

Commercial Lenders Using Different Strategies To Reach Residential Originators

By Michael J. Kling

More commercial lenders are finding that residential originators are a viable channel for producing small-balance commercial loans. The lenders are taking different strategies, however.

CBA Commercial LLC, a Stamford, Conn.-based mortgage finance firm, launched its CBAC Authorized Lender Program at the Mortgage Bankers Association's annual convention last month in Orlando, Fla. In that program, the lender purchases closed loans from bank partners that use its underwriting criteria, then securitizes the loans.

The company hopes its product - with standardized documentation and turnkey third-party reports - will simplify the loan process and increase profitability for its partners. Lenders hoping to work with the company can become a CBA-authorized lender or refer the deal to a bank already approved by the company, explains William Kamperda, CBA Commercial chairman and CEO.

The company purchases loans from \$100,000 to \$3 million, and terms are fixed for two to 10 years, resetting to six-month adjustable rates based on LIBOR, with 30-year final maturities. It also offers both full- and stated-documentation programs as well as table funding, Kamperda adds.

The financial services firm, which issued its first securitization of \$102 million almost a year ago and a \$215 million issuance in July, hopes to complete securitizations quarterly, Kamperda says. It retains the first-loss tranche, or the B piece, he adds.

Like other commercial lenders securitizing small-balance commercial loans, the company believes it can capitalize on an underserved sector by offering long-term, fixed-rate loans, as well as stated-income products. Banks and other community lenders have traditionally served small business, but they typically offer short-term, floating rate loans and usually require full documentation.

Different approaches

Taking different strategies, other lenders close loans in their own names and allow residential brokers to underwrite the loans. Some prefer to accept referrals from brokers and underwrite loans themselves, while others provide guidance, or "hand holding," to brokers unfamiliar with the commercial process.

For instance, Silver Hill Financial, a Coral Gables, Fla.-based subsidiary of Bayview Financial, stresses broker training and support. Attempting to create a residential-like process to increase brokers' comfort levels, it uses the 1003 form and stresses borrower credit, says Joanna Schwartz, Silver Hill's managing director.

"Because residential brokers are our primary focus, we designed our program to be as familiar and comfortable for them as possible," she says, citing the company's emphasis on the borrower's credit score. "We don't really care if a property cash flows if the borrower is strong."

Since Silver Hill began operations in mid-2003, it's seen several lenders attempting the same strategy come and go, she says. They send out great rate sheets, but fail to close under those terms or lack capacity to close their volume.

"We have seen more lenders target residential mortgage brokers. In our opinion, they've done it halfheartedly," she comments, saying residential brokers appreciate Silver Hill's services and support.

Unlike most other commercial lenders, most of its loans have 30-year amortization, Schwartz says. It recently introduced an interest-only product with interest-only payments for the first three years, 27-year amortization, and a 10-year balloon payment.

The lender also recently rolled out a 90% loan-to-value product, which entails an 80% LTV first lien that it securitizes and a 10% LTV it holds, as well as a declining fixed-rate product, where the rate drops 50 basis points every five years if the borrower maintains good credit.

Limited doc specialist

While Silver Hill Financial handles full-document loans, its sister company, InterBay Funding, specializes in stated-income/stated-assets loans. Both companies seek commercial loans of \$100,000 to \$1 million and emphasize broker training and a residential-like process.

Without income or asset documentation, InterBay focuses on the borrower's credit and the quality of the real estate, explains Ski Swiatkowski, vice president of business development, based in the company's Fort Washington, Pa., office.

"We obviously look very closely at the property," he says. "The property is the key. If the value is not there, we're certainly going to have a problem with that."

Requiring only the credit report and appraisal, it can also approve funding quickly, typically 50 to 70 days, even faster if using an existing appraisal.

It all hinges on how fast the appraisal can be obtained," he says. "If there's an existing appraisal, we can move fairly quickly."

Although InterBay's pricing is more expensive than traditional lenders', it does not review tax returns or other documentation, Swiatkowski notes. Banks typically want to see borrowers' tax returns, but many small, owner-occupied businesses may not declare their entire earnings on tax returns.

"They're using the tax codes to their advantage," he notes. "Banks want to check their books. You've got a better chance of seeing Elvis than seeing their books."

Community banks using more liberal underwriting criteria, especially for multifamily loans, remain the lender's main competitors. But even if banks offer limited-doc products for multifamily, they usually want more documentation for other uses, particularly special-use properties such as restaurants and bars.

"We've carved this niche out several years ago. We've struck upon a nice segment not being developed properly," he says. **SME**

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