often around 45 days.

5. What are the documents I need?

Traditional lenders will require much documentation such as 3-5 years of financial statements, income tax returns, asset statements, leases, operation statements, even personal financial statements. Knowing ahead of time every document you need to provide can potentially save you from delays and a long closing time. Non-bank lenders typically use stated income/asset loans which don't require verification of personal income or tax returns, lessening the amount of documents required.

6. Do I need to submit financial statements in addition to making my monthly mortgage payment?

Many lenders require the borrower to submit quarterly, semi-annual, or annual income statements, operating statements, and tax returns in addition to paying the monthly payment amount. Find out ahead of time exactly what is required both before and after your loan closes.



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7. Do I have to make a financial covenant?

Not only do some lenders require you to provide ongoing financial statements, they also require covenants. This means that your business must consistently meet certain terms and conditions, such as a stated cash flow or debt to cash flow ratio. In short, you promise that your business will continue to produce income at its current level or better. This is important because if your business does not meet the terms you may receive penalties or even face foreclosure. Be sure to find out all the terms of your loan since all lenders have different terms. A non-bank lender generally does not require ongoing financial reporting or covenants.

8. Is there a pre-payment penalty if I repay the loan early and is the loan assumable? Both traditional bank lenders and non-bank lenders generally have pre-payment penalties on commercial mortgages if paid off early. However, some lenders will allow the buyer to assume your mortgage and take over your payments. An assumable mortgage can be a valuable selling point, so be sure to ask about both pre-payment penalties and if the mortgage is assumable.

9. What is the complete cost of my loan?

Be prepared to pay additional costs that are associated with your loan such as points, application fees, appraisal charges, legal fees, environmental reports, etc. Because these costs can vary from lender to lender be sure you know what costs you will be responsible for in each loan you are considering.

10. Do I need to get an environmental site assessment?

If you are getting a loan for a property or business that may be considered a potential environmental risk (ex: auto repair shop or a manufacturing business) be sure to ask about what type of environmental reports your lender may require of you. These reports can be costly and time-consuming. Some non-bank lenders may require less stringent reports than traditional lenders, so be sure to weigh your options carefully.

Thinking ahead of time about these questions will prepare you to make wise choices when your commercial broker presents you with your borrowing choices. You may want the security of a fully amortized loan with no balloon payment and feel the slightly higher interest rate is worth it. If you're uncertain you will be able to provide ongoing acceptable financial statements you may choose a lender who does not require conditions and covenants. Or, on the other hand, you may have all the qualifications (excellent credit, excellent verifiable history of earnings and profits, no time constraints for example) that make a traditional bank loan with the lowest interest rate, the best choice for you. The good thing is, there are both bank and non-bank lenders available for your commercial funding. Knowing what questions to ask and what your options are will help you and your commercial broker decide the best choices for your commercial financial needs.
