

©Steven I. Fried, Principal
Capital Finance
45605 Navajo Drive
Indian Wells, California 92210-8872
Email: SFried@IndianWellsCapital.com
Web: <http://www.IndianWellsCapital.com>
Telephone: (760) 776-5749
Facsimile: (760) 776-9179

Most good business people wouldn't dream of buying, selling, merging their business or negotiating a large insured business loss without expert help; yet, they don't get expert help when negotiating a large business loan, a much more frequent (and potentially costly) occurrence.

Why Use A Commercial Loan Broker? Extra Cost or Huge Savings?

I was prompted to write this article because of recent reflections I had on my own experience representing, supposedly, sophisticated borrowers in their quest to obtain commercial financing at a good price. Despite borrowers' feelings of insecurity; always keep in mind that financing sources are simply a vendor and, very often, a costly one. I am also amazed at how many business people think they can negotiate as good a deal as a professional and "*save the cost of a broker!*" That's what this article is all about; how and when to use a commercial loan broker?

Before getting into the real substance, let me tell you what this article is not about! It is not about calling the guy you see on TV who promises to get you a 1% mortgage on a home purchase. Negotiating business financing compared to most home loans is like the difference between getting a custom-tailored suit or buying one "off the rack."

I spent more than 30 years as a lender in commercial banks including over 20 years as a senior officer negotiating complex business financing from the other side of the table. Presently, as a licensed Commercial Finance Lender, I am constantly surprised at how many otherwise good business people try to negotiate complex business mortgages or financing arrangements on their own and totally miss the real money issues in their loan arrangements. But, let me begin at the beginning.

A commercial loan broker is a third party who facilitates business financing between a borrower and a lender. Acting as an independent agent on the behalf of a client, they are able to negotiate with the lender to find the best financing option for the borrower. As the liaison between the borrower and the lender, the broker analyzes the borrower's credit and shops for a proper loan product that best suits the borrower's circumstances. The broker will usually gather relevant documentation such as financial records. One benefit to using a broker is that, as they interface with a large number of lenders, they are able to offer borrowers more loan options. Loan officers can only offer their clients the loans offered by their institution or lender. On the other hand, acting as an independent third party, a mortgage broker can choose from a variety of loan products ranging from local to national lenders. By definition, the broker will charge a fee to the client and may, sometimes receive a commission from the lender for acting as an agent or negotiating and facilitating the loan on behalf of the borrower. The amazing part, to me, is that many otherwise good business people, when they hear the broker charges a fee, do not even consider how much money they will be saving by using a professional negotiator to represent their interests. Let me give you just a few simple examples.

Knowledgeable brokers are usually considered a constant stream of new business by lenders. They perform a screening process by eliminating totally unreasonable requests; collecting the information a lender needs to make their decision and suggesting an appropriate loan structure for the loan purpose and financial condition of the borrower. In recognition of these factors as well as knowing the broker has other lender sources; sophisticated lenders will price their loans to the broker with better rates and terms than

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they would to an individual business. Simple, but important, examples are interest rates, prepayment penalties and recourse.

Not so simple but vastly more important are the subtle issues that a knowledgeable broker knows how to use to benefit the client. These can be positives the client brings to a prospective lender (deposits, size, industry diversification, name recognition, etc.) or the elimination of potential costly and unknown traps in the loan documents such as “Float Days.” *Don’t know what Float Days are?* This is my all-time favorite example of the benefit of using a loan broker.

Simply stated, Float Days are the number of days the lender can wait before applying any checks used in payment of the loan to reduce the principal balance of the loan. Usually used in asset-based lending, Float Days can add as much as 20% to the actual interest cost of a loan. These are just a few of the areas where a knowledgeable commercial loan broker can save you a lot of money.

It must be stated emphatically; *“Not all brokers are created equal.”* It does not follow automatically that using a commercial loan broker will wind up getting you a better deal. You must do your homework on the broker before engaging them. Here are some of the things you should consider before retaining a commercial loan broker:

- 1) Obviously, ask for and check the broker’s references;
- 2) Ask the broker exactly what they think they can do for you as well as how and why they think they can accomplish this (the answers will usually be on a no-name basis as any broker considers sources and methods proprietary information);
- 3) Review the broker’s past experience; and
- 4) Get a clear understanding of how much you will be obligated to pay the broker if successful.

Having done the above; you should be in an excellent position to judge whether it makes sense to employ a commercial loan broker. Make an honest assessment of your situation. Can you accomplish the requested financing on your own and, if so, at what price? What does the broker say they can do for you in terms of interest rate, financing amount, terms and how much will you be obligated to pay the broker if the loan does or does not go through? Does the broker have the past experience and track record to reasonably assure you that he can and will do what he says? Take the path that works out best for you!

A few final notes. I place a lot of emphasis on the broker’s training and experience. Over the past 20+ years Capital Finance has represented a lot of borrowers. Especially recently because of the slowdown in the housing market, we get plenty of referrals from residential loan brokers trying to “get into” commercial loan brokerage. Many of these referrals are unworkable for reasons the residential broker doesn’t understand due to their lack of training and underwriting experience with commercial loans. When a residential broker does stumble onto a workable commercial loan prospect; they typically have not obtained a written fee agreement and are expecting to be paid an origination fee of 400% to 800% of what we or the lender is paid. It saves everyone time and aggravation if you get your agreement with the broker in writing. If you are a commercial borrower, follow all the advice above and you will wind up saving yourself and your business lots of money.

(About the author: Mr. Fried is a principal in Capital Finance, a bonded and licensed Commercial Finance Lender with offices in Indian Wells and Long Beach, California specializing in representing businesses and investors in complex banking and commercial finance matters. He can be reached at (760) 776-5749 or SFried@IndianWellsCapital.com)