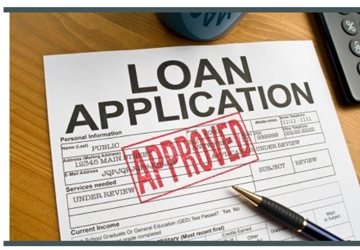
CASTLE
COMMERCIAL CAPITAL

SECRETS

To Getting Approved For A

COMMERCIAL MORTGAGE

How To Impress The Loan Committee, Satisfy The Underwriters, And Get Your Funding Quickly





2000 Town Center Drive, Suite 1900
Southfield, MI 48075
loans@castlecommercialcapital.com
1-800-598-5530

Commercial Mortgages vs Residential Mortgages

Residential Mortgage Criteria

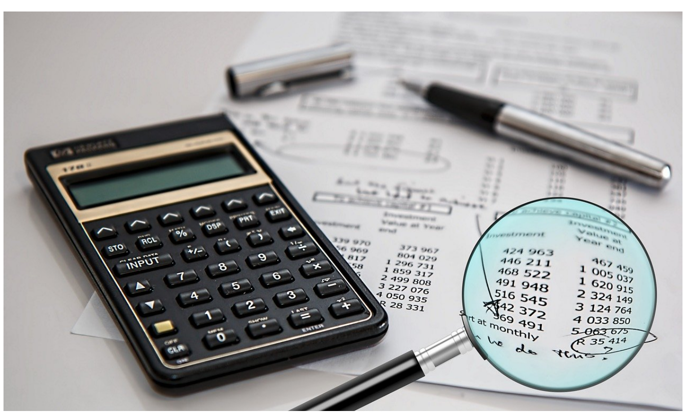
When you buy a home in which you plan to live, the lender will examine your financial condition, including your income, expenses, debt levels, credit score, credit history, any personal bankruptcies, and any other factors deemed important. The lender will also look at the condition of the property, the purchase price, the appraised value and your down payment amount.

The lender focuses on YOU because you provide the cash to make the monthly payments. The lender focuses on the value and condition of property because if you don't make your payments, they can foreclose on the property to satisfy your outstanding mortgage.

Commercial Mortgage Criteria:

Lenders focus on the 4 C's when evaluating a Commercial Mortgage: **Cash Flow, Collateral, Credit and Character**.

Property cash flow is a key criteria because it is used to make the monthly payments on the mortgage, rather than your personal income. Collateral includes both the condition and value of the property, as well as your cash reserves. Credit is your FICO score. Character refers to that of the borrowers - the bank will run background checks to make sure there's no fraud, embezzlement, or other financial malfeasance or felonies.



How Do I Get Prequalified for Commercial Mortgage?

Lenders prequalify you for a residential mortgage based on your financial condition - even before you know which house you plan to buy. That's not true with a commercial mortgage because the lender is prequalifying both you, AND the specific property you plan to purchase.

To get a commercial lender to say "YES" and prequalify you for a loan, you need to describe the transaction in sufficient detail for the lender to make a decision.

Loan Information: Loan purpose: purchase, rehab, refinancing? How much do you want to borrow and for how long? Will you occupy the property for your business or will you rent it out to others?

Purchase Information: Price, expected close timing, do you have the property under contract? How much will you put down and what's the source of that money?

Refinancing Information: What are you doing with the loan proceeds? How long have you owned the property and how much do you owe? What was the original cost? Current property value?

Rehab Information: Brief description of the rehab project with a time line, budget estimate with source, and estimated After-Repaired Value (ARV).

Property Information: Name and type of property, address, square footage, current occupancy, total number of rental units and buildings, latest appraised value, Rent Roll & Operating Statement.

Business Information: Name, entity type, age, and address. Owners and percent owned by each.

Borrower Owner Information: Name, contact info, FICO score, net worth, citizenship, bankruptcies, etc. for each owner.

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Typical Commercial Loan Process

Submit Preliminary Data for Pre-Qualification

Required Documents:
- Loan prequalification form and Confidentiality Agreement
- Supporting docs – Operating Statements, Rent Roll, etc. as required by Lender

Upon Acceptable Review, LOI/Term Sheet is Issued

Lender Pre-Qualification Review:
- Time to complete preliminary review and issue LOI: 1-2 business days after submission of all requested documents

Sign and Accept LOI/Term Sheet and other Lender Agreements; Pay Due Diligence Deposit

Sign & Submit Required Agreements:
- Letter of Intent (LOI) /Term Sheet
- Loan application
- Client Agreement
- Other lender agreements (as required)

Collect and Submit All Due Diligence Documents

Submit Due Diligence Documents (as required):
- Personal information & documents
- Business information & documents
- Property/Title information & documents
- All other required due diligence information

Lender Due Diligence Review - Provide Additional Back Up Docs and Answer Questions

Lender Due Diligence Review:
- Time to complete due diligence: 10-45 business days after signing LOI/Term Sheet depending on loan type, deal complexity, quality & timeliness of information you submit

Upon Completed Due Diligence, Final Loan Commitment or Loan Denial is Issued

Final Commitment to Lend or Loan Denial Issued:
- Sign and accept final loan commitment
- Pay commitment fee as stipulated (if required).

Closing Date is Scheduled and Loan Transaction is Closed and Loan is Funded

Loan Closing:
- Closing scheduled with lender & title company
- Documents signed by appropriate parties
- All funds dispersed & fees paid as stipulated in legal documents & agreements

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I've Been Prequalified - What's Next?

If you have been prequalfied, the lender issues a Letter Of Intent (LOI) with the preliminary loan terms. If the terms are acceptable, you sign and return the LOI, pay your due diligence deposit, sign the loan broker Client Agreement, fill out the loan application, and start submitting documents.

Personal Information:

Even though a commercial mortgage is in the name of your business entity, the lender verifies certain facts about you personally as part of their due diligence process such as proof of your identity, citizenship, credit record, experience with commercial real estate, etc. Lenders run fraud checks, terrorism checks and other checks as required by government regulations and by the lender's own underwriting and legal teams.

Required Personal Documents:

Typically required personal information includes:

- A copy of the driver's license, credit report and the Social Security number for each borrower, LLC member, and Loan Guarantor (if any)
- Documentation of property management experience if the loan is for rental property
- Documentation of property fix and flip experience if this is the purpose of your loan

What Is a Loan Guarantor and Will I Need One?

A Loan Guarantor is sometimes referred to as a co-signer. This is an individual that signs the loan documents along with the borrower and provides a "Guarantee" that if the borrower fails to repay the loan, the Guarantor will step in and repay the loan. How does the lender determine if a Loan Guarantor is required?

The most common reasons a Loan Guarantor is required for a Commercial Loan is that the borrower does not meet the minimum net worth criteria, the lender's experience requirements, or the minimum credit score. If you are weak in one or more of these areas, you can get someone that meets those requirements to act as a Loan Guarantor. Unlike a residential mortgage co-signer, a Commercial Mortgage Loan Guarantor must be part owner, typically at least 20%. Therefore, a Loan Guarantor should be a close relative or trusted business partner.

Business Information:

Commercial mortgages are issued to a business entity, rather than to an individual. If you want a commercial mortgage, you must have a company.

Real estate is often purchased and held in a Limited Liability Company (LLC), but other legal forms can be utilized as well, including Sole Proprietorships, Partnerships, and Corporations.

The lender requires proof of the business structure, the owners and percent owned by each, the legally authorized signatories of the company, that the company is in good legal standing, and that the company has sufficient experience with this type of real estate, etc.

Required Business Documents:

The lender's underwriter will request specific documentation related to your business, such as:

- A copy of IRS Form SS-4, which shows the EIN (Employer Identification Number) for your LLC
- Copies of these LLC documents:
  - Operating Agreement
  - Articles of Organization
- A Certificate of Good Standing from the State in which the LLC was formed
- A written Consent signed by all members of the LLC designating an authorized signatory to sign any and all loan related documents
- Documentation of property management experience or a copy of your third-party property management contract
- Other documents as required by the lender

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Property Information:

Similar to residential mortgages, commercial mortgages utilize the property as collateral. This means that if the loan payments are not made as agreed upon, the lender has the right to foreclose on the property and take ownership.

After a foreclosure, the lender sells the property to recover as much of the debt as possible. The borrower may still be liable for any debt balance not recovered during the foreclosure sale (see Recourse vs. Non-Recourse Section on page 7).

During the due diligence process, the lender reviews the documents to confirm that all of the requirements are in place to "Perfect" its interest in the property when the loan closes. This ensures that if Court proceedings occur for any reason, the lender's interest in the property will be upheld.

Required Property Documents:

Purchase Agreement: - Identifies buyer & seller, sales price, expected sale timing, terms of the sale, etc. Must be a signed, executed copy.

Title Commitment, Policy & Closing Documents: The property Title is the legal document that verifies property ownership. The Title Policy is issued by the title company and insures the Title against legal claims. Both lender & borrower require a policy and the borrower pays for both.

Appraisal: An independent assessment of property value ordered by the lender and paid for by the borrower. **The appraised value must be sufficient to support the loan amount.**

Insurance Binder & Policy: Proof to the lender that their collateral is properly insured. Lenders have very specific requirements and language with which the insurance MUST comply. The lender also requires a copy of the paid insurance bill showing the cost.

Copies of Most Recent Property Tax Bills

Copies of Any Fully-Executed Leases: Must be signed; proof of tenant payments may be required.

Loan Application: To be completed after you prequalify and accept the lender's proposed loan terms.

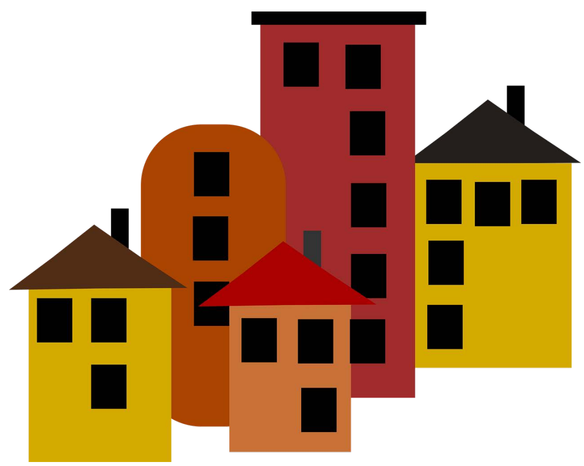
Homeowners' Association Documents: (if applicable)

Condo Documents & Questionnaire: (if applicable)

Rehab Budget: (if applicable)

Current Mortgage Statement: (if refinancing)

Plus Other Any Other Lender Required Documents Based On The Specific Property Type



Due Diligence Review By Lender

The lender completes a thorough review of all of the due diligence documents that you submit. This process is different from when you submit the information to get prequalified.

During the prequalificiation process, the lender assumes that the information you provide is complete and accurate and issues the LOI based on those facts.

During the due diligence review, the lender verifies all of the details of the transaction and confirms the completeness, accuracy and legality of all the documents submitted. The lender validates that all parties involved are legally authorized to complete the transaction as contemplated. The lender also ensures that the appropriate actions have been taken to protect its interest in the property once the loan closes and funds.

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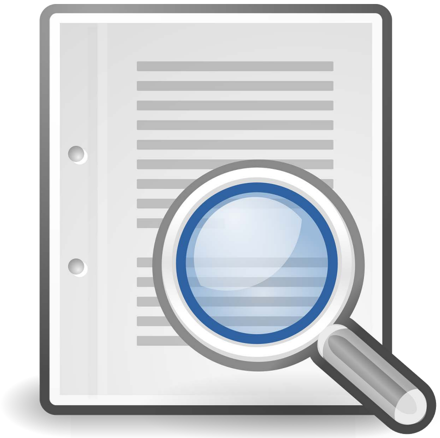
Keys To Success During Due Diligence



Due diligence typically takes 10-45 days depending on the loan type and transaction complexity.

How quickly your loan moves through due diligence is directly impacted by the quality of data you submit and the timeliness in which you respond.

Make sure the information that you submit is complete, accurate, organized and neat. Respond quickly to any questions or requests. Communicate often and be respectful and professional in every communication you have regarding this transaction. Every email, document and phone call is a reflection of both you and your business. The people helping you on this transaction are just that, people, and they will work really hard to get your transaction done if you are nice, polite, honest, and appreciative.

The lender will almost certainly request additional documents, or updates to those you've submitted, so that every document is compliant with legal and lender requirements. While these requests don't always seem to make sense, or they seem as if they are trivial, please note that:

*** Your loan will not close until the lender receives and approves every due diligence document ***

Simple Mistakes To Avoid During Due Diligence

Pay attention to the details, these simple mistakes commonly cause delays during the due diligence process:

- **All of the owners of the LLC were not identified and included in the initial loan prequalification.**
- **The name and address of the LLC must match EXACTLY as shown on the LLC documents (for example L.L.C. vs. LLC without periods) on all documents - including the Purchase Agreement, Title Insurance Commitment, Certificate of Insurance, HUD Settlement Statement, and Appraisal.**
- **The EXACT insurance language required by the lender and/or the lender's insurance coverage requirements were not met or were not shown correctly on the Certificate of Insurance.**
- **There must be a written Consent form designating an Authorized Signatory on behalf of the LLC. This Consent form must meet the lender's requirements and be signed by all of the LLC Members.**
- **The proposed Loan Guarantor does not have the minimum equity stake in the LLC.**
- **The Purchase Agreement does not have the correct LLC name.**

Due Diligence Is Complete - Am I Ready To Close?

Due diligence is a long process, but now that you have submitted all of the required documentation, it's time for a final decision from the lender. The lender reviews all of the information related to the loan transaction and issues either a Final Loan Commitment or a Loan Denial Letter. A Final Loan Commitment will describe the loan terms upon which the lender is willing to make the loan. To accept the these terms, you sign and return the form, and if required, pay the Commitment Fee. It's unfortunate, but some loans do get denied at this point.

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What To Expect At The Loan Closing

The final loan terms may look different than the loan terms at prequalification. Adjustments to the loan terms usually occur because of the lender's improved understanding from its due diligence review. If the Lender's final loan terms are acceptable, it's time to schedule the loan closing.

The closing time and location are agreed upon by the borrower, lender, title company and seller (if applicable). All parties to the transaction must sign and date their loan documents as of the same date.

At any commercial mortgage closing, you will sign many documents. These include documents such as the Mortgage, which creates the lender's lien on the property as collateral, and the Promissory Note, which creates the contractual obligation to pay back the loan.

The lender requires the assignment of various contracts for items such as the leases and rents, property operating contracts, purchase agreements, and project documents relating to construction or rehab. The lender also requires certain parties to "certify" the information they've provide during due diligence is still true and accurate.

The title company will handle the closing process, explain the details, and show you where to sign. Once all the parties have signed, and the lender has confirmed that it has received all of the signed documents, the title company will disperse the funds. All fees are due and paid as stipulated in the legal documents and agreements.

Recourse vs. Non-Recourse Loans

Recourse Loan: If the lender forecloses and the sale of the property is insufficient to pay the debt, the lender has the right to take your personal assets (i.e. house, bank accounts, other assets) to satisfy the loan.

Non-Recourse: The Lender cannot take your personal assets to satisfy the loan.

Note: Not all borrowers qualify for and not all lenders are willing to provide non-recourse loans.

Castle Commercial Capital, LLC

Castle Commercial Capital provides financing for commercial real estate investors and business owners nationwide.
Call us at 1-800-598-5530.

Disclaimer: The ebook is not intended to be legal advice. It's intent is to serve as a guide to better understand the process and requirements for commercial mortgages. Please consult your attorney and other professionals as needed.

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