Top 6 Things you can do to negotiate better terms from your lenders

Hello,

My name is Jimmy Moncrief. I have spent the past 10 years being a financial analyst from hedge funds, to Fortune 500 banks, to small community banks. Along the way, I became a real estate investor too!

Being both a real estate investor (borrower) and a banker (lender) gives me a very unique advantage.

I want to pass along this advantage to you so you can ultimately be a smarter real estate investor.

Please enjoy this free report and share it with whomever you want.

If you have any questions or comments, or just want to say hi, you can email me at jimmy@realestatefinancehq.com

Business Debt showing up on your personal credit report

Believe it or not this happens all the time. This is why it is absolutely critical to be pro-active and request a copy of the credit report. There are significant differences between how a commercial underwriter treats credit reports and how a traditional mortgage underwriter treats them.

One difference is that a commercial underwriter treats all of your credit cards as if you used the max availability. Therefore penalizing your borrowing capacity. However, a traditional mortgage underwriter treats this credit availability as a key asset and this enhances your credit worthiness.

Again, this is why it is absolutely critical you get a copy of the credit report so you can show your banker that certain credit cards are never used and some are business debts so they can make the appropriate adjustments.

Not having a separate entity for the borrower

Having a separate entity for your real estate or other investments significantly increases your credit worthiness and as such increases your negotiating power with a bank.

The reason why? The bank has two legal borrowers now, and by nature the deal is better since two is better than one.

The bank might want you personally to be a guarantor or might want you to be a co-borrower. I go over these details in the book and what the specific ramifications are.

Provide K-1s to show cash distributions

Below is the key box the lender will be analyzing. You get penalized for any cash contributions you made to the respective company. Any cash distributions you took from the company helps your personal credit worthiness.

L	Partner's capital account analysis:	
	Beginning capital account . . .	$
	Capital contributed during the year	$
	Current year increase (decrease) .	$
	Withdrawals & distributions . .	$ ( )
	Ending capital account	$

In the book I go over another area that most bankers miss on your K-1 that will significantly increase your credit worthiness.

Deposit Accounts

Specifically, non-interest bearing accounts.

The banker will likely want 10% of the loan amount on deposit (since banks are leveraged 10:1), but any amount will help negotiating terms. It's best to throw this out at the end of the negotiation. Once you have the best terms possible, then ask: "Could you way the origination fee, if I bring my business checking account over?"

There are also some details I go into in the book on ways you can get 100% financing if you have deposit accounts at your bank.

Bonus: Offer your banker that you like to keep things simple and would like to set-up "auto-pay" out of this account for your new loan. This does three things: 1) assumes the approval of your new loan; 2) gives the banker comfort that you guys (or gals) are on the same page; 3) usually bankers get some kind of incentive for opening up non-interest bearing accounts, which further incentivizes the banker to get your loan approved.

Have a presentation

I'm not talking about 100 PowerPoint slides. This could even be a one-page summary of the deal. Lenders see countless deals everyday. You want yours to stand-out as an "easy" deal where they don't have to do much work. Here is what they are looking for:

Two Sources of Repayment

Two Sources of Repayment (examples: rental income, wage income, collateral selling).

Collateral Value

Collateral Value – Lenders have to report values above 85% LTV to the FDIC. So don't go over this ratio.

If you have to request a separate unsecured facility for property improvements.

Guarantor Support

Any guarantor support or other collateral you could combine with this new loan facility makes it that much stronger

Debt Service Coverage

Cash Flow of this property / Debt Service of this property

The book I am working on goes into significant details as to how you can improve this ratio to your favor.

Summary

I hope this doesn't seem overwhelming to you. If you are adding them, up you would be correct that there is only five. The last piece of advice is basic common sense: Be Nice.

For some reason, banking is the only industry where people come in, yell, cuss and scream and demand a loan. Ugh? Bankers don't have to make loans. Yes, adding loans helps everyone, but at the end of the day this is a service business and bankers will go out of their way to make a loan or help someone when they are nice. When they aren't nice, it's the reciprocal effect.

Again, if you have any questions or comments hit me up at jimmy@realestatefinancehq.com