HOW TO SPEED UP THE CRE LOAN APPLICATION PROCESS

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Granted, the loan application, underwriting and approval, and closing process for a commercial real estate (CRE) loan can seem arduous. The paperwork required is substantial and sometimes applicants perceive that they're being asked inane questions. In addition, several factors outside the control of the lender can take many weeks to complete, such as the appraisal, and most transactions require some form of environmental due diligence. What's a borrower to do? Following are a few thoughts on how a borrower can help speed up the process.

LOAN APPLICATION PACKAGE

Make your best efforts to submit as complete a loan application package as possible. You may not fully understand why your lender is asking for certain information, but there usually are very valid reasons and failure to provide the requested items will result in needless delays.

Most lenders have their own forms for certain items, such as the loan application, rent roll, environmental assessment questionnaire, and personal financial statement. It is crucial that these documents be completed fully and accurately.

Other important elements of the loan application package are addressed below.

PURCHASE & SALE AGREEMENT

If you are purchasing the subject property, submit a copy of the fully-executed purchase and sale agreement (aka agreement of sale or purchase contract), including all amendments to it. Most lenders will not accept a loan application until there is a deal.

OWNERSHIP ENTITY/STRUCTURE: FORMATION DOCS

The lender is particularly interested in knowing the exact legal name of the entity that will hold title to the real estate since that entity will almost always be the borrowing entity. Likewise, the lender needs to know the name and percentage of ownership interest of each owner of the borrowing entity.

By far the most popular forms of ownership for CRE are the limited liability company (LLC) and the limited partnership (LP). The lender will need copies of the formation documents for the entity that will hold title to the real estate, as well as the borrowing entity, if different.

For an LLC, the formation docs include the filed Certificate of Formation and the Operating Agreement (and all amendments thereto). For an LP, it's the filed Limited Partnership Certificate and the Partnership Agreement. An LP always has at least one general partner (GP), so the lender will also need copies of the GP's formation docs, as well as an understanding of that entity's ownership structure.
A copy of the IRS EIN (Employer Identification Number) letter will provide the lender with the TIN (Tax Identification Number).

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LEASES

With respect to an investment property, the primary source of repayment is the net operating income generated by the subject property. The lender will need copies of all of the fully-executed leases, including all amendments and extensions thereto. If construction was involved, the lease commencement letter will enable the lender to determine the effective commencement date of the lease and when its term expires.

The lender will also require that a lease schedule (rent roll) be completed. The rent roll is a summary of the leases and lists the names of the tenants and pertinent information about each lease, i.e. unit number, square footage, lease commencement and expiration dates, annual rent, and whether the landlord or tenant is responsible for the property taxes, insurance, utilities, and other operating expenses.

Even if the subject property is or will be owner-occupied, there will need to be a lease between your operating company as the tenant and the landlord entity.

In many cases the lender will want each tenant to execute a Tenant Estoppel Certificate prior to closing. In this document, the tenant basically reaffirms the salient terms of the lease, that the lease is current, that tenant has no claims or offsets against the landlord, and acknowledges that their lease is subordinate to the lender's mortgage.

FINANCIAL STATEMENTS/TAX RETURNS

For investment properties, the lender needs to understand the property's rental income, operating expenses, and resulting net operating income. For a refinance, submit copies of the last 3 years tax returns, including all schedules, for the entity that owns the subject property. For a purchase transaction, try to get copies of the seller's tax returns or pertinent portions of their tax returns for the subject property. If the seller is unwilling to provide this information, the lender will probably require that the seller produce income statements (aka operating statement or profit & loss statement), certified by the seller, for the last 3 years.

For owner-occupied real estate, the financial statements and/or tax returns of the operating business will be required. The lender will calculate the business's cash flow and its ability to service the proposed rent, along with its other ongoing obligations.

OTHER PROPERTY-SPECIFIC INFO

If a previous environmental report is available, submit a copy to the lender. It will help determine the required scope of the environmental due diligence. If available, the most recent survey and property tax bill are also helpful.

If construction will be involved, the lender will want to see the line item project budget, plans, and specs. These will assist the appraiser in determining the "as complete," or after-completion value.

GUARANTORS

Unless the loan-to-value (LTV) is quite low, it is typical for lenders to require some level of personal guaranty from all individuals who own more than a certain percentage of the borrowing entity. Be prepared to submit copies of your personal tax returns, including all schedules, for the last 3 years, along with a current personal financial statement on the lender's form. The lender will want to confirm the liquidity positions of all guarantors, so it will be helpful to submit copies of recent bank and/or brokerage statements.

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APPRAISAL & ENVIRONMENTAL DUE DILIGENCE

Certainly the property type and complexity of the assignment have a bearing, but most appraisals take 3-5 weeks to complete. The lender's internal appraisal staff will then need another week or so to review the appraisal and issue their appraisal review report. Issues with the appraisal report can add additional time to the process.

A Phase 1 ESA (Environmental Site Assessment) report can also take 3-4 weeks, plus another week or so for the lender's internal environmental risk staff to review the report and issue their environmental review report. Environmental due diligence that is less in scope, such as a TSR (Transaction Screen Report), can still sometimes take up to 3 weeks. Obviously, any environmental issues that are discovered will need to be resolved.

If the loan underwriting process takes a month, the appraisal and environmental process can add another 4-6 weeks, so it's easy to see why a loan could take up to 3 months from application to closing.

Consider paying the appraisal and environmental fees upfront at the time of loan application. Those fees are non-refundable, so there is some risk should the loan not be approved, but getting the process started early could easily reduce the overall time by at least a month.

IN A NUTSHELL...

- Submit a complete loan application package
- Respond promptly to the lender's questions and requests for additional information
- Stay in touch with the lender throughout the process
- Consider paying the appraisal and environmental fees upfront in order to get a jump-start on that process

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