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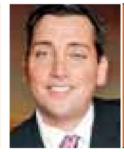

Cross the Bridge to Funding Success

Understanding how bridge lenders work can open new doors of opportunity to brokers and their clients

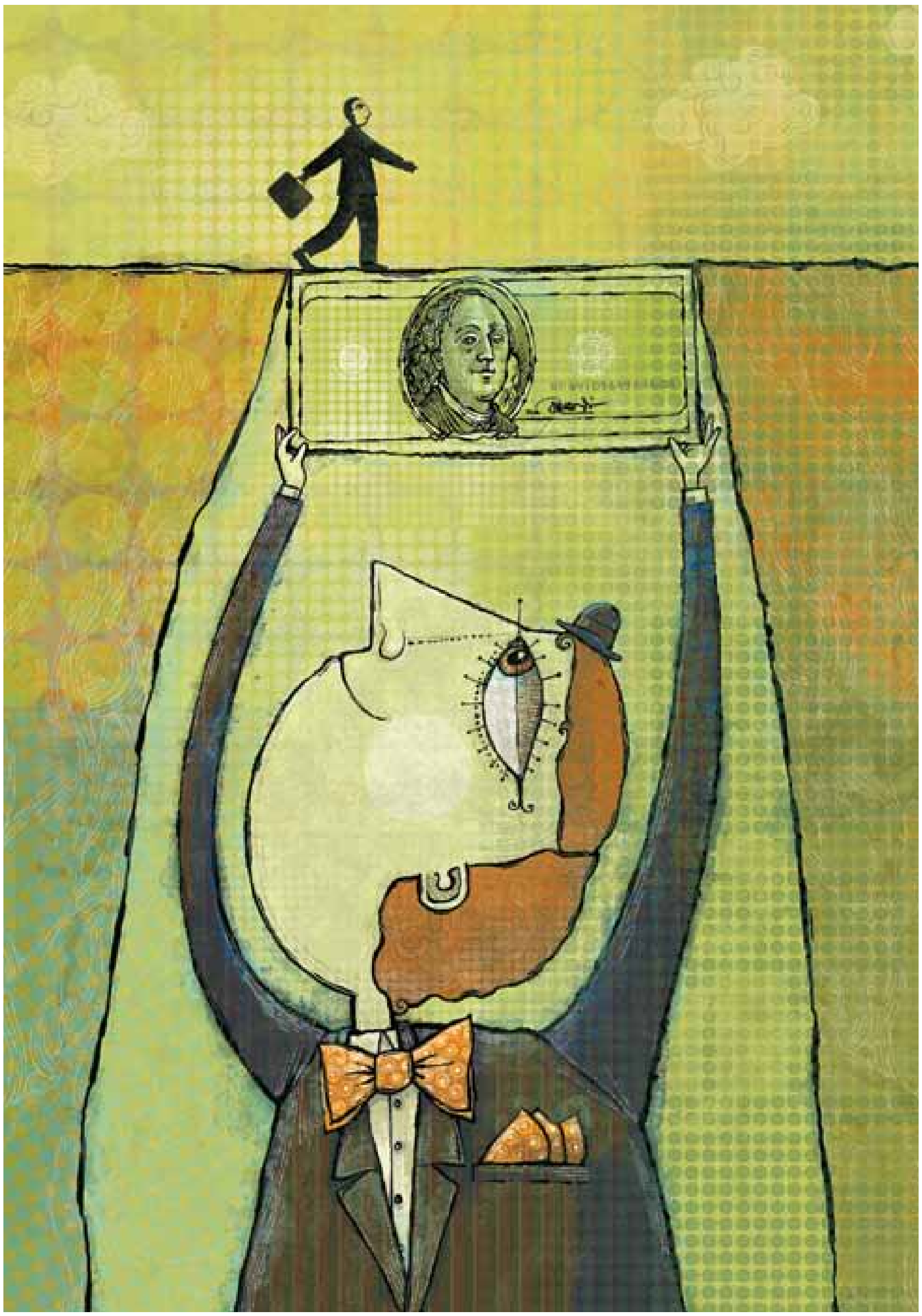

Illustration: Dennis Wunsch

From 1999 through 2007, commercial mortgage brokers were seemingly at the top of their game. Many brokers made an impressive amount of money — more than they ever had before. When the bottom fell out of the market in 2007, the banks were no longer lending. Many brokers were out of a job and had no money. By the beginning of 2010, some had lost everything.

One lending sector has appeared to do well despite the market turmoil, however — private bridge lending. Many mortgage brokers and bankers who work with private bridge lenders continue to close loans successfully for their clients.

For brokers still seeking a new niche to get through the tough market, understanding how private bridge lenders work may be what you're looking for.

When it comes to bridge lending, some brokers may be skeptical; many equate bridge lending with hard money, which historically has a less-than-favorable reputation, high interest rates and inflexible terms.

Bridge lending isn't necessarily hard money, however. In today's market, it is easier to find private bridge lenders with reasonable interest rates, albeit generally

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higher than a 30-year fixed mortgage. Higher rates are to be expected because these are short-term loans that are meant to bridge a financial gap for borrowers.

In a sense, many of today's private bridge lenders are between institutional lenders and hard money.

By understanding what private bridge lenders seek from a deal in terms of property types and locations, as well as, documentation, brokers can determine if this type of funding is right for their clients.

What private bridge lenders want

In the current market, private bridge lenders typically are looking for commercial and residential properties in "A" — or prime — locations, such as coastal or high-end areas. This is because if a borrower gets into trouble or if the lender has to foreclose, the property's value more likely will be stable because of its location.

Some major property types that private bridge lenders seek include the following:

- **Multifamily**
- **Real estate owned (REO) properties**
- **Residential**
- **Commercial**
- **Industrial**
- **Retail**
- **Restaurants and hospitality**

It is important to keep in mind that most private bridge lenders have a niche. Some might focus on the hospitality industry, while others might specialize in industrial properties or gas stations. This is why bridge lenders often are complementary to, more than competitive with, each other and other lending institutions.

In addition, they typically seek deals that have a low loan-to-value ratio (LTV) and that have strong borrowers or sponsors, as well as tenants.

Value-added properties also are attractive to private bridge lenders. These properties' values tend to appreciate after improvements or rehab. In addition, they often will finance REOs, short sales, refinances and distressed assets.

Essentially, private bridge lenders want to help borrowers, developers, banks, private funds and other real estate owners reposition their debts to current market value. They may provide lines of credit for REO flippers, as well as "horizontal apartments" — aka houses leased for a long-term hold and underwritten as apartment buildings.

Private bridge lenders also may provide capital to broken condo projects and unfinished construction, which helps free up capital in the secondary markets for the unwinding of commercial mortgage-backed securities (CMBS) loans.

In today's market, private bridge lenders often have too much capital and not enough quality loans. This is because they, like traditional lenders, have tightened their underwriting guidelines in the past two to three years.

In this time, the government-sponsored enterprises (GSEs) under conservatorship — Fannie Mae and Freddie Mac — and the Federal Housing Administration (FHA) have funded most loans while banks focused on deposits.

Many banks, life-insurance companies, private lenders, institutional lenders, hedge funds and new lenders are now much more active in funding loans. The GSEs and the FHA also are still active. The CMBS market, however, has taken a back seat because of the economy and the real estate market.

Investors, bridge lenders and other lenders are waiting for the loans that were supposed to come due, REOs that were supposed to be sold, construction loans that were coming due, shadow inventory to clear, and all the toxic assets to come to market — many of which have been extended because regulators are trying to figure out a smooth process to avoid complete chaos.

Documentation is key

Because private bridge lenders are asset-based lenders, typically providing 50 percent to 60 percent LTVs, they can allow junior financing for people who need leverage with minimal conditions. This allows brokers to close loans within one to two weeks. Furthermore, a bridge lender often can get you a letter of intent within 48 hours, compared to traditional lenders' typical one to two weeks.

Compared to hard-money lenders, bridge lenders typically have stricter documentation requirements. This is because bridge

Selecting a private bridge lender

Here are some steps to take and questions to ask when seeking a private bridge lender with which to partner:

Compare their interest rates to other lenders.

Do they offer workouts?

Do they pay a broker's fee?

Can you keep your clients?

Do they close quickly?

Ask about servicing.

Find out their track record for actual loan closings.

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lenders also look at the borrowers and don't do loans for people with bad credit, whereas hard-money lenders tend to look only at the assets.

For example, if a bridge lender sees a 500 FICO score, it likely won't make the loan. A hard-money lender, on the other hand, is more likely to make that loan. Bridge lenders tend to have a more-institutional look and feel and make prudent loans based on location and not on fees.

Bridge lenders have changed the reputation of private lending. This is reflected in their documentation and their fiduciary responsibilities toward mortgage lenders and brokers.

The reason bridge lending has become a standard in lending is because of the capital crisis and what's going on in the economy today. The bridge-lending platform allows an exit strategy to come from an institutional loan such as from banks, mortgage bankers, life-insurance companies, CMBS lenders and other institutional lenders.

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Bridge lending helps the secondary market by providing additional liquidity where there may be short supply. This helps clear the market of inventory by providing transactional capital.

Banks are providing limited capital, so private funds are helping with REOs and properties they discount to current borrowers. In return, the banks get a happy client, the bridge lender becomes the bank's best friend, the market is clear, and buyers and sellers have a meeting of the minds.

To get back to free-market activity and lending, as well as to help clients fund loans to bridge their financial gaps, commercial mortgage brokers would be wise to take advantage of the opportunities private bridge lenders offer. ●