

- TOP SECRET -
TEN THINGS
THAT LENDERS
DON'T WANT
YOU TO KNOW!

Excerpts From The Book...

GET Your Loan Closed!



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**Learn About Collateral and How It Affects
Loan Approval**

Today collateral it's more important than ever!

Six months ago collateral was something the banks were glad to have, today it is mandatory. More and more of our lenders are becoming cash flow as well as collateral based lenders.

What does that mean to you?

It means that not only do you have to make sure that you can support the debt service of your project, the subject property (if this is a real estate transaction) has to appraise at the purchase price, but oftentimes banks are now asking for additional collateral.

So now that we know that additional collateral is needed, let's look at collateral in light of three types of common transactions. The first transaction would be for the purchase of a business that does not include any real estate. The second scenario is for the purchase of a business that also includes real estate. In a third example we will look at the acquisition of a commercial investment property.

For the Business Acquisition there is no real estate collateral from the inception, the business is being sold as a leasehold estate for the remainder of the existing lease. Today more than ever the lenders are going to WANT collateral to secure their lending position. All of the business assets will be pledged for the loan at the fair market liquidation value as the first form of collateral.

If for example the business being sold is one that is industrial based then there will be manufacturing equipment which could be used to support the needed collateral. Know that even if the equipment is not sufficient to support the loan by itself the lenders are going to have a lien against all the FFE (Furniture Fixtures and Equipment) that the business has. The lien they file is a UCC1 Filing Statement... more about this in our book [GET Your Loan Closed!](#)

Read our book [GET Your Loan Closed!](#) to find out answers to solving the above question regarding no-collateral

Our second scenario... business with real estate

The lender will appraise the property and if the appraisal of the property comes in at the sales price there will not be a need for any additional collateral for the purchase of the real estate. However, because the business is being sold, as well, there may be additional collateral for the business purchase. Most likely the FFE can cover this as well as the real estate building. However in today's economic arena some lenders, not all, are asking for almost 100% collateral coverage and then additional collateral for the business acquisition purchase would be needed.

Find out about all the misconceptions about purchase versus appraisal as it relates to collateral in [GET Your Loan Closed!](#)

Commercial investments are looked at differently; they are based on the CAP rate or the capitalization rate, as well as the debt service coverage ratio as discussed in previous white reports. Most commercial investments will not require any additional collateral, unless the debt service is not being covered. In this case a lender may offer the potential borrower the ability to cross-collateralize the property with another one they may already own. The cross-collateralization protects the lender in case of default they now have two properties which together should be worth what the property would be sold at on the open market.

Lately lenders are getting away from cross-collateralization because they want to see deals stand on their own merits.

Now that you're aware of collateral requirements how do you meet them?

First and foremost for scenarios one and two, a lender will hire an appraiser of the real estate assets as well as an appraiser of the business assets to determine the exposure of the borrower. If the borrower has a good steady income and low debt service obligations that may be sufficient without the need for additional collateral. But the more the borrower gets away from being the perfect applicant the more the lenders are going to want to secure their investment with additional collateral.

More on ways of meeting collateral requirements in [GET Your Loan Closed!](#)

Remember Commercial Loans are Quality based not emotionally based unlike a residential purchase, they MUST make economic sense.